

AUDIT COMMITTEE

26 June 2014



Annual Review of the System of Internal Audit 2013 / 2014

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. The purpose of this report is for members to consider and comment on the Annual Review of the System of Internal Audit.

Background

2. The Accounts and Audit Regulations 2011 require that “a larger relevant body (the Council) must, at least once in each year, conduct a review of the effectiveness of its internal audit” and confirms that the findings of the review must “must be considered as part of the consideration of the system of internal control”.
3. Internal Audit is defined as the means by which the Council assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance process are evaluated and reported in the Annual Governance Statement.
4. To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those charged with governance.
5. The review concluded that the service is effective and also identified some areas for further improvement.

Current Arrangements for Internal Audit

6. A dedicated Internal Audit Section forms part of the system of Internal Audit in the Council. The Section is part of the Internal Audit, Risk and Corporate Fraud Division of the Resources Service Grouping. It is led by the Chief Internal Auditor and Corporate Fraud Manager. It has strong links with the Risk, Insurance Claims and Corporate Fraud sections which form the division and works closely with others in the Council tasked with governance, assurance and risk management. Whilst part of a wider Division, the Section retains its own identity as Internal Audit for the Council.

7. The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director, Resources but also has direct access to the Chief Executive and the Audit Committee.
8. At the start of 2013/14 the team comprised of 20 approved posts (18.42FTE) plus the Manager of Internal Audit and Risk. The Manager of Internal Audit and Risk retired in January 2014 and the Chief Internal Auditor and Corporate Fraud Manager was appointed in November 2013 and took up post in January 2014 which involved a hand over with the Manager of Internal Audit and Risk. This team delivered work for the Council as well as work for external clients including Durham Police and Durham and Darlington Fire Authority.
9. The Vision and Strategy for Internal Audit is described in the Annual Internal Audit Plan and Strategy, the Internal Audit Service Terms of Reference (TOR) within the Internal Audit Charter and it outlines the status of the Section within the organisation and defines the principles of how it operates within the Council. The TOR provides appropriate arrangements to ensure that the Section is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The requirements of the new Public Sector Internal Audit Standards (PSIAS) have been reflected in the most recent update to the Internal Audit Charter and refreshed TOR which was presented to the Audit Committee in February 2014.
10. Arrangements for investigation work are defined in the Council's policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and these are reported to Corporate Management Team and the Audit Committee in the Annual Fraud Report. The Council has also created a Corporate Fraud Team from the transfer of Housing Benefit Fraud employees into the Division.
11. To examine the effectiveness of the Internal Audit Section for the past year this annual review considered key elements and assessed their contribution to enabling the Section to fulfil its responsibilities. These were:
 - The structure and resourcing level, including qualifications and experience of the audit team.
 - The extent of conformance with the PSIAS in producing quality work.
 - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis.
 - The overall performance of the Internal Audit team.

Resourcing, Qualifications and Experience

Resourcing

12. During 2013/14 there was little staff turnover other than the retirement of the Internal Audit and Risk Manager however this post was replaced by the Chief Internal Auditor and Corporate Fraud Manager. The establishment was increased with an additional Principal Auditor with specific expertise in Procurement and Contract Audit. As a result there were on average 20 audit employees available for audit work during the year.

13. Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; and control over the allocation of resources for investigation referrals and in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to Clients, Service Grouping Management Teams, Corporate Management Team and to the Audit Committee.
14. The audit plan is on target for completion by year end and there will be minimum need to carry forward audit work from 2013/14 into next year except where draft reports still require management responses to enable final reports to be issued in July or where services have asked for timings and/or scope changes in work. Some work was deferred following review of the audit plan and these have been agreed at the Audit Committee throughout the year.
15. To supplement the in-house team, limited external resources were used as planned for specialist ICT audit work from colleagues at IT Audit North. This has provided additional technical expertise to complement the work of the Principal Auditor with responsibility for ICT.

Structure

16. The structure of the section reflects the configuration of the Council at Corporate Director level and allows for close client liaison during the year. The structure is intended to remain the same allowing the opportunity for auditors to continue to develop a depth of knowledge and client relationships. This wherever possible offers continuity to clients who can then regularly deal with the same auditors over a period of time. We consider this approach continues to be successful in building a better understanding of the Council and its business needs and objectives and the Section continues to receive positive feedback from management on this approach. There is a need for staff rotation for development purposes and to maintain objectivity.

Audit and Risk Management

17. The Division enables the objectives of Internal Audit to be more clearly articulated through the service planning process and is demonstrated in service plans. Key priorities, options for development and service delivery, service objectives assessments of performance and workforce plans are encapsulated in the annual Internal Audit Plan. Shared intelligence and some joint working has been undertaken to improve the assurance and support services offered to Service Groupings and Schools while maintaining Internal Audit's distinct identity.

Training and Experience

18. The training and development within the Division encourages development through both the Institute of Internal Auditors (IIA) qualification and continuing professional development.
19. During the year two auditors have progressed their IIA studies and one has progressed with CISA (IT Auditor Qualification). All other employees hold at least one audit qualification. For Continuous Professional Development all employees had access to and attended events selected from internal and external training events. Individuals keep records of their continuing professional development based on their professional requirements and a central record is held on the Internal Audit software package 'Galileo'. A training plan for the coming year is being constructed based on needs for the service, linked to the service improvement plan and individual appraisals training plans.
20. The following information about qualifications and experience of employees available for audit work demonstrates the experience and qualification mix.

Experience 2013/14

Auditing Experience	No	%	Local Government Auditing	%
Up to 1 Year	0	0	0	0
1 to 2 Years	0	0	0	0
2 to 5 Years	1	5	1	5
5 to 10 Years	5	24	5	24
Over 10 Years	15	71	15	71
Total Employees	21	100	21	100

Qualifications

Accountants (CCAB)	7
Institute of Internal Auditors – Training	2
Certified Information System Auditor – Training	1
Association of Accounting Technicians	10
Association of Accounting Technicians – part qualified	1
Total	21

21. The level of experience of audit employees was increased with those training who completed the IIA certificate course and experience log. Long standing experience was reduced slightly with the retirement of the Internal Audit and Risk Manager. The skills level available remains high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.

22. At 31 March 2014 the Section will have one vacancy. This is equivalent to 1.0 full time post. This will be reflected in the audit plan proposed for 2014/15 with the intention of deleting this post as a contribution to Council savings. The composition and delivery of the audit plan for 2014/15 will not be affected by this reduction.

Conformance with UK Public Sector Internal Audit Standards (PSIAS)

23. Internal Audit completed a self-assessment against the key elements of the PSIAS and is attached as Appendix 2. For 2013/14 this demonstrated that the Section was meeting 92% of the applicable Code requirements and 8% partially met. A service improvement plan is attached at Appendix 2.
24. There is still some further work to be done to adjust current processes and documents: specifically related to the need to embed the development improvement plan known as the Quality Assurance Improvement Programme (QAIP). This has been developed and is due to be implemented in July 2014.
25. All employees were introduced to the ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. While the basis of this remains the same as in previous years employees were also required to read and sign a document confirming they understand the ethics and behaviour requirements. All employees provided an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.
26. Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits had agreed and clear scope; activity was reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback was received from post audit questionnaires. It is planned to also compile an annual report for service groupings and Corporate Directors next year and an online questionnaire to be sent to all Senior Management to gauge the effectiveness of the audit approach.
27. Liaison with the External Auditor was productive and audit plans were coordinated within this process. The two services continue to share information and to use this to inform risk assessments and direct audit activity.

Ensuring the Effective Prioritisation of Internal Audit Work

28. Prioritisation of the work of the Section is achieved by the development and delivery of an annual risk based audit plan. This describes the assurance plans for the Section and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and investigation work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources.
29. The section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The approach is set out in the Internal Audit Plan presented and agreed by the Audit Committee.
30. It is considered that the 2013/14 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and with management requests and fraud investigations and referrals the plan is largely on track to be delivered. The Internal Audit Plan for 2014/15 will be presented to Audit Committee in June 2014.

Performance Measures

31. Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.
32. Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter. And allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.

33. The key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2014
Planned audits completed	% of planned assurance work from original plan complete to draft report stage	90%	68% - Annual target not yet due but on target at quarter 3
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90%	85% - 16 days on average
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95%	96% - 5 days on average
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	99%
Post Audit Customer Surveys	% of customers scoring at least 4 out of 5	100%	100%
Customers providing feedback responses	% of customers returning satisfaction returns	70%	61%

34. The key performance indicator measures show how many planned assurance reviews have been completed against a target of 90% within the audit year. It is proposed that this indicator is amended slightly to take account of the increasing level of Advice and Consultancy and Proactive Fraud work that is carried out during the year which also delivers an element of assurance. This new indicator will show the percentage of available days spent directly on audit work and again will be a target of 90%. This will ensure active management of time, effective scoping and agreed timing for audit work which will reduce delays and any down time.
35. For customer satisfaction there has been positive feedback on a number of specific jobs and this is reflected in the results from customer satisfaction questionnaires. A number of other positive comments were received from Service Groupings who commended the flexibility of the audit team was supporting them in addressing emerging issues as well as adapting audit plans to better address Service risks.
36. However the Service is concerned about the low level of customer satisfaction questionnaire returns from Services and as a result the indicator was based on a small return. Plans to carry out a programme of follow up with Services are intended to be carried out.
37. The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response.

38. No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.
39. Internal Audit costs and coverage are benchmarked with other Councils through CIPFA. The latest available figures for example showed that the cost of Internal Audit in Durham County Council, as a percentage of Council turnover is below average. There are a range of other figures and measures that the service uses to inform planning and to ensure that ongoing actions are taken to deliver and demonstrate value for money in the work that is completed.

Implementation of Recommendations

40. The process for monitoring implementation of recommendations continued to build on improvements last year and there are good levels of engagement from all services across the Council. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.
41. Internal Audit continue to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to Corporate Management Team. This process has helped to ensure that the time spent on the Service is targeted on key issues and that appropriate support and advice is offered at the right time.
42. The Audit Committee are provided with regular updates from the Section during the year and have the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is felt of be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2013/2014.

Audit Committee

43. The system of Internal Audit includes the role of the Audit Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit Committee remained the same during 2013/2014.
44. Audit Committee requested reports from management in response to issues raised in Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

Summary and key priorities

45. The Section continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives. The Section is on track to deliver a comprehensive plan for the year and it is considered that the Section has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

Recommendation

46. Members are asked to note the findings and conclusions of the 2013/2014 review of the effectiveness of the system of Internal Audit contained within this report.
47. Members are also asked to note the Service Improvement Plan for Internal Audit as a result of this assessment detailed in Appendix 2.

Contact: Paul Bradley

Tel: 03000 269645

Appendix 1: Implications

Finance

None

Staffing

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Discrimination

None

Legal Implications

Compliance with Accounts and Audit Regulations 2011