



EFFECTIVENESS OF INTERNAL AUDIT

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".
- 4.2 There is no mandatory requirement or guidance on who should perform the review. It was considered appropriate that the Strategic Director - Resources carries out the assessment. The assessment was 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

- 4.3 There is there 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. The latest version of the strategy was approved by this Committee on 24 March 2011.
- 4.4 The Internal Audit team operates to a terms of reference document which sets out the framework within which Internal Audit discharges its responsibilities. The latest version of the terms of reference was approved by this Committee on 24 March 2011.

Governance and relationships

- 4.5 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 Audit and Risk Management provides a level of assurance to the Council on the effectiveness of its system of internal control in his annual audit opinion.
- 4.6 The Audit and Accounts Committee is very supportive of Internal Audit, and there is a good working relationship between the Committee and the Head of Audit and Risk Management.
- 4.7 The positioning and profile of internal audit within the Council is well defined and provides clarity of internal audit's role and relationship within the organisation. The Head of Audit and Risk Management reports directly to the Strategic Director – Resources. There are monthly performance meetings held between the two officers which are formally recorded.

Customer Focus

- 4.8 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.

- 4.9 Internal audit has developed 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. As well as internal audit work for the City Council, the Internal Audit team provide internal audit services to a number of other public sector organisations
- Derby Homes – this work has been won through competitive tendering on 2 occasions (2007 and 2010).
 - Derbyshire Fire Authority – this work has been carried out by Derby City Council's Internal Audit team since 1997.
 - Amber Valley BC
 - South Derbyshire DC
- 4.10 Following every audit review, a customer satisfaction survey is sent to the relevant manager. The responses from managers in 2010/11 scored 93.1% of all questions as either good or excellent. Appendix 2 provides a summary breakdown of the 38 responses received to each question by category.
- 4.11 The Head of Audit and Risk Management carries out an annual survey of Strategic Directors and Service Directors to get their perception on the internal audit service provided. A total of 7 responses were received from the 25 invites, a response rate of 28%. The full results from this year's survey are shown in Appendix 3. Overall the internal audit service was rated as fair to good (average score of 3.77 per question, based on 5 for excellent down to 1 for very poor). However, the service was rated as poor in two areas by one respondent. This was based around an inadequate level of consultation by the team in respect of timetabling of audits with the management of the service under review and the methodology of chasing up non-responses to audit reports. Internal Audit is aware that it needs to develop further its processes for liaising with managers over the timetabling of audit reviews. This is being addressed in 2011/12, particularly around the scheduling of the audits of the key financial systems.

People

- 4.12 Internal audit staff have the appropriate technical skills and knowledge to perform effectively and access to training and other material to maintain their skills. All of the staff have personal development and training plans as part of the Council's Managing Individual Performance process.

Systems and Processes

- 4.13 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.

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

- Number of Productive Days 70.3% (Target 73.5%)
- Productive 91.6% (Target 91%)

A fuller summary of the performance of the Internal Audit team is provided in the Head of Audit and Risk Management's report which outlines his Annual Audit Opinion.

Professional standards

4.15 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.

4.16 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 review carried out by External Audit in 2007/8 showed that internal audit substantially complied with the Code and concluded that Internal Audit provided an independent and effective service to the Council. This was re-assessed in March 2011 by Grant Thornton. The areas where non-compliance was identified were in respect of the Terms of Reference for Internal Audit and the Internal Audit Strategy not being reviewed and updated on a frequent enough basis. Both documents were under review at the time of the assessment and as outlined in paragraphs 4.3 and 4.4 of this report, have been approved by this Committee.

4.17 As part of the interim audit, External Audit considers the effectiveness of the Internal Audit function. In its interim report 2010/11, Grant Thornton states that:

"We reviewed Internal Audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by Internal Audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council."

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

Conclusion

4.18 From the evidence reviewed, the Council's internal audit service can be assessed as effective.

OTHER OPTIONS CONSIDERED

5.1 N/A

This report has been approved by the following officers:

Legal officer	n/a
Financial officer	n/a
Human Resources officer	n/a
Service Director(s)	n/a
Other(s)	n/a

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Customer satisfaction Survey results by category Appendix 3 – Survey of Strategic Directors and Service Directors

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.

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.

Appendix 2

Customer Satisfaction Survey results By Category

	Question	Very Poor	Poor	Fair	Good	Excellent
A	Audit Planning					
1	Consultation on audit coverage and timing	0	0	10	18	10
2	Relevance of audit objectives and scope	0	0	1	21	16
B	Communication & Conduct					
3	Feedback during the audit	0	0	5	21	12
4	Helpfulness of the auditor(s)	0	0	0	18	20
5	Professionalism of the audit team	0	0	0	18	20
6	Completed in an acceptable timeframe	0	0	2	27	9
C	Quality of the Audit report					
7	Clarity and presentation of the report	0	0	1	19	18
8	Accuracy of findings	0	0	3	23	12
9	Soundness and objectiveness of audit's conclusions	0	0	2	24	12
10	Value of agreed actions to improve control environment	0	0	5	22	11
D	General					
11	Overall satisfaction with the audit service	0	0	0	26	12

Survey of Strategic Directors and Service Directors - By Category

	Question	Very Poor	Poor	Fair	Good	Excellent
1	The overall focus and scope of audit work?	0	0	2	4	1
2	The level of consultation on audit coverage?	0	1	4	1	1
3	Audit's responsiveness / helpfulness to your needs?	0	1	0	5	1
4	The quality of audit staff you have encountered?	0	0	1	5	1
5	The quality of the audit work that you have received?	0	0	2	4	1
6	Audit's communication of their findings?	0	0	2	4	1
7	The quality of audit advice provided?	0	0	2	4	1
8	The improvements to control and reduction of risks result from audit work?	0	0	4	3	0
9	What is your overall rating of the audit service provided?	0	0	1	5	1