

Review of the Effectiveness of Internal Audit 2012/13

SUMMARY

- 1.1 This report is designed to give Members an overview of the effectiveness of Internal Audit.

RECOMMENDATION

- 2.1 To note the findings and the conclusion that the internal audit function is considered to be effective.

REASONS FOR RECOMMENDATION

- 3.1 To meet the requirements of the Accounts and Audit (England) Regulations 2011.

SUPPORTING INFORMATION

- 4.1 Paragraph 6(3) of the Accounts and Audit (England) Regulations 2011 requires that "A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit and have the findings considered by a Committee".
- 4.2 Internal audit is one of the key areas of assurance for the council and has a significant impact on the annual governance statement. It is important that those charged with governance are assured that internal audit itself is effective. The Council has a responsibility to maintain an effective Internal Audit function.
- 4.3 There is no mandatory requirement or guidance on who should perform the review. It was considered appropriate by this Committee that as the Strategic Director – Resources, I would undertake the assessment each year.

- 4.4 All local authorities have a statutory requirement to make provision for internal audit and for the purpose of the regulations, in accordance with proper standards of professional practice, as set out in the CIPFA Code of Practice for Internal Audit in Local Government. These have been superseded by the new Public Sector Internal Audit Standards from 1 April 2013.

Defining the effectiveness of Internal Audit

- 4.5 To be “effective” the Internal Audit shall aspire to:
- Provide credible and evidenced assurance to management on the operation of the internal control environment
 - Provide appropriate advice and support to management to ensure efficiency, effectiveness and economy of their services and functions and to help them respond to new and emerging issues
 - Act as a catalyst for change, add value and assist in achieving the authority’s objectives (i.e. solutions and impact in making a positive difference)
 - Understand its position within the authority and plan and undertake its work accordingly, working in partnership with relevant stakeholders
 - Help shape the ethics and culture of the organisation
 - Utilise and target its resources efficiently and effectively
- 4.6 As in previous years, my assessment of effectiveness has been primarily based on the framework guide developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Better Governance Forum which aims to provide practical support to help make internal audit more effective. This has been achieved by assessing the internal audit function against the building blocks for effective internal audit identified in the guidance. The building blocks are:
- Leadership
 - Governance and relationships
 - Customer focus
 - People
 - Systems and processes
 - Professional Standards

Leadership

- 4.7 There is a clear vision for Internal Audit which is laid down in the Internal Audit Strategy. This is a high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.

- 4.8 In 2010, CIPFA published “The Role of the Head of Internal Audit (HIA) in public sector organisations” to clarify the role of the HIA and to raise the profile of internal audit. CIPFA believe organisations should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements. The Statement articulates the core responsibilities of the HIA, as well as the personal and professional skills that they need. The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. In May 2012 we carried out an assessment against these 5 principles and concluded that these are sufficiently implemented to demonstrate compliance with best practice. I have reviewed the assessment and have not identified any changes. My assessment is shown in Appendix 2.

Governance and relationships

- 4.9 Internal audit is one of the cornerstones of effective governance. Therefore, an effective internal audit function is paramount if the Council is going to demonstrate it has embedded the principles of good governance. Internal Audit is responsible for reviewing and reporting on the adequacy of the authority's internal control environment and also making recommendations for improvement. Based on the work of Internal Audit, the Head of Governance and Assurance provides a level of assurance to the Council on the effectiveness of its system of internal control in his annual audit opinion.
- 4.10 The Audit and Accounts Committee continues to be very supportive of Internal Audit, and there is a good working relationship between the Committee and the Head of Governance and Assurance.
- 4.11 The positioning and profile of the internal audit function within the Council is well defined and provides clarity of internal audit's role and relationship within the organisation. The Head of Governance and Assurance, who also acts as the head of the Partnership, reports directly to me. There are monthly performance meetings held between us which are formally recorded.

Customer Focus

- 4.12 Customer focus is essential not just for the manner in which internal audit is approached, but also to ensure that internal audit understands the organisation and focuses on the current and future risks to the organisation and supports the achievement of the Council's objectives.
- 4.13 The partnership has a framework for consulting with all of its clients at the audit planning stage, following completion of the fieldwork, through draft report and then post audit to get feedback.
- 4.14 Following every audit review, a customer satisfaction survey is sent to the relevant manager. The responses received from managers in 2012/13 is summarised below:

Overall Rating	Number
Excellent	10
Good	9
Fair	1
Poor	0
Very Poor	0

People

- 4.15 The staff in the Internal Audit partnership have the appropriate technical skills and knowledge to perform effectively and access to training and other material to maintain their skills. The majority of the team have either a professional accountancy qualification (3 CIPFA and 2 ACCA, plus 2 part-qualified) or an internal auditing qualification (3 PIIA), and the IT Audit staff have relevant IT degrees and one has recently gained the CISA (Certified Information Systems Auditor) qualification the other has recently completed the ITIL Foundation qualification. The Audit Partnership also benefits from having one member of staff who is IRRV qualified. In addition, 4 staff have completed the CIPFA Certificate in Investigative Practice. In 2012, senior staff within the Partnership completed professional development courses at the University of Derby around "Derby Workstyle".
- 4.16 All of the staff have personal development and training plans as part of their Individual Performance process. Personal development is achieved through a combination of sources including in-house training, external courses/seminars/groups, personal research and studying for a relevant professional qualification. In 2012/13, 59 days were recorded under training/personal development. There are also development activities that staff do in their own time which is not recorded.

Systems and Processes

- 4.17 Internal Audit has developed processes that support the delivery of high quality work that are regularly reviewed by its management team to maintain efficiency, relevance and effectiveness. Audit assignments are properly planned and work undertaken is evidenced appropriately. Audit reports include an opinion on risk and the control environment, are agreed with the appropriate officer and all recommendations are followed up to ascertain the progress being made on implementation.

- 4.18 The following performance measures contribute to the overall assessment of the effectiveness of internal audit:

	2012/13		2011/12	
	Target	Actual	Target	Actual
Productivity	73.2%	70.1%	73.5%	71.1%
% of audit plan completed	91.0%	92.5%	74.9%	82.7%

More detail on the performance of the Internal Audit service is provided in the CMAP Annual Report which accompanies the Head of Governance and Assurance's "Annual Audit Opinion" report.

Professional standards

- 4.19 Standards provide a consistent framework of professional practice. Standards shape the application of other inputs and define the key relationships with the organisation. They are the fundamental building block for effectiveness and the starting point for any internal audit team.

Compliance with the CIPFA Code of Practice on Internal Audit

- 4.20 Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Internal Audit in Local Government in the UK is a key element for determining whether an internal audit service is effective. The self-review carried out for 2012/13 showed continued compliance with the Code. A summary of my assessment are attached in appendix 3.

Other Sources of Assurance on the Effectiveness of Internal Audit

- 4.21 In making my assessment I have also used the following evidence:

External Audit reliance on Internal Audit's work

- 4.22 As part of the interim audit, External Audit considers the effectiveness of the Internal Audit function. In its Audit Plan 2012/13, Grant Thornton outlines the results of interim audit work and stated that:

"Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council."

Characteristics of “effectiveness”

- 4.23 Whilst compliance with professional standards is clearly important in operating a robust service, it is just one in a wide range of factors in effectiveness, defined as the extent to which the internal audit service delivered meets the Council’s expectations and adds value. A self-assessment relating to “characteristics of effectiveness” (including compliance with proper practices) has been undertaken and is attached at Appendix 4.

Conclusion

- 4.24 From the evidence reviewed, my overall conclusion is that the internal audit service that the Council receives can be assessed as effective.

OTHER OPTIONS CONSIDERED

5.1 N/A

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	n/a n/a n/a n/a n/a Chief Officer Group
For more information contact: Background papers: List of appendices:	Roger Kershaw 01332 643552 roger.kershaw@derby.gov.uk Public Sector Internal Audit Standards Appendix 1 – Implications Appendix 2 – Assessment against the CIPFA Statement on the role of the HoA Appendix 3 – Compliance with the CIPFA Code of Practice for IA Appendix 4 – Characteristics of effectiveness

IMPLICATIONS

Financial and Value for Money

- 1.1 None directly arising.

Legal

- 2.1 Under the Accounts and Audit (England) Regulations 2011, the Council is required to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

Personnel

- 3.1 None directly arising

Equalities Impact

- 4.1 None directly arising

Health and Safety

- 5.1 None directly arising

Environmental Sustainability

- 6.1 None directly arising

Property and Asset Management

- 7.1 None directly arising

Risk Management

- 8.1 Internal Audit provides the organisation with objective assurance on whether the major business risks are being managed appropriately and provides assurance that the risk management and internal control framework is operating effectively.

Corporate objectives and priorities for change

- 9.1 Internal Audit contributes through its review work on the major corporate risks to the Council achieving corporate objectives and priorities. This is achieved by the audit of key systems and corporate governance issues and the associated risks.

Assessment against CIPFA's "The Role of the Head of Internal Audit in public organisations"

Principle	Compliant	Current position
Principle 1: Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments	Yes	The Head of Governance & Assurance (HoGA) is responsible for promoting corporate governance and spreading good practice. The internal audit strategy sets out how as Head of Internal Audit, the post will fulfil this role. Through internal audit, the HoGA reviews and makes a judgement on the whole range of controls including those relating to achieving value for money and the prevention and detection of fraud and corruption.
Principle 2: Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control	Yes	The HoGA provides the Council with a range of assurances which includes the Annual Head of Audit Opinion.
Principle 3: A senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee	Yes	The HoGA has a reporting line that leaves the post free from interference in the work of internal audit. He has full access across the Council, especially to the Chief Executive and the Chair of Audit and Accounts Committee.
Principle 4: must lead and direct an internal audit service that is resourced to be fit for purpose	Yes	The Central Midlands Audit Partnership resources are currently proportionate to the size, complexity and risk profile of the Council and enable the HoGA to give a reliable opinion on the Council's control environment. Because reliance is placed on the work of internal audit and the HoGA ensures that all the work is consistently of a high quality and in line with professional standards. The HoGA ensures that all staff demonstrate the highest ethical standards.
Principle 5: must be professionally qualified and suitably experienced	Yes	The HoGA is a qualified accountant and a member of the Chartered Institute of Public Finance & Accountancy with 26 years internal audit experience, of which 20 years have been as a Head of Internal Audit.

**Compliance with 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom
Position as at 31 March 2013**

2006 Code standard	Compliant	Current position
1. Scope of internal audit <ul style="list-style-type: none"> • Terms of reference for internal audit • Scope • Other work • Fraud and corruption 	Yes	<p>Terms of reference which are compliant with the Code requirements were approved by the Audit and Accounts Committee in March 2011.</p> <p>Scope of internal audit work takes into account the key risks facing the Council as well as coverage of main financial systems, systems development and other areas of importance. The plan is approved by the Audit and Accounts Committee.</p> <p>Internal Audit has sufficient skills and resources to undertake consultancy and anti-fraud and corruption work.</p> <p>The Council's anti- fraud policy requires the Head of Governance & Assurance to be informed of any suspected fraud, corruption or impropriety.</p>
2. Independence <ul style="list-style-type: none"> • Principles of Independence • Organisational independence • Status of Head of Internal Audit • Declarations of interest 	Yes	<p>Internal Audit is independent of the activities it audits.</p> <p>The Head of Governance & Assurance (Council's Head of Audit) has direct access to those charged with governance through the Audit and Accounts Committee. Regular meetings are also held with Chair of the Audit and Accounts Committee.</p> <p>The Head of Governance & Assurance is managed by a member of the Chief Officer Group.</p> <p>All CMAP staff make an annual declaration of interest, which is held by the Head of Governance & Assurance.</p>
3. Ethics <ul style="list-style-type: none"> • Integrity • Objectivity • Confidentiality • Competence 	Yes	<p>All staff are aware of the requirement for integrity, objectivity and confidentiality in carrying out audit work. Most staff are members of professional bodies which have their own ethics codes with which their members must comply.</p> <p>To ensure continued objectivity by audit staff, audit assignments are rotated on a regular basis.</p>

2006 Code standard	Compliant	Current position
		<p>All audit staff are fully aware of the need for confidentiality.</p> <p>Competencies are set out in individual job descriptions for each grade of staff. The Council's appraisal process incorporates a review of training needs and all staff are encouraged to become professionally qualified and continually update their skills by attending specific training or undertaking new areas of work.</p>
4. Audit Committee <ul style="list-style-type: none"> Purpose of the Audit Committee Internal audit's relationship with the Audit Committee 	Yes	<p>The Council has an "audit committee" and its terms of reference have been formally approved and included in the Council's Constitution.</p> <p>The Audit and Accounts Committee approves the audit strategy and plan annually and monitors progress against the plan on quarterly basis.</p> <p>The Head of Governance & Assurance attends Committee meetings, reports on the outcome of internal audit work, identifies necessary changes to the audit plan, and presents an annual audit opinion on the internal control and risk management framework.</p> <p>The Head of Governance & Assurance can meet privately with the Audit & Accounts Committee if required.</p>
5. Relationships <ul style="list-style-type: none"> with management with other internal auditors with external auditors with other regulators and inspectors with elected Members 	Yes	<p>Responsibilities of management in relation to internal audit are set out in the terms of reference for internal audit.</p> <p>Internal Audit is a member of Regional Audit Groups and all CMAP staff are encouraged to network</p> <p>Regular meetings are held between the Head of Governance & Assurance/CMAP Audit Manager Audit and the Council's External Auditors.</p> <p>When required, Internal Audit works closely with external inspectors and regulators.</p> <p>The Head of Audit meets regularly with the Chair of the Audit and Accounts Committee. All Members are able to raise concerns with the Head of Governance & Assurance and do so.</p>
6. Staffing, training and development	Yes	Staffing is adequate to meet the needs of the service.

2006 Code standard	Compliant	Current position
		<p>Training needs are assessed on an annual basis via MiPS and following this an annual training & development plan is produced, which links training to CMAP objectives. Completed training is documented in the training & development plan and recorded on a database for ease of management reference.</p> <p>The Head of Governance & Assurance is professionally qualified and has wide experience of audit, finance and management.</p> <p>All staff have up-to-date job descriptions.</p>
7. Audit Strategy and Planning	Yes	<p>An updated Audit Strategy is formally approved by the Audit and Accounts Committee. The risk-based audit plan is prepared in accordance with the strategy. Consultation on the audit plan is carried out with relevant senior management. The internal audit plan is agreed by the Audit and Accounts Committee annually.</p>
8. Undertaking Audit Work <ul style="list-style-type: none"> • Planning • Approach • Recording and Assignments 	Yes	<p>An audit scoping document is prepared and agreed with management for each audit. These include objectives, scope, timing, resources and reporting arrangements. A risk-based approach is used and there is a quality review process. Issues are discussed with management as they arise.</p> <p>Standards of working papers are specified and checked as part of the independent file review. Adequate working papers supporting conclusions drawn and recommendations made are maintained and retained.</p>
9. Due professional care <ul style="list-style-type: none"> • Responsibilities of the individual auditor • Responsibilities of the Head of Internal Audit 	Yes	<p>All internal auditors are aware of their individual responsibilities for due professional care.</p> <p>CMAP has an established monitoring and review process to ensure that due professional care is achieved. Working papers and draft reports are reviewed.</p> <p>The Head of the Partnership is compliant with the CIPFA Statement on the Role of the Head of Audit.</p>
10. Reporting <ul style="list-style-type: none"> • Reporting on audit work • Annual reporting 	Yes	<p>All internal audit reports give an opinion on risks and controls, using an agreed methodology which attributes an assurance level to the risks/controls in place. Reports are in a standard format and include the audit scope, overall evaluation, detailed findings and an action plan with recommendations which are graded according to risk.</p> <p>Draft reports are discussed with management</p>

2006 Code standard	Compliant	Current position
		<p>and action plans agreed in response to recommendations made. Final reports are issued to appropriate managers.</p> <p>Assurances are sought from managers to confirm that recommendations have been fully implemented.</p> <p>An annual audit opinion report is presented to the Audit and Accounts Committee. The work on which the opinion is based has been the subject of regular progress reports to Committee during the year.</p>
<p>11. Performance, quality and effectiveness</p> <ul style="list-style-type: none"> • Principles of performance, quality and effectiveness • Quality assurance of audit work • Performance and effectiveness of the internal audit service 	Yes	<p>Policies and procedures are defined in the Internal Audit Manual. Audits are assigned according to the skills required.</p> <p>Quality assurance of work is achieved through the appropriate supervision of audit staff and the review of working papers/draft reports.</p> <p>The overall effectiveness of Internal Audit is assessed through a number of methods – compliance with standards, completion of the plan, results from client surveys etc. In addition an annual assessment of the work of internal audit is undertaken by the external auditor.</p>

Appendix 4

Internal Audit – Characteristics of Effectiveness

Characteristic of 'effectiveness'	Evidence of Achievement
IA operates in accordance with "proper practices" as defined in professional codes of practice.	The IA section operates to the CIPFA Code of Practice for Internal Audit (2006).
IA can demonstrate that its work provides assurance that the control framework is sound and that standards of risk management are improving.	Results of audit work are reported to Audit & Accounts Committee
IA understands its position in respect to the organisation's other sources of assurance and plan its work accordingly.	Internal Audit identifies other sources of assurance and takes this into account when preparing the internal audit plan.
Understand the whole organisation, its needs and objectives.	Internal audit work takes into account the Council plan and individual Directorate service plans. Another information source is the corporate risk register.
Be seen as a catalyst for change at the heart of the organisation.	Audit recommendations include suggestions for improving processes and controls.
Add value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work.
Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.	Internal Audit provides help and advice on request and supports specific projects identified in plan and on <i>ad hoc</i> basis. Internal Audit has contributed to key new systems such as procurement cards, payroll/HR etc.
Be innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.	Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and engaging managers in developing actions to manage risks, thereby encouraging ownership of the control environment
Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.	Internal Audit continually assesses its skills mix to ensure that it is appropriate to the demands placed on internal audit. Resource issues are addressed in the Strategy as well as the CMAP Business Plan. On-going consideration is given to alternative sources of audit resource, including areas requiring specialist skills.