

INTERNAL AUDIT REVIEW OF EFFECTIVENESS AND BENCHMARKING

1 Purpose

- 1.1 This report is to inform the Audit Committee of the results of the Annual Review of Internal Audit Effectiveness and Benchmarking of the Internal Audit Service.

2 Recommendations/for decision

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|---|
| 2.1 The Committee is asked to discuss and note the contents of this Report. |
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3 Supporting information

- 3.1 The Accounts and Audit Regulations issued in 2006 require a “Review of the Effectiveness of Internal Audit” to be conducted at least once a year. The findings of the review should be reported to the Audit Committee. Last year’s review was reported to the Audit Committee in November 2008.
- 3.2 In 2006 CIPFA issued a revised version of its “Code of Practice for Internal Audit in Local Government in the United Kingdom”. This document includes a checklist which can be used to measure service provision against the standards set out within the Code.
- 3.3 The Audit Manager used this checklist to review the operation of the Internal Audit Section against the required standards. A copy of the completed Checklist, together with an Action Plan, was presented to the Audit Committee in November 2008.
- 3.4 An extract from this checklist showing only those sections where compliance was not 100% and where outstanding actions remained in November 2008 is attached at Appendix 1. All section headings have been left in to remind members of the scope of the review. No new actions were identified during last year’s review. The Action Plan has been updated in November 2009 to show the actions undertaken since the last review.
- 3.5 Internal Audit will be relocated from Friars Square to the High Street offices during the Summer of 2010. In order to facilitate this move we are intending to introduce fully electronic working methods and filing.
- 3.6 Once the new working methods are established the full Review of Effectiveness will be re-performed to confirm that the new arrangements are still meeting all CIPFA’s expectations. The results of this review will be presented to the Audit Committee at that time.
- 3.7 A report on the results of the customer satisfaction survey included in a recent Benchmarking exercise is attached at Appendix 2. This shows that overall the managers surveyed were satisfied with the Internal Audit service. Some managers are requesting more help with Value for Money type audits and this is an area where we will aim to increase our work in future.
- 3.8 Appendix 3 shows the results of cost and productivity comparisons between members of the CIPFA Benchmarking scheme. A detailed commentary has

been provided on each comparison. It should be noted that the 09/10 figures are currently estimated while all other figures are based on actual costs and time recorded.

4 Options considered

4.1 None

5 Resource implications

5.1 The Action Plan will be implemented within the current resources of the Internal Audit Section.

6 Response to Key Aims and Objectives

6.1 Internal Audit is a key part of the governance, performance, management and assurance framework for the Council. This framework is designed to ensure optimum delivery of the Council's Key Aims and Objectives.

Contact Officer

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Background Documents

Audit Committee papers, esp. November 2008

APPENDIX: CHECKLIST – COMPLIANCE WITH THE CODE

Please tick to indicate **Y = YES, P = PARTIAL, N = NO.**

Where 'partial' or 'no', you should give reasons for any non-compliance, and any compensating measures in place or actions in progress to address this.

E numbers. Refer to Evidence list at end

A numbers. refer to Action table at end.

Ref	Adherence to the Standard	Y	P	N	Evidence	Action?
1	Scope of Internal Audit					
1.1	Terms of Reference					
1.2	Scope of Work					
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	Y			E9	
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: (a) how assurance will be sought? (b) agreed access rights where appropriate?	Y			Audit Charter and Terms of Reference have been updated to clarify the situation with reference to partnership working.	
1.3	Other Work					
1.4	Fraud and Corruption					
2	Independence					
2.1	Principles of Independence					
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit (operational) duties?	Y	P		E2 Alternative arrangements have been made to ensure independence.	
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?			N	The Section is too small to ensure that this is always prevented. Steps have been taken to use external audit staff,, eg from BCC, to ensure independence where necessary.	
2.2	Organisational Independence					
2.3	Status of the Head of Internal Audit					
2.5	Independence of Internal Audit Contractors					
2.6	Declaration of Interest					
2.6.1	Do audit staff make formal declarations of interest?		P		As required by code of	

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Ref	Adherence to the Standard	Y	P	N	Evidence	Action?
					conduct. E11	
3	Ethics for Internal Auditors					
3.1	Purpose					
3.2	Integrity					
3.3	Objectivity					
3.4	Competence					
3.5	Confidentiality					
4	Audit Committees					
4.1	Purpose of the Audit Committee					
4.2	Internal Audit's Relationship with the Audit Committee					
5	Relationships					
5.1	Principles of Good Relationships					
5.2	Relationships with Management					
5.3	Relationships with Other Internal Auditors					
5.4	Relationships with External Auditors					
5.5	Relationships with Other Regulators and Inspectors					
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?		P		Good working relationship with External Audit.	
5.6	Relationships with Elected Members					
6	Staffing, Training and Continuing Professional Development					
6.1	Staffing Internal Audit					
6.2	Training and Continuing Professional Development					
7	Audit Strategy and Planning					
7.1	Audit Strategy					
7.1.1	(a) Is there an internal audit strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	Y			E1 & E2 Document has been created, but has to be linked to the review of financial regulations. Also needs further updating to reflect more recent changes in responsibilities and role of Internal Audit.	Y A5 Initial Action complete. Additional action needed.
7.1.2	Does the strategy include:	Y				

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Ref	Adherence to the Standard	Y	P	N	Evidence	Action?
	(a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, i.e. internally, externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?				As above	Y A5 As above
7.1.3	Has the strategy been approved by the audit committee?		P		As above – a full revision will be presented to Committee after Financial Regulations have been approved.	Y A5 As above
7.2	Audit Planning					
8	Undertaking Audit Work					
8.1	Planning					
8.2	Approach					
8.3	Recording Audit Assignments					
9	Due Professional Care					
9.2	Responsibilities of the Individual Auditor					
9.3	Responsibilities of the Head of Internal Audit					
10	Reporting					
10.1	Principles of Reporting					
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	Y			E3	
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	Y			E3	
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?		P		Initial review completed, some further changes being considered in connection with electronic working.	Y A9
10.1.5	Are there laid-down timescales for reports to be issued?		P			Y A8
10.2	Reporting on Audit Work					
10.3	Follow-up Audits and Reporting					
10.4	Annual Reporting and Presentation of Audit Opinion					
11	Performance, Quality and Effectiveness					
11.1	Principles of Performance, Quality and Effectiveness					

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Ref	Adherence to the Standard	Y	P	N	Evidence	Action?
11.1.1	Is there an audit manual?		P		E3 & E16 Needs further review to reflect move to electronic working. These will be implemented by May 2010.	Y A8 Partial review completed. Further action needed.
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	Y			E3	
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?		P		See above.	Y A8
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	Y Y			E3 (Questionnaire) E17 Benchmarking	
11.2	Quality Assurance of Audit Work					
11.3	Performance and Effectiveness of the Internal Audit Service					

ACTION PLAN from 2007/8 Review

Number	Action	Priority (H/M/L)	Comments at November 2009
A1	Review Audit Terms of Reference to comply with new Code	M	Review complete. Terms of Reference form part of Financial Regulations. Formal ratification of new document will be done when Financial Regulations update has been approved in 2009.
A2	Review Audit Charter to comply with new Code	M	Review complete. Formal ratification of new document will be done when Financial Regulations update has been approved in 2009.
A3	Partnership audit work	H	Terms of Reference and Charter have been reviewed and amended as above.
A4	Ensure Risk Management work clearly defined & does not compromise independence	H	Complete However, the Head of Internal Audit is now also responsible for Audit Fraud, Risk Management, Insurance and Performance Management, so additional independence issues have arisen. These will be managed by using external staff to complete reviews in these areas.
A5	Prepare / Review Audit Strategy document	M	Review complete. Audit Strategy is covered by part of Financial Regulations. Formal ratification of a new document including any additional information needed will be covered after Financial Regulations are approved.
A6	Increase & improve contact with Audit Committee	M	Complete.
A7	Review all Internal Audit Job Descriptions at Appraisal time	H	Complete.
A8	Review & update Internal Audit procedures &/or Audit Manual	M	Initial review & update completed. Additional changes are needed to reflect changes in working practices due to be introduced. These will include moving to a fully electronic method of working by May 2010.
A9	Review Internal Audit Reporting standards / templates etc	M	Required changes identified. These will be formally documented once processes and procedures have been finalised and new methods of working introduced. May 2010.
A10	Update Performance Management & QA docs	M	Reviewed. New arrangements are reflected in the Service Plan for Audit, Risk and Performance. These may need further review to reflect changes in working practices resulting from moving to electronic working in 2010.

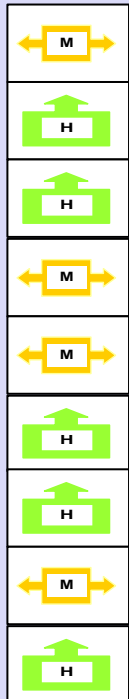
Audit Customer Satisfaction Survey

Section 1 - Performance Summary

1 Audit Services

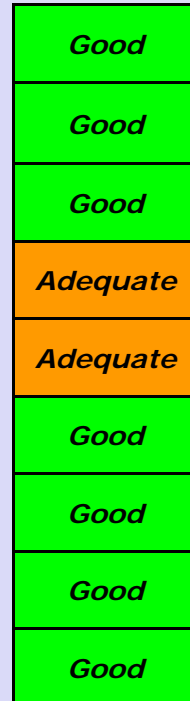
Internal audit undertakes work in a number of different areas. In respect of the following areas, where would you like to see them concentrate their efforts and how well do they currently perform?

Importance



- 1.1 Advice and guidance on policies/procedures
- 1.2 Review of compliance with policies/procedures
- 1.3 Internal Control Reviews
- 1.4 Review of completed capital projects
- 1.5 Value for Money Reviews
- 1.6 Review of security of corporate assets
- 1.7 Audit of IT systems and controls
- 1.8 Facilitating the risk management process
- 1.9 Investigation of Allegations

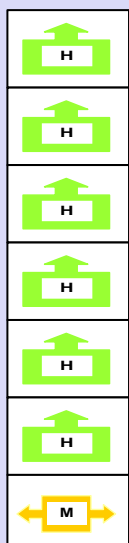
Performance



2 Audit Staff

Based on your contact with internal audit staff in the past year how well do you rate them in the following areas?

Importance



- 2.1 Professionalism
- 2.2 Positive Attitude
- 2.3 Unbiased and Objective
- 2.4 Ability to establish positive rapport
- 2.5 Knowledge of key policies and procedure
- 2.6 Knowledge of the operation
- 2.7 Knowledge of the IT systems

Performance



3 Conduct of Audits

Based on your experience how well does Internal Audit plan and carry out individual audits?

Importance		Performance
	3.1 The timing of audits is appropriate	Good
	3.2 Audit objectives and procedures are discussed prior to commencement of the audit	Good
	3.3 Opportunity is given to change/comment on the audit brief	Good
	3.4 Audits focus on significant risks	Good
	3.5 Business concerns and perspectives are adequately considered during the review	Good
	3.6 Auditors take care to minimise disruption to operations	Good
	3.7 Auditors' requests for information are reasonable	Good
	3.8 Auditors discuss issues with managers as they arise	Good
	3.9 The Audit Manager attends meetings to discuss audit findings	Good

4 Audit Reporting

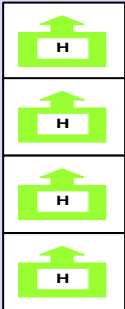
The final product of an audit is the report. How do you rate our reporting process?

Importance		Performance
	4.1 Reports are well written and easily understood	Good
	4.2 Reports are factually correct	Good
	4.3 There is no delay in issuing reports	Good
	4.4 Conclusions are appropriate and supported by adequate evidence	Good
	4.5 Recommendations are constructive, practical and cost effective	Good
	4.6 Responses to issues raised are appropriately reflected in the report	Good

5 Customer Service

As customers of Internal Audit how do you rate us in the following areas?

Importance



- 5.1 The degree of interaction with Internal Audit management
- 5.2 Fostering of service department participation
- 5.3 Response to special requests
- 5.4 The extent to which Internal Audit meet your needs

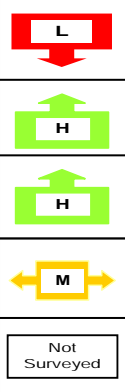
Performance



6 Overall rating of Internal audit

7 Authority Specific Topics

Importance

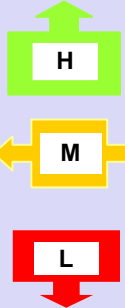


- 7.1 Do you need any help with identifying the risk of fraud in your area?
- 7.2 Are you aware of the Confidential Reporting Policy?
- 7.3 Do you know what to do if you suspect fraud or irregularities?
- 7.4 Do you think staff awareness of potential fraud risk should be increased at AVDC?
- 7.5

Performance



Importance Key



- High
- Medium
- Low

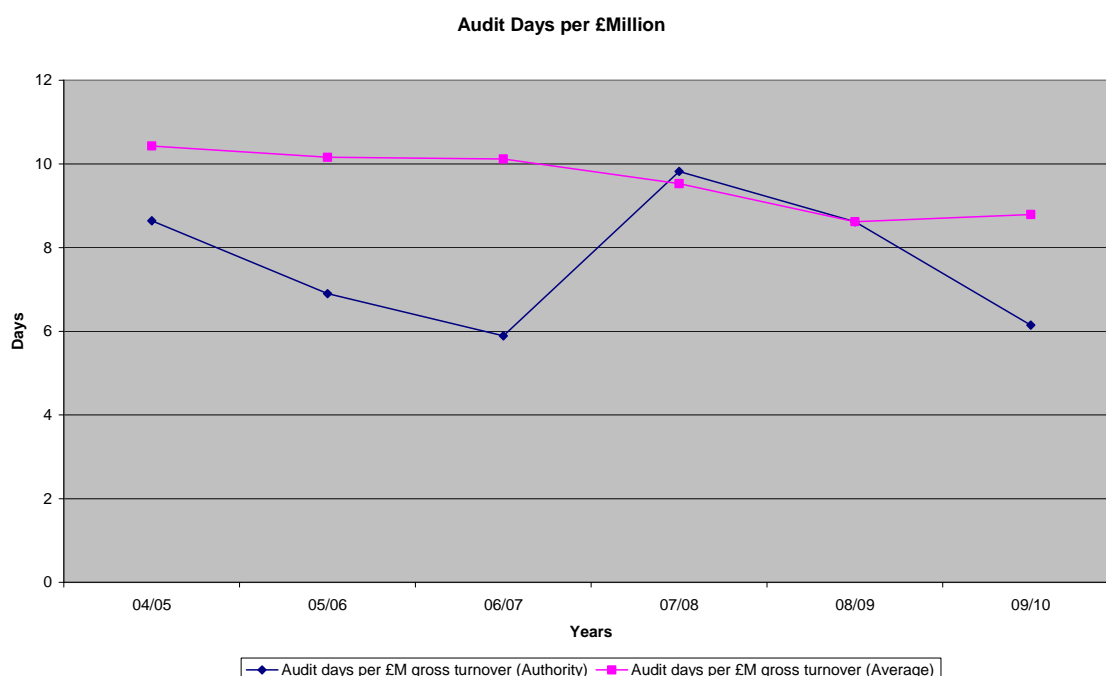
CIPFA BENCHMARKING 2009

General Comments.

The figures for previous financial years are taken from actual expenditure and time recorded by Internal Audit staff. For the current year figures are estimated based on the Council’s budget and planned Audit work.

Comparison 1

Number of Internal Audit days compared with the gross turnover of the Council.



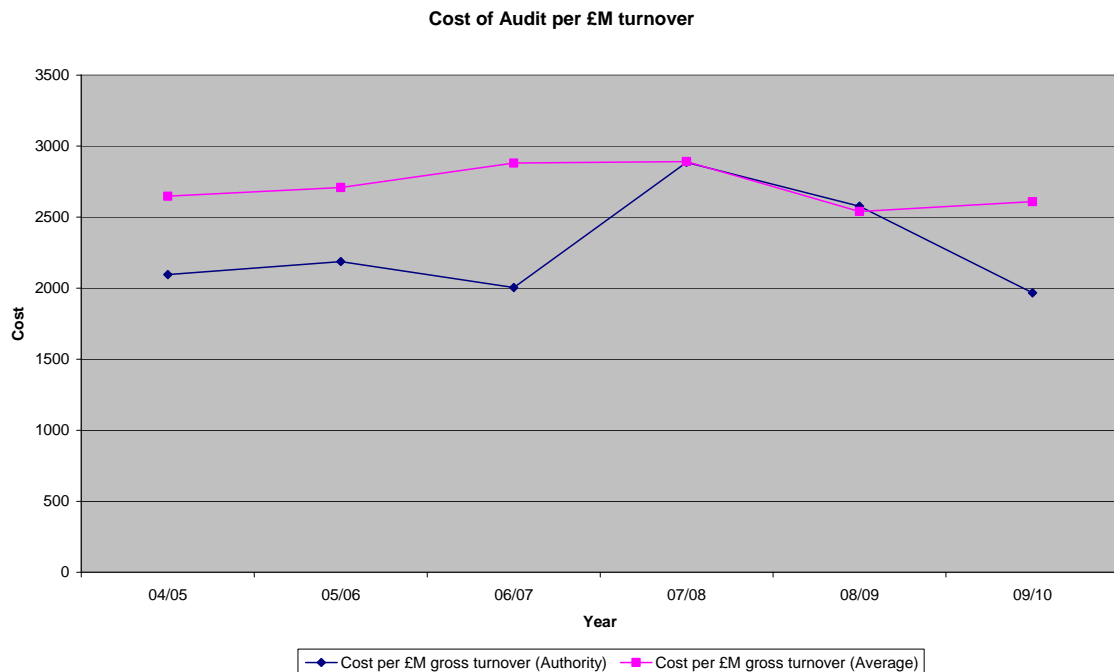
Detailed Comments:

The figures for previous years were affected by staff vacancies and maternity leave. Since April 2007 the Section has been up to full strength and this is reflected in the graph above. The estimated reduction in number of Audit days compared with AVDC’s turnover for 2009/10 reflects the impact of work undertaken for external clients and an increase in the time spent on professional training for one member of staff.

At present we still expect to complete the majority of the audit plan within our current resources.

Comparison 2

Cost of the Internal Audit Section compared with the gross turnover of the Council.



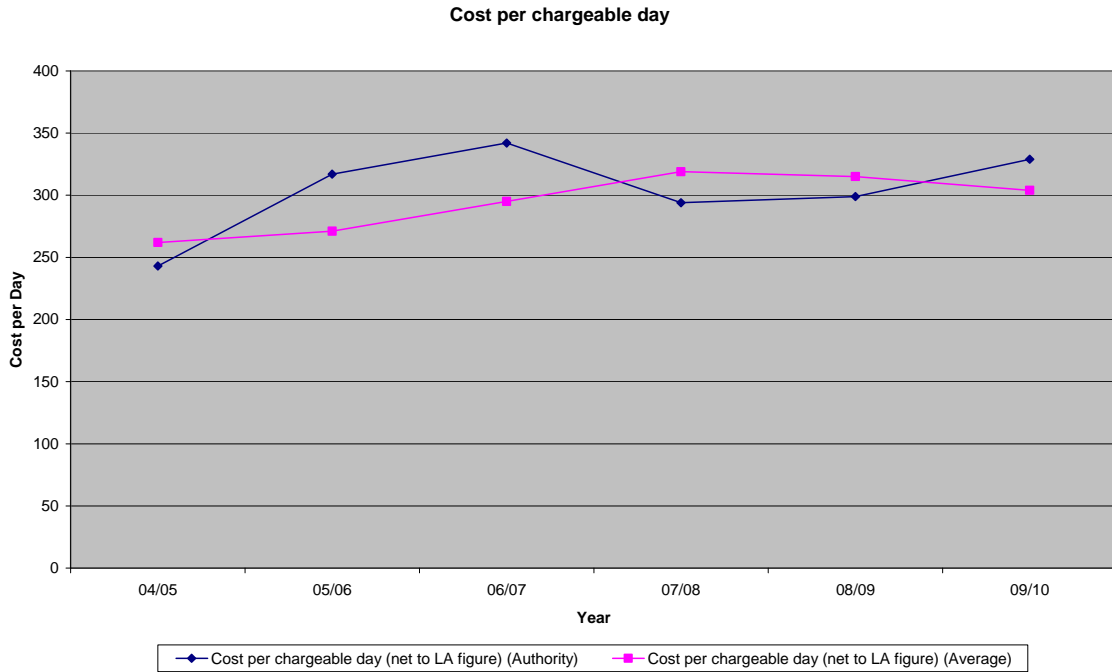
Detailed Comments:

This graph also shows the impact of vacancies in earlier years. With a return to full establishment the cost of the Internal Audit Service last year remained at around the average figure for the Benchmarking group.

The estimated reduction of cost per million pound turnover for 2009/10 is in part caused by anticipated income from external clients. Another element is a redistribution of budget to other areas with Audit, Risk and Performance, eg to assist with additional temporary staff needed in the Fraud team.

Comparison 3

The cost to the Council of each chargeable Internal Audit day.



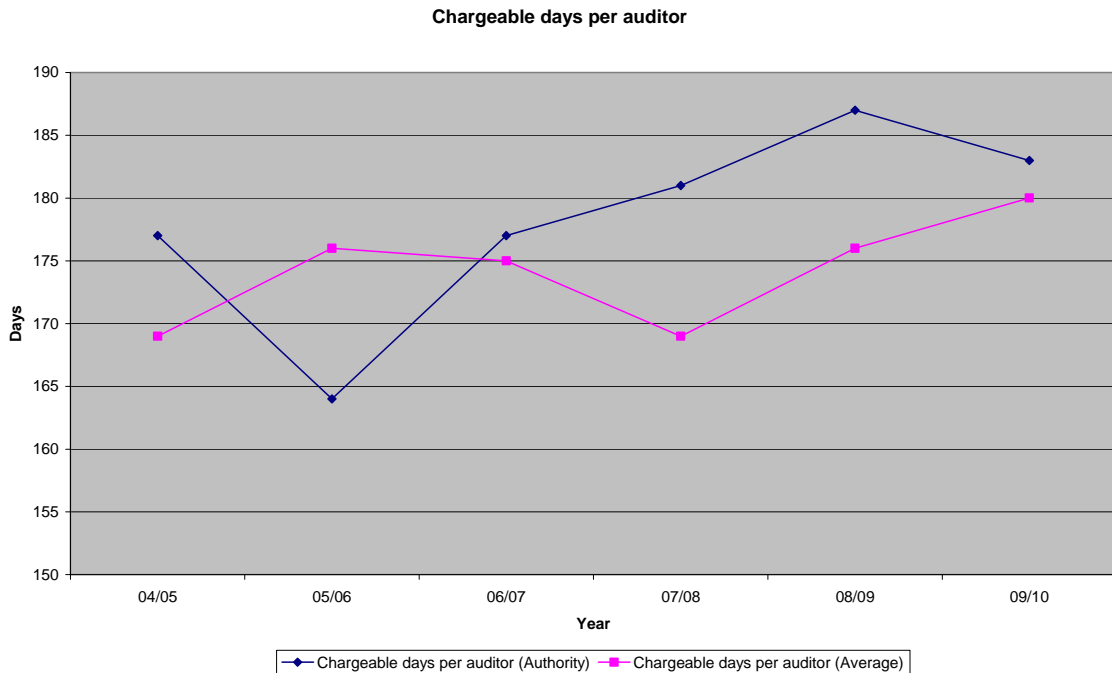
Detailed Comments:

The higher cost of the daily rate for Internal Audit staff during earlier years reflects the need to buy in external staff to provide cover for internal vacancies. Now the Audit Section is at full strength the need to buy in additional staff for AVDC has reduced and the cost to AVDC has returned to below the average for the Benchmarking group.

The estimates for 2009/10 allowed for the additional costs of staff progression, initial professional training and possible use of bought-in staff to cover work done for external clients. Last year the actual final costs came out lower than the initial estimates and I expect this to happen again.

Comparison 4

Number of Chargeable days worked by each auditor.



Detailed Comments:

This graph again reflects the vacancies in earlier years. It also shows how the use of additional external staff has enabled the work load to be managed.

The figures shown above reflect the planned work as at the start of the current year. The high productivity expected shows the calibre and professionalism of AVDC's Internal Audit staff, all of whom either hold or are working towards a professional qualification.

The reduction in the estimate for this year reflects additional professional training and the work being done for external clients.

As reported last year one member of staff is currently pursuing formal training as a professional auditor. This has allowed additional audit work to be undertaken and to some extent compensate for the predicted shortfall due to external work. Overall the high productivity level is expected to continue.