

AUDIT COMMITTEE

29 July 2016



Annual Review of the System of Internal Audit 2015 / 2016

Report of the 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 2015/16 the team comprised of 21 approved posts (19.42FTE) plus the Chief Internal Auditor and Corporate Fraud Manager. 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) are reflected in the Internal Audit Charter which was presented to the Audit Committee in May 2016.
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 Protecting the Public Purse Report. The Council has also created a Corporate Fraud Team following the transfer of Housing Benefit Fraud employees to the Department for Works and Pensions (DWP) as part of the Single Fraud Investigation Service (SFIS).
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 2015/16 two employees took Early Retirement as a means to contributing to the Medium Term Financial Plan savings. 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 was delivered at the year end, with a minimum need to carry forward audit work from 2015/16 into next year except where draft reports still require management responses to enable final reports to be issued 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.

Structure

15. 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 employee rotation for development purposes and to maintain objectivity.

Audit and Risk Management

16. 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

17. The training and development within the Division encourages development through both the Institute of Internal Auditors (IIA) qualification and continuing professional development.

18. During the year one auditor has successfully completed their IIA studies and one has qualified with CISA (IT Auditor Qualification). One other employee is continuing with their IIA qualification and one other employees has picked up their Association of Accounting Technician (AAT) training. 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. As such formal quarterly internal CPD sessions are now held for all employees. 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.
19. The following information about qualifications and experience of employees available for audit work demonstrates the experience and qualification mix.

Experience 2015/16

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	0	0	0	0
5 to 10 Years	2	10	2	10
Over 10 Years	18	90	18	90
Total Employees	20	100	20	100

Qualifications

Accountants (CCAB)	7
Institute of Internal Auditors	1
Institute of Internal Auditors – Training	1
Certified Information System Auditor	1
Association of Accounting Technicians	9
Association of Accounting Technicians – Training	1
Total	20

20. The level of experience of audit employees was increased with those training who completed the IIA certificate course and experience log. The skills level available remains high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.
21. At 31 March 2016 the Section will have no vacancies.

Conformance with UK Public Sector Internal Audit Standards (PSIAS)

22. In April 2013, the Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The standards are intended to reflect that “a professional, independent and objective internal audit service is one of the key elements of good governance”.
23. The PSIAS introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
24. Durham County Council, Newcastle City Council, South Tyneside Council and North Tyneside Council group have established a ‘peer-review’ process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by ‘self-assessment with independent external validation’ and this report presents the summary findings of the review carried out on behalf of Durham County Council.
25. The outcome of this assessment is attached as Appendix 2.

Ensuring the Effective Prioritisation of Internal Audit Work

26. 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.
27. 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.
28. It is considered that the 2015/16 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 was delivered. The Internal Audit Plan for 2016/17 was presented to Audit Committee in May 2016.

Performance Measures

29. 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.
30. 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.
31. The key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2016
Planned audits completed	% of plan achieved.	90%	97%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90%	97%
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95%	99%
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	100%
Post Audit Customer Surveys	% of customers scoring at least 3 out of 5	100%	100% (4.4 average)
Customers providing feedback responses	% of customers returning satisfaction returns	70%	77%

32. For customer satisfaction there has been both a positive response rate and a positive feedback on a number of specific assignments 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.
33. 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. This has improved in 2015/16 with all reports being issued within the set timescales.

34. No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.

Implementation of Recommendations

35. 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.
36. 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.
37. 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 2015/2016.

Audit Committee

38. 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 2015/2016.
39. 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

40. 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

41. Members are asked to note the findings and conclusions of the 2015/2016 review of the effectiveness of the system of Internal Audit contained within this report.
42. Members are asked to note the external assessment results detailed in Appendix 2.

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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