

Mountsett Crematorium Joint Committee

30 January 2014

Review of Effectiveness of Internal Audit



Report of the Treasurer of Joint Committee

Purpose of the Report

1. The purpose of this report is to advise the Joint Committee of a review of effectiveness of the Durham County Council Internal Audit Service, carried out by the County Council's Audit Committee in June 2013. This report provides assurance to the Joint Committee as part of its Annual Governance Review.

Background

2. The Joint Committee's internal audit provider is Durham County Council Internal Audit Services. The service is delivered in accordance with a Service Level Agreement (SLA) approved by the Joint Committee in Sept 2010.
3. In order to place reliance on the work of internal audit, and the annual audit opinion provided through it on the adequacy and effectiveness of the control environment operating across the Joint Committee, it is important that the Joint Committee is assured that the service is effective.
4. Under the Accounts and Audit Regulations 2011, Durham County Council as a large public body is required to carry out an annual review of the effectiveness of its Internal Audit Service. Whilst there is no such legal requirement for the Joint Committee as a small body under these regulations to do likewise, assurance can be provided on the effectiveness of the service provided to the Joint Committee from this review.

Summary of the outcomes from the review carried out by DCC Audit Committee

5. The Audit Committee considered a report presented by the Corporate Director Resources that provided evidence on the effectiveness of the service during 2012/13. Having considered the evidence, the Committee concluded that sufficient assurance had been provided that the service was effective. In reaching this conclusion the Committee considered:
 - Actions taken by the service during 2012/13 to address areas identified for improvement following the 2011/12 effectiveness review
 - Formal feedback from Corporate Directors and Heads of Service via an evaluation survey

- An initial self-assessment of compliance against the new Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) which came into effect 1 April 2013, carried out by the Head of Internal Audit.
6. A summary of the main outcomes from the review and the resultant improvement plan prepared by the Head of Internal Audit Risk is attached as an appendix 2.
 7. The improvement plan fulfils part of the requirement of PSIAS for the Head of Internal Audit 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 the annual audit report as required by the PSIAS.
 8. The key activity identified within the improvement plan specifically relevant to the Joint committee is the review and update of the Internal Audit Charter. A revised Charter has been prepared for the Joint Committee's consideration and is included within the Provision of Audit Services Report under a separate agenda item.

Other Relevant Performance Indicators

9. Following each annual audit, a post audit satisfaction survey is issued to the Crematorium Superintendent. The feedback from the 2012/13 audit returned an average score of 4.5 where 1 is very poor and 5 is very good.
10. The Internal Audit Service subscribes to the CIPFA Internal Audit Benchmarking Club. Whilst the benchmarking exercise is very much input and process focused, e.g. compares costs, chargeable days and areas of coverage, and does not provide any indicators of the quality or added value provided through internal audit services, it does provide some useful comparators as an indication of current performance compared with others.
11. The most relevant indicator from the latest exercise which will be of interest to the Joint Committee is the cost per audit day. In 2012/13 the average cost per audit day was £276 compared to the average for unitary authorities of £317. This demonstrates that the service represents good value for money.

Recommendation and Reasons

12. The Joint Committee is asked to note:
 - The information provided that demonstrates the efficiency and effectiveness of the Durham County Council Internal Audit Service
 - Actions planned to further improve the service during 2013/14

Background Documents

Report to DCC Audit Committee 27 June 2013
CIPFA Benchmarking Exercise

Contact(s): Paul Darby, Head of Financial (Financial Services)

Appendix 1: Implications

Finance

The annual audit fee is set out in the report.

Staffing

None

Risk – Not a key decision

Equality and Diversity

None

Accommodation

None

Crime and Disorder

None

Human Rights

None

Consultation

None

Procurement

Purchase of Audit Services as set out in the report

Disability Issues

None

Legal Implications

Compliance with the Account and Audit Regulations 2011

Extract from the report considered by DCC Audit Committee 27-6-13

1. The responses from the senior management survey, although disappointingly limited in number, were on the whole very positive.
2. 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.
3. 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”.
4. 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.
5. 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.
6. 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.
7. The service is already compliant with the majority of the requirements under the PSIAS as the previous 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.

8. 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. 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.
9. 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.
10. Plans are in place to address areas for improvement and compliance with the PSIAS will help maintain quality standards going forward.

IMPROVEMENT PROGRAMME 2013/14

Ref	Area of Improvement	Driver Improvement	for	Action Required	Responsible Officer	Target Date	Progress to Date
1.		PSIAS Ref	Survey Ref				
2.	Audit Strategy	2000	Q5, Q13, Q20	Review Audit Strategy in consultation with senior management to improve risk based strategy planning and ensure that audit resources are focused on the right areas and add most value	Avril Wallage	31/3/14	
3.		2050		Agree with CMT and Audit Committee on areas on which assurance is required	Avril Wallage	30/09/13	
4.		2050		Agree the definition of assurance with CMT/Audit Committee	Avril Wallage	30/09/13	
5.		2050		Develop common assurance language to be applied across all assurance providers	Avril Wallage	30/09/13	
6.		2050		Develop Assurance Maps in consultation with senior management to improve understanding of business and the risks it faces. Capture who, what, how and when assurance is or could be provided on the management of those risks and map to those areas where it is agreed assurance is needed	Audit Managers	28/02/14	Risk Based Approach and Control Risk Assessment (CRA) methodology has begun this process at the planning stage of individual audit assignments but needs to be progressed at strategic planning stage to provide clarity to CMT and Audit Committee on overall assurance sources and outcomes and to demonstrate the added value provided by Internal Audit assurance and any assurance gaps.
7.	Audit Terms of Reference –	1000	Q7	Promote awareness of Audit Terms of Reference and audit	Avril Wallage	31/3/14	

IMPROVEMENT PROGRAMME 2013/14

Ref	Area of Improvement	Driver Improvement	for	Action Required	Responsible Officer	Target Date	Progress to Date
	Independence and objectivity			strategy across the organisation			
8.		1120		Ensure staff records within the Audit Management Software log details of areas to which staff are seconded to evidence that staff are not allocated to an area in which they were previously involved.	Audit Managers	On going	
9.		1120		Training to be given to all audit staff on IIA Code of Ethics and Seven Principles of Public Life which underpin PSIAS to reinforce existing professional ethical standards	Avril Wallage	31/7/2013	
10.		1120		Ensure all audit staff have completed annual declaration of interests	Avril Wallage	31/07/2013	
11.		1000		HIA to communicate directly with Chief Executive periodically	Avril Wallage	31/03/2013	
12.				Rotate on-going assurance arrangements periodically within the team (No more than 2 consecutive audits if no significant changes wherever possible)	Audit Managers	Immediate effect	
13.		1000		Update Internal Audit Charter to reflect requirements of PSIAS, in particular to define the terms "board" and senior management for the purpose of the internal audit activity	Avril Wallage	31/3/14	
14.	Skills Knowledge & Experience	1200	Q18	Carry out a formal skills assessment of audit staff and	Audit Managers	31/3/14	

IMPROVEMENT PROGRAMME 2013/14

Ref	Area of Improvement	Driver Improvement	for	Action Required	Responsible Officer	Target Date	Progress to Date
				<p>develop a programme of continuous professional development for all staff to supplement existing corporate staff appraisal scheme and inform service training plan</p> <p>Ensure records maintained to record training and personal development are complete</p>			
15.		1200	Q20	Work closer with senior management to understand the business better – especially new initiatives and developments	Audit Management	On –going	
16.		1200		Improve team briefings and internal communications to ensure any business intelligence is shared more effectively	Avril Wallage	30/09/13	
17.	Quality Assurance	1300		Review and further develop existing quality assurance processes and formalise into a quality assurance programme to clearly evidence on going compliance with agreed policies and procedures and PSIAS and through internal assessment	Avril Wallage	30/09/13	
18.		1320		Include reporting on the outcomes of the quality assurance programme and any improvement plans in Annual Audit Report	Avril Wallage	30/06/2014	
19.		1312		Approach and timing of external assessment to be developed and	Avril Wallage	30/06/14	

IMPROVEMENT PROGRAMME 2013/14

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date
			agreed with the CFO			
20.	Audit Planning	2010	Review strategic planning process and resultant annual plans to ensure link between audit work and supporting the achievements of the Council is clear.	Avril Wallage	2013/14	2013/14 Plan shows some indicative links
21.		2010	Review all documentation where definition of Internal Audit is quoted and ensure PSIAS used and promote awareness	Avril Wallage	30/09/13	Linked to current development of Audit Manual
22.		1220/2010	Q11 Audit Assignment planning and preparation process should confirm links to corporate priorities and objectives to help determine priorities for audit scope and put resultant audit findings into a corporate context	Avril Wallage	01//07/13	.
23.		2200	Q14 Ensure the scope of all audit work including Advice & Consultancy type reviews are approved by relevant heads of service or their nominated key contact prior to fieldwork commencing to evidence that they support the scope. Quality check compliance as part of sign off process to audit scope/TOR's Quality check compliance as part of a formal quality review process of a sample of audits	All Audit Staff Audit Managers Avril Wallage	Immediate On going	This is standard practice for assurance type reviews where CRA Risk Based Approach methodology is applied but has not always been the case for advice & consultancy reviews

IMPROVEMENT PROGRAMME 2013/14

Ref	Area of Improvement	Driver for Improvement	Action Required	Responsible Officer	Target Date	Progress to Date	
			undertaken during the year				
24.		2010	Q17	Determine priorities for audits within Annual Audit Plan	Avril Wallage	30/6/13	
25.		2010		Revise format of post audit evaluation process to improve future audit planning	Avril Wallage	30/6/13	
26.		2010	Q36	Continue to build effective relationships with all services through improved delivery on agreed planned work and keeping abreast of new initiatives to consider how IA could assist as part of overall assurance framework	Audit Management	On- going	Work already in progress to develop joint assurance protocol on major projects
27.		2010	Q38	<p>Improve focus on VFM risks in audit work and improve how consideration of this is communicated through audit reporting</p> <p>Quality check compliance as part of sign off process to audit scope/TOR's and reports</p> <p>Quality check compliance as part of a formal quality review process of a sample of audits undertaken during the year</p>	<p>All Auditors</p> <p>Audit Managers</p> <p>Avril Wallage</p>	<p>On –going</p> <p>On-going</p> <p>31/5/2014</p>	Helping to support VFM is already a standard audit objective
28.	Communications and relationships	2420		Improve timeliness of feedback on audit findings by improving the performance management of	Audit Managers	31/07/2013	

IMPROVEMENT PROGRAMME 2013/14

Ref	Area of Improvement	Driver Improvement	for	Action Required	Responsible Officer	Target Date	Progress to Date
				planned and actual fieldwork completion dates and issue of draft reports and final reports			
29.		2420		Improve challenge to significance of audit findings and priority rankings through audit clearance processes	Principal Auditors/Audit Managers		
30.			Q39	Improve awareness of the CRA methodology to help embed operational risk management and follow up on its implementation as a self-assessment tool by including a formal recommendation to this effect in audit report action plans.	All Audit Staff	1/7/2013	
31.	Policies and Procedures	2040		Improve the co-ordination and review mechanisms of existing policies and procedures by capturing in Audit Manual	Avril Wallage	30/09/13	In progress but requires updating to reflect PSIAS
32.		2240		Review processes for approving work programmes and testing strategies as part of the planning and preparation stage of audit assignments	Avril Wallage	30/09/13	
33.		2330		Determine retention policy and archiving arrangements in line with council retention guidelines	Avril Wallage	30/09/13	
34.	Audit Opinions	2450		Improve communication of reliance placed on other providers of assurance in arriving at audit opinions (assignments and overall audit opinion)	Avril Wallage	30/09/2013	