

Audit and Governance Committee 22nd June 2015

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 Appendices 1 and 3 on the effectiveness of the 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 consultation 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 external assessment of Internal Audit undertaken in 2014, the Authority's external auditors Mazars identified that the Council had 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 ensured that a suitably knowledgeable person undertake an assessment. As the Audit Manager for the Shared Service, I agreed to undertake an assessment for 2013/14 informed by the available evidence and sought approval by the Audit and Governance Committee and certification by the Chair on the

effectiveness of Internal Audit. (See report to the Audit and Governance Committee in June 2014. Minute 202(d) refers).

- 3.3 The annual review for 2014/15 follows the same process as for 2013/14. Accordingly, this report and the attached Appendices 1 and 3 contain information and supporting evidence on the effectiveness of Internal Audit. Appendix 2 is a certificate to be signed by the Chair if the Committee agrees with the recommendation that overall, Internal Audit was effective.
- 3.4 The Accounts and Audit Regulations 2011 have now been replaced by the 2015 Regulations effective from 1 April 2015. Under these new Regulations, the requirement for an annual review of the effectiveness of internal audit has been replaced by a review of the system of internal control. Therefore 2014/15 will be the final year that Craven is required to carry out a review of the effectiveness of its internal audit under these Regulations. For 2015/16 and beyond the Authority will need to consider its arrangements for undertaking a review of its system of internal control now required under the 2015 Regulations.

4.0 REVIEW OF INTERNAL AUDIT 2014/15 – EVIDENCE OF EFFECTIVENESS

4.1 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 2013/14 and for 2014/15 to date making 15 in total. The questionnaires cover both Harrogate and Craven as Internal Audit provide a Shared Service.

Overall the feedback is very positive. 99% responses were either “very satisfied” or “satisfied”. 79% of the responses were in the “very satisfied” category.

The 2 “dis-satisfied” responses both related to one audit and were due to an unavoidable delay caused by the original Auditor leaving part-way through the audit.

Members will also see that there was one critical comment about not spending sufficient time on fresh activity and focussing too much effort on routine work each year with the same results. This was in connection with an

audit of a major financial system. The move to a rolling programme of such audits with effect from 2015/16 and release of resources to review areas and services which have not been audited previously will address this point.

4.2 Performance Indicators 2014/15

Productivity -	This is measured by “chargeable” time as a proportion of time in the office. Actual performance was 76% compared to an original target of 80%. 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 only 2 days (or 0.2% of time in the office). The Original Plan included a provision of 22 days covering the 6 members of the Audit Team.
Budget	Actual expenditure was within the original budget for the year.

Specifically as far as Craven is concerned, 21 out of 22 audits/reviews (ie 95%) were completed at the time of writing. This covers both audits from the 2013/14 Audit Plan which were incomplete at the start of the year and the 2014/15 Audit Plan. The only outstanding audit is on Resource Resilience.

4.3 Compliance with the Public Sector Internal Audit Standards and Improvement Programme

- 4.3.1 The conclusion from the external and independent assessment undertaken in 2014 by Mazars was that overall, Internal Audit is “substantially compliant” with the requirements of the Public Sector Internal Audit Standards and the accompanying CIPFA Application Note for Local Government. (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).
- 4.3.2 As noted above, the assessment identified one significant weakness where the Council and Internal Audit did not comply – specifically on the annual review of effectiveness of Internal Audit. This has now been addressed.
- 4.3.3 The review also noted a number of areas where there was scope for improvement in the work of Internal Audit, the overall governance and assurance arrangements within the Council and the role Internal Audit plays within those arrangements. Progress on the implementation of these improvement actions was reported to the Committee at various stages during the year. Appendix 3 gives an up to date position at the time of writing. The Appendix contains 15 actions, 14 are now completed. The outstanding action

is an assurance mapping exercise and the intention is to undertake this as part of the planning process leading to the 2016/17 Audit Plan. This will further develop risk-based audit planning within the Authority.

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.
- 5.3 Certain actions have been identified to improve the service provided by Internal Audit and the role it plays within the assurance and governance arrangements of the Council. All those actions are now completed with one exception which will be addressed as part of the arrangements for developing the Internal Audit Plan for 2016/17.
- 5.4 Members are invited to consider the evidence contained in the report and the attached Appendices 1 and 3 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. The major risk is lack of resilience, resources and capacity – for example due to long term sickness or vacant posts arising.

6.5 Equality/Impact Assessment

The Council's Equality Impact Assessment Procedure has been followed. An Equality Impact Assessment has not been completed on the proposals as completion of Stage 1 – Initial Screening of the Procedure identified that the

proposed policy, strategy, procedure or function does not have the potential to cause negative impact or discriminate against different groups in the community based on age, disability, gender, race/ethnicity, religion or religious belief (faith), sexual orientation or rural isolation.

7.0 CONSULTATION WITH OTHERS

7.1 Strategic Manager – Financial Services (S151 Officer)

8.0 ACCESS TO INFORMATION BACKGROUND DOCUMENTS

8.1 None.

9.0 AUTHOR OF REPORT

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

10.0 APPENDICES

Appendix 1 – Summary of Post Audit Questionnaire Results

Appendix 2 – Certificate on the Effectiveness of Internal Audit 2014/15

Appendix 3 – Improvement Action Plan

APPENDIX 1

SUMMARY OF POST-AUDIT QUESTIONNAIRE RESULTS

This latest summary covers those post-audit questionnaires (PAQs) returned in respect of audits for 2013/14 and to date for 2014/15. The total number of questionnaires concerned was 15. 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	11	3	1	
2	Scope and objective of the audit	11	4		
3	Ability to influence the areas to be audited	9	6		
4	Professionalism of the auditor	14	1		
5	Feedback of findings during the audit	13	2		
6	How well the report presented findings, conclusions and recommendations	11	4		
7	Overall clarity and timeliness of the report	13	1	1	
8	The issue of reports/audit programmes electronically	12	3		
9	Overall usefulness of the audit	12	3		
	Total Responses	106	27	2	
	Percentage %	79	20	1	

Other comments made:**(a) Harrogate Borough Council**

The Auditor was extremely professional and listened/took time to understand any issues associated with the audits.

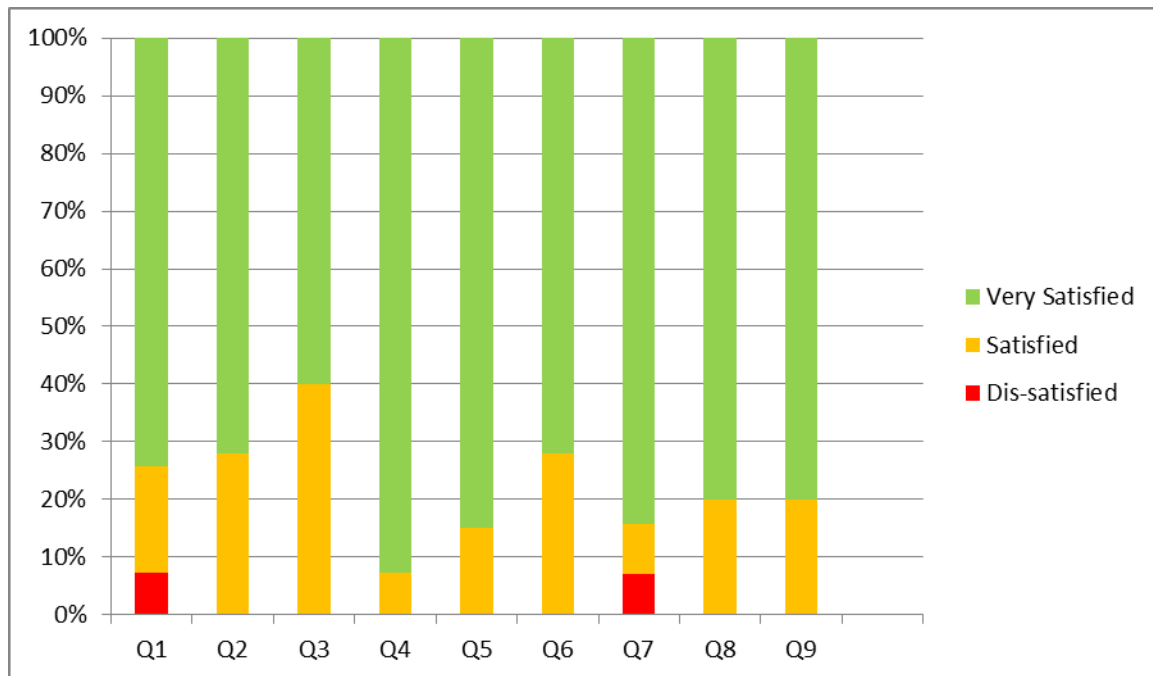
The Auditor grasped the complex subject matter very quickly. I think there could be more time dedicated to looking at fresh activity as there is a certain amount of time the audit takes to look at routine work annually and finds the same outcomes.

The only issue was an untimely, but unavoidable, change of auditor part way through which led to some duplication and minor delay. Otherwise, the audit was conducted in the usual professional manner.

Craven

The Auditor has been very efficient and professional as always. Received audit plan well in advance of audit taking place for approval.

I was very impressed with how professionally the audit was done and the Auditor's receptiveness to amends. Both the "dis-satisfied" ratings relate to the fact that the audit started in January and wasn't completed until May. I was impressed by the quick understanding demonstrated by the Auditor.

Post Audit Questionnaire Results

APPENDIX 2**CERTIFICATE ON THE EFFECTIVENESS OF INTERNAL AUDIT 2014/15**

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 Shared Service arrangement hosted by Harrogate Borough Council. The initial arrangement was terminated on 31 March 2015. In the public interest, both Authorities have agreed to roll forward the arrangements for a further three years.
3. At its meeting on 22 June 2015, the Audit and Governance Committee of Craven District Council considered evidence on the effectiveness of its internal audit service for 2014/15. 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 2014/15.

Signed by:

Councillor Christopher Harbron
Chair – Audit & Governance Committee
Craven District Council

APPENDIX 3

IMPROVEMENT ACTION PLAN

Ref	Issue	Action	Priority	Timescale	Status	Comments
1	Internal assessments – Annual Review of the Effectiveness of Internal Audit	<p>Ensure a suitably qualified person completes the assessment</p> <p>2013/14 and 2014/15 – Audit Manager coordinated information for consideration by audit committee. Some checks on independence.</p> <p>2015/16 onwards. Review of arrangements to improve independence.</p>	High	<p>June 2014</p> <p>June 2015</p>	<p>Completed</p> <p>Completed</p>	<p>Report submitted to A&G Committee. Chair certified IA effectiveness.</p> <p>Report submitted to A&G Committee. No longer applicable. 2015 Regulations replace annual review of internal audit with review of the system of internal control.</p>
2	Risk based planning	<p>Ensure internal audit planning is based on a formal risk assessment – preferably as part of a new assurance framework.</p> <p>2015/16 Plan – Discussions with appropriate Members/ Officers.</p>	Medium	<p>Jan/Feb 2015</p>	Completed	Audit Committee and CLT consulted in producing the

Ref	Issue	Action	Priority	Timescale	Status	Comments
						2015/16 Audit Plan.
3	Coordination	An assurance mapping exercise should be carried out within the framework of a new Assurance Framework	Medium	December 2014 Revised to March 2016	In Hand	Now planned for the 2016/17 Audit Plan.
4	Continuing professional development	Implement training and development plans covering all Internal Audit staff.	Medium	June 2014 Revised to March 2015	Completed	Training plans for each Auditor from the March 2015 appraisals in place.
5	Engagement Planning	Formal engagement plans should be completed for all audit engagements	Medium	May 2014	Completed	Auditors reminded to complete engagement plans (Team Meeting on 13 May 2014).
6	Engagement Work Programmes	All work programmes should be approved by an appropriate officer before commencing work	Medium	May 2014	Completed	Auditors reminded to ensure work programmes are signed off before work starts. Actioned at Team Meeting on 13 May 2014.
7	Purpose, Authority and Responsibility	The Internal Audit Charter should be updated to include all the requirements of the PSIAS.	Low	June 2014	Completed	Updated Charter approved by A&G Committee in June 2014. (Charter now needs a relatively minor update to reflect

Ref	Issue	Action	Priority	Timescale	Status	Comments
						changes in roles, job titles etc which can be done at officer level).
8	Organisational Independence	Audit Manager's performance appraisal should be conducted in line with the PSIAS. To consider how the Chief Executive and Audit Committee Chair can be involved with the appraisal of the Audit Manager.	Low	February 2015	Completed	Head of Finance (HBC) considered these points prior to the Audit Manager's appraisal in March 2015.
9	Planning, Resource Management and Coordination	Ensure that draft audit plans are completed within the requirements of the PSIAS and Council's assurance frameworks. 2015/16 Plan	Low	February 2015	Completed	Requirements of the PSIAS considered in producing the 2015/16 Audit Plan.
10	Risk Management	Introduce arrangement to consider how the risk of fraud is managed.	Low	December 2015	Completed	Review included in the 2015/16 Audit Plan.
11	Reporting the results of audit work	Audit Manager should discuss the reporting needs of Members and Officers to identify whether any changes				

Ref	Issue	Action	Priority	Timescale	Status	Comments
		need to be made. Members		June 2014	Completed	Issue discussed at A&G Committee
		Officers		September 2014 Revised to December 2014	Completed	Issue discussed with Strategic Manager – Financial Services and Solicitor to the Council.
12	Timeliness of audit reporting	Audit Manager should agree a suitable performance standard with Officers and Members		September 2014	Completed	Officers – according to the timetable agreed in the Audit Programme for each audit. Members – protocol is that Final reports are circulated when signed off – and not to wait for the next Committee.
13	Conflicts of Interest Declarations	Internal Audit should introduce annual declarations		August 2014 Revised to March 2015	Completed	Arrangements in place for annual declarations in place for 2015/16 onwards.