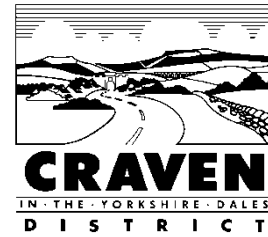


Audit and Governance Committee

23 June 2014



Internal Audit Annual Review of Effectiveness

Report of the Audit Manager – Shared Internal Audit Service

Wards Affected – All

1.0 PURPOSE OF REPORT

- 1.1 To undertake the annual review of the effectiveness of the Council's internal audit service as required by the Accounts and Audit (England) Regulations 2011.

2.0 RECOMMENDATIONS

- 2.1 That the Audit and Governance Committee considers the evidence contained in the report and Appendix 1 on the effectiveness of Internal Audit.
- 2.2 That the Committee agrees with the view that Internal Audit is effective overall and authorises the Chair to certify that this is the case by signing the certificate attached at Appendix 2.

3.0 BACKGROUND INFORMATION

- 3.1 Under the Accounts and Audit (England) Regulations 2011, a local authority is required at least once a year to carry out a review of the effectiveness of its internal audit. Moreover, the conclusions must be considered as part of the wider consideration of the system of internal control (Regulations 6(3) and 6(4)). In practice, this means that the conclusions should be included in an authority's Annual Governance Statement.
- 3.2 In the recent external assessment of Internal Audit, the Authority's external auditors Mazars identified that the Council has a fundamental weakness in its arrangements concerning the annual review of the effectiveness of its internal audit. Specifically, Mazars found that a suitable review had not been undertaken since the start of the Shared Service arrangement with Harrogate BC and recommended that the Council ensures that a suitably knowledgeable person undertakes an assessment. As the Audit Manager for the Shared Service, I agreed to undertake an assessment informed by the available

evidence and seek approval by the Audit and Governance Committee and certification by the Chair on the effectiveness of Internal Audit.

3.3 The next section sets out the evidence on the effectiveness of Internal Audit.

4.0 EVIDENCE ON EFFECTIVENESS

4.1 External Assessment on Compliance with the Public Sector Internal Audit Standards (PSIAS)

The report from Mazars on their external and independent assessment of Internal Audit is attached as a separate item on the agenda. The main points are summarised below. Members are referred to the separate agenda item for the detail.

- Overall conclusion. Internal Audit is "substantially compliant" with the requirements of the Public Sector Internal Audit Standards and the accompanying CIPFA Application Note. (The Standards and the Note set out the proper practices which comprise an adequate and effective internal audit which authorities must undertake as required by the Accounts and Audit Regulations).
- As noted above, the assessment identified one significant weakness where the Council and Internal Audit do not comply – specifically on the annual review of effectiveness of Internal Audit.
- The review noted a number of areas where there is scope for improvement in the work of Internal Audit, the overall governance and assurance arrangements in place at the Council and the role which Internal Audit plays within those arrangements.
- The assessment identified 10 recommendations (1 High Priority, 5 Medium Priority and 4 Low Priority). An Action Plan and timetable have been drawn up to implement these.
- The review noted areas of good practice in the way Internal Audit carries out its functions.

4.2 Internal Assessment of Compliance with the PSIAS

At the meeting of the Audit and Governance Committee on 18 March 2013, I submitted a Briefing Note on the PSIAS, together with a summary of the Standards and an assessment on the extent of compliance. The report also

included an Action Plan of actions considered necessary in order to fully comply with the Standards.

The overall conclusion was that Internal audit already met approximately 90% of the Standards.

4.3 **Post Audit Questionnaires**

Following each applicable audit, Internal Audit sends out a post audit questionnaire (PAQ) to the relevant client manager for feedback on the quality of the audit from the client perspective and on whether any improvements could be made. The PAQ asks 9 questions and provides for responses ranging from “very satisfied” to “very dissatisfied”. There is also space for any further comments client managers may wish to make.

Note that a PAQ is not appropriate for some types of work – for example on the provision of audit advice and support and on investigations.

Attached at Appendix 1 to the report is a summary of results from those questionnaires received in respect of audits for 2011/12, 2012/13 and to date for 2013/14 making - 19 in total. The questionnaires cover both Harrogate and Craven as Internal Audit provide a Shared Service.

Overall, the feedback is very positive. All responses were either “very satisfied” or “satisfied”. 65% of the responses were in the “very satisfied” category. In particular, Members are asked to note that for the question on the professionalism of the auditor (question 4), 100% of the responses were “very satisfied”.

4.4 **Value for Money Review**

During September/October 2013 Harrogate completed its internal programme of value for money reviews on “back office” services. This included Internal Audit as part of the review of Financial Management. As Internal Audit is a shared service, this part also covered Craven as well as Harrogate. Accordingly, Members of Craven’s Audit and Governance Committee together with relevant CDC officers were approached for feedback on Internal Audit. The review was carried out by Harrogate BC officers but outside the services subject to review.

The specific conclusions relating to Internal Audit were:-

- The service benchmarked around the average on cost and productivity measures (Note that this was in respect of 2009/10 and 2010/11 data which compared Internal Audit to 10 selected comparator Councils and for 36 shire districts).
- Internal Audit work is valued by their customers.
- Audit coverage is to some extent out of step with others in that there is perhaps too much focus on major financial systems.

On the last point as far as Craven is concerned, Internal Audit were originally asked to focus on the major financial systems due to the financial situation at that time. Since then the Council's financial position has progressively improved and Internal Audit has been able to give higher levels of assurance on the adequacy and effectiveness of financial controls. This has meant that the focus of Internal Audit work has to some extent moved away from financial systems towards other areas.

4.5 Performance Indicators 2013/14

Productivity -	This is measured by "chargeable" time as a proportion of time in the office. Actual performance was 79% compared to an original target of 83%. The reduction was due to additional time being required for Harrogate corporate initiatives. NB: this did not affect productivity on audit work for Craven.
Sickness Level -	The total level of sickness in the year was 3 days (or 0.2% of time in the office). The Original Plan include a provision of 35 days covering the 7 members of the Audit Team.
Budget -	Actual expenditure was within the original budget for the year.

5.0 CONCLUSIONS

- 5.1 The report brings together the available evidence on the effectiveness of Internal Audit.
- 5.2 The overall conclusion is that Internal Audit is effective – in particular because it is "substantially compliant" with the Public Sector Internal Audit Standards. The evidence also shows that it is valued by its customers for the work it does. Also, it indicates that Internal Audit is not relatively expensive or

unproductive compared to others – (although the evidence here is a little out of date).

- 5.3 The evidence has identified some improvements which could be made to the service provided by Internal Audit and in the role it plays within the assurance and governance arrangements of the Council. These are being addressed through agreed actions. Progress on the implementation of these will be reported in due course.
- 5.4 Members are invited to consider the evidence contained in the report and authorise the Chair to certify the effectiveness of Internal Audit by signing the certificate attached at Appendix 2.

6. **IMPLICATIONS**

- 6.1 Financial and value for money – none.
- 6.2 Legal. The report is submitted to comply with the requirements of the Accounts and Audit (England) Regulations 2011. These state that local authorities must conduct an annual review of the effectiveness of their internal audit.
- 6.3 Contribution to Council priorities – Council transformation.
- 6.4 Risk Management – the internal audit function is an integral part of internal control.
- 6.5 Equality/Impact Assessment – not applicable.

7.0. **CONSULTATION WITH OTHERS**

- 7.1 Finance Manager/Deputy S151 Officer (in absence of Corporate Head of Financial Management and S151 Officer).

8.0 **ACCESS TO INFORMATION BACKGROUND DOCUMENTS**

- 8.1 None.

9.0 **AUTHOR OF REPORT**

Martin Helm, Audit Manager, Craven District Council and Harrogate Borough Council Shared Internal Audit Service
Telephone – 01423 556114
Email – martin.helm@harrogate.gov.uk

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.

APPENDIX 1

SUMMARY OF POST-AUDIT QUESTIONNAIRE RESULTS

This latest summary covers those post-audit questionnaires (PAQ's) returned in respect of audits for 2011/12, 2012/13 and to date for 2013/14. The total number of questionnaires concerned was 19. They include both Harrogate and Craven as the team provides an Internal Audit service to both authorities.

The PAQ asked clients nine questions, allowing for responses ranging from "very satisfied" to "very dissatisfied". A summary of the results is provided in the following table:-

No.	Question	Very Satisfied	Satisfied	Dis-Satisfied	Very Dis-Satisfied
1.	Timing and duration of the audit	10	9		
2.	Scope and objective of the audit	12	7		
3.	Ability to influence the areas to be audited	8	10		
4.	Professionalism of the auditor	19			
5.	Feedback of findings during the audit	13	6		
6.	How well the report presented findings, conclusions and recommendations	13	6		
7.	Overall clarity and timeliness of the report	13	6		
8.	The issue of reports/ audit programmes electronically	11	5		
9.	Overall usefulness of the audit	10	9		
	Total Responses	109	58		
	Percentage %	65	35		
	December 2012/Nov 2013 Comparisons %	61	39		

Other Comments made:

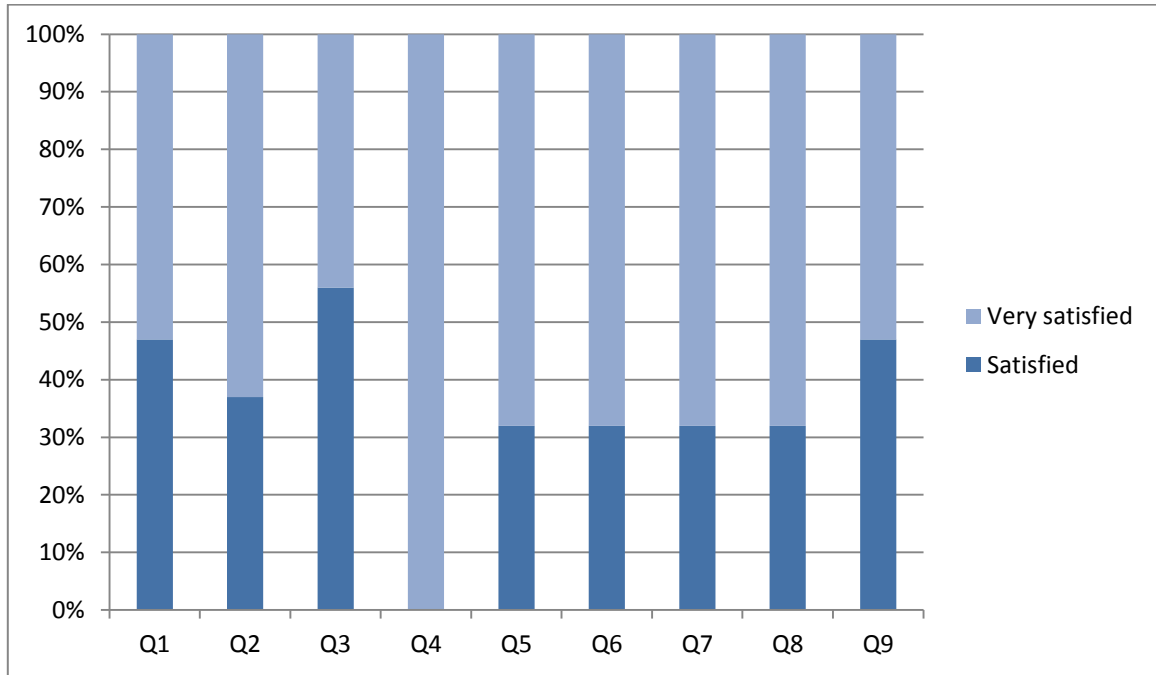
A thorough report. Like the new format of the report introduced – better than the old landscape versions.

The audit and its recommendations has provided valuable advice and will enable an important procedure to be rewritten to safeguard all officers in the process covered.

Pleased that Internal Audit were able to adjust the timing of the audit which helped enormously with some other pressures in our team.

The Auditor grasped the complex subject matter very quickly. Carrying out sampling on site helped give a greater understanding of the service area.

Post Audit Questionnaire Results



APPENDIX 2

CERTIFICATE ON THE EFFECTIVENESS OF INTERNAL AUDIT 2013/14

1. Under Regulation 6(3) of the Accounts and Audit (England) Regulations 2011, a local authority is required to undertake an annual review of the effectiveness of its internal audit.
2. The internal audit for Craven District Council is provided through a three-year Shared Service arrangement hosted by Harrogate Borough Council. The arrangement is due to terminate on 31 March 2015.
3. At its meeting on 23 June 2014, the Audit and Governance Committee of Craven District Council considered evidence on the effectiveness of its internal audit service for 2013/14. The evidence was contained in a report prepared by the Audit Manager of the Shared Service.
4. After considering the evidence contained in the report and comments made at the meeting by Members of the Audit and Governance Committee. I hereby certify that overall, Internal Audit provided an effective service to Craven District Council during 2013/14.

Signed by: Date:

Councillor Stephen Place
Chair – Audit & Governance Committee
Craven District Council