

Audit Committee

27 June 2013



Annual Review of the Effectiveness of Internal Audit – 2012/13

Report of Don McLure, Corporate Director of Resources

Purpose of the Report

1. The purpose of this report is to advise Members of the outcome of the annual review of the effectiveness of the Internal Audit Service.

Background

2. The Authority has a requirement under the Accounts and Audit (England) Regulations 2011 to review the effectiveness of Internal Audit each year. Internal Audit is an important element of the system of internal control and consideration of its effectiveness contributes to the annual review of the Authority's corporate governance arrangements, and is required to inform the Annual Governance Statement (AGS). If Internal Audit is not considered effective, the reliability of the annual internal audit opinion is in question.
3. The last review of the effectiveness of the service was carried out by the Corporate Director Resources, and considered by the Audit Committee in June 2012. This was informed by a series of questions considered independently by:
 - The Chair of the Audit Committee
 - The Corporate Director Resources
 - External Audit
 - The Head of Internal Audit
4. The review concluded that the service is effective but noted that some improvements had been identified.

Improvements made during the year

5. The main areas where improvements were identified from the last exercise and progress made to date is summarised below:

- **Development of Assurance Maps**

The development of assurance maps is linked to the roll out of a risk based auditing and the Control Risk Assessment (CRA) approach being rolled out as part of the current audit strategy to review of all key service activities over a 5 year programme. 2012/13 was the second year in this 5 year programme and consequently this longer term objective is still in progress.

- **Skills Mix**

It had been recognised that the skills mix of the in-house team needs improving in the specialist areas of IT audit and fraud investigation. In response attempts were made during the year to appoint an additional IT Auditor. Unfortunately we were unable to attract a suitable candidate. Consequently, to supplement the in-house team we have entered into a partnership agreement with Audit North, a not for profit NHS consortium, for the provision of IT Audit Services with effect from April 2013. Plans to strengthen fraud investigation skills were put on hold during the year pending consideration of the implications of the development of Single Fraud Investigative Services by the DWP as this would have implications for Housing Benefit Fraud Unit. This was expected to be operational in October 2012 but has been delayed. This will be progressed during 2013/14.

Three members of staff started studying for the Institute of Internal Audits (IIA) Diploma qualification during the year.

The existing contract with PriceWaterhouseCoopers has been extended for another year to allow completion of a three year audit programme relating to the pension fund and to enable further skill transfer to the in-house team in this specialist area.

Approach to this year's annual review of effectiveness

6. This year's review has been informed by the outcome of 2 exercises.

- Formal feedback from Corporate Directors and Heads of Service through the use of an evaluation questionnaire
- An early self- assessment of compliance against the new Public Sector Internal Audit Standards (PSIAS) carried out by the Manager of Internal Audit and Risk.

Survey Outcomes

7. In total, 15 questionnaires were returned from 28 issued. A summary of the responses and additional comments received are attached at Appendix 2

Compliance with PSIAS

8. The PSIAS came into effect from 1 April 2013. A copy of the PSIAS is attached at Appendix 3.
9. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows:
 - Definition of Internal Auditing
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary)
10. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.
11. To support the implementation of the PSIAS in Local Government, the Chartered Institute of Public Finance and Accountancy (CIPFA) have published a Local Government Application Note (Application Note).
12. The PSIAS and Application Note supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the CIPFA 2006 Code).
13. Under the Accounts and Audit Regulations 2011, the Council must make provision for internal audit in accordance with the PSIAS as well as the Application Note.
14. Whilst the PSIAS came into effect on 1 April 2013, the Application Note has only recently been published and general guidance issued by CIPFA is that public sector bodies should aim to be fully compliant by the end of 2013/14.
15. To identify any actions required to prepare for full compliance, an initial self-assessment has been carried out using a checklist provided in the Application Note. It should be noted that this checklist has been devised to support a full evidence based internal or external assessment, but at this early stage of assessment it has only been used to assess known gaps in processes and procedures to help prepare for full compliance. A copy of this assessment is attached at Appendix 4.
16. It should be noted that PSIAS 1300 requires that an external assessment is carried out at least every five years. This may be satisfied by either

arranging for a “full” external assessment or by undertaking a self-assessment with ‘independent validation’. The initial assessment carried out to inform this annual review of effectiveness is not such an assessment. Consideration of the format and timing of the external assessment will be considered and discussed with the Audit Committee at a later date.

Conclusions

17. The responses from the senior management survey, although disappointingly limited in number, were on the whole very positive.
18. These indicate that the service consults well with senior management regarding audit issues but the audit strategy and risk based approach could be improved to ensure that there is more clarity over how internal audit work can support the achievement of council priorities and objectives and provide more support on helping services achieve VFM.
19. Communicating audit outcomes was another area where improvements were highlighted in relation to the timeliness of the issuing of reports and ensuring that audit findings are reported in the context of “the bigger picture”.
20. The development of the assurance framework and assurance maps, mapping assurance on the areas and /or risks that senior management and the Audit Committee agree as priority, is key to improving the strategic planning process. Whilst work has already begun on this, it does require further senior management buy-in and time to progress successfully. The implementation of the PSIAS clearly demonstrates the importance of moving this on during 2013/14.
21. Another key area for improvement is the need to implement a more robust quality assurance programme. This new requirement of the PSIAS will help improve performance management and the identification of training and development issues which will in turn help drive the quality of the service offer once addressed.
22. Ensuring internal auditors have the right skills, knowledge and experience is always a challenge but especially at the current time in view of the external influences impacting on the operations of the council and the resultant extent and pace of the transformational/change agenda at a time of reducing resources. It is therefore important that the service optimises any opportunity to enhance its skills and knowledge base by enhancing the in house team, wherever resources allow, and ensuring the continuous professional development of all existing staff. Again, the PSIAS provides focus on the importance of this.
23. The service is already compliant with the majority of the requirements under the PSIAS as the previously professional standard for local authority internal audit, the CIPFA 2006 Code, largely reflected the expectation of

the IIA Standards. However, there are some new elements and the introduction of the PSIAS is an ideal opportunity to review all audit processes and procedures to ensure not only compliance but that the quality assurance framework in place is robust enough to evidence compliance. Since the demise of the tri-annual review of Internal Audit by the Audit Commission, the introduction of an external assessment to be carried at least once every 5 years is welcomed as it will help drive compliance and continuous improvement thereby increasing the overall quality and effectiveness of the service.

24. Actions required to address the areas identified for improvement from the outcomes of the both the Senior Management Survey and the initial self-assessment of compliance with the PSIAS and Application Note are summarised in the improvement plan attached at Appendix 5. This improvement plan fulfils part of the requirement of PSIAS to develop and maintain a Quality Assurance and Improvement Programme (QAIP). The quality assurance programme will be developed during the year and reported upon as part of next year's annual review of effectiveness.
25. There is sufficient evidence to support the conclusion that the service was overall effective during 2012/13 and that the opinion provided in the 2012/13 Annual Audit Report is reliable.
26. Plans are in place to address areas for improvement and compliance with the PSIAS will help maintain quality standards going forward.

Recommendations

27. Members are asked to consider the evidence provided in this report to gain assurance on the effectiveness of internal audit and to place reliance on its work.

Contact: Don McLure, Corporate Director Resources Tel 03000 261943

Appendix 1: Implications

Finance

There are no direct financial implications arising for the Council as a result of this report.

Staffing

None

Risk

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability

None

Legal Implications

Compliance with Accounts and Audit Regulations 2011