

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT – EFFECTIVENESS REPORT 2013/14

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To provide an opinion on the effectiveness of internal audit in accordance with the Accounts and Audit Regulations and Public Sector Internal Audit Standards (PSIAS).

1.2 The assessment is based on the following:

- Compliance with Best Practice as defined by The Chartered Institute of Public Finance and Accountancy's (CIPFA) PSIAS and Local Government Application Note and Statement on the Role of the Head of Internal Audit
- Customer feedback and endorsement
- Achievement of performance targets.

2. BACKGROUND INFORMATION

2.1 Regulation 6 of the Accounts and Audit Regulations 2011 require an annual review of the effectiveness of Internal Audit as part of the consideration of the system of internal control. The need for the review is to ensure the opinion in Internal Audit's annual report can be relied on as an important source of assurance in support of the Annual Governance Statement.

2.2 The Regulation requires that adequate and effective internal audit of its accounting records and its system of internal control is maintained in accordance with proper internal audit practice

2.3 In April 2013 the Code of Practice for Internal Audit was replaced by Public Sector Internal Audit Standards (PSIAS). An assessment of the requirements set out in CIPFA's PSIAS and Local Government Application Note was carried out and results reported in June 2013. This showed internal audit to be broadly compliant with PSIAS (summarised in appendix A). Areas of partial compliance and requirements that

needed further consideration were addressed at the audit development session held on the 10th July 2013.

- 2.4 In January 2011 CIPFA issued the Statement on the Role of the Head of Internal Audit. The Statement is not mandatory but sets out what CIPFA considers best practice for Heads of Internal Audit. It sets out principles that define the core activities and behaviours that belong to the role of the Head of Internal Audit in public service organisations. CIPFA recommends that organisations should use the Statement as the framework to assess their existing arrangements. Appendix B shows the assessment presented to Audit Committee in June 2013 which shows a significant level of compliance no areas for improvement were identified, this remains the same.
- 2.5 It is important to receive feedback on our work. Questionnaires are issued with each system review and establishment audit. Service managers are asked to comment on their satisfaction and value added from the audit work. All comments are appreciated and are used to improve our service delivery. Of the questionnaires returned 98.46% considered the conduct, manner and attitude of the staff good or excellent, exceeding the target of 98%.
- 2.6 The Internal Audit section has a quality assurance and improvement programme (QAIP) as required by PSIAS. There are predetermined performance measures and development issues set to monitor performance, set targets for improvements and provide comparison both internally and externally. The section also participates in national and local benchmarking exercises. Overall performance was good during 2012/13 and targets were generally met. Details are provided below:
- 99% of the audit plan was achieved (target 80%). This is an increase on the last year (84%).
 - Follow up work confirmed acceptable progress on implementation of agreed audit recommendations (68%, which is consistent with last year 67%). (Although high risk areas receive closer attention).
 - 79.8% of audits were completed within agreed allocations (76% last year).
 - 99% of audits were reviewed by the supervisor within the timescale target of 70% which is comparable to last year 99%.
 - Eighty six percent of audits were completed within agreed timescales. This is an increase on the previous year (69%) where absences and unforeseen pieces of work adversely affected performance.
- 2.7 Annual CIPFA benchmarking results were used to determine audit's VFM profile for 2013/14. Key cost comparisons used were:
- Net cost per chargeable day: 6th lowest out of 50 authorities
 - Cost per auditor: 2nd lowest out of 50 authorities

The cost comparisons were assessed against key performance outcomes and the service was evaluated as providing value for money (low cost/ high performance).

- 2.8 In addition to this internal review, external audit will seek to place reliance on internal audit's work in respect of the key financial systems identified as part of their risk assessment. External Audit will be able to place reliance on the work of Internal Audit if auditing standards are met. Feedback will be provided to the Head of Audit, Risk and Insurance at the end of external audit's planned work.
- 2.9 Based on the findings described in the above paragraphs Internal Audit is assessed as providing an effective service to the council

3. OPTIONS FOR CONSIDERATION

- 3.1 Internal Audit provides an important source of assurance on the adequacy of internal control throughout the council. The Committee is invited to ask questions about the contents of the report and seek clarification as necessary to ensure Internal Audit's work was carried out in such a way to provide sufficient assurance to fulfil their role as set out in the Committee's terms of reference.

4. ANALYSIS OF OPTIONS

- 4.1 This report is designed to provide this Committee with the assurance required to fulfil its role effectively. It is a statutory requirement for the council to maintain an internal audit function and for its effectiveness to be reviewed on an annual basis. The information contained within this report provides evidence of that review and sets out the reasons for determining that the service provided by Internal Audit has been effective during 2013/14.
- 4.2 If the Committee concludes Internal Audit's work cannot be relied upon then an important source of assurance to enable them to fulfill their role is no longer available

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The work of the internal audit section enhances control over the use of the council's resources through the recommendations made in audit reports

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 6.1 An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 7.1 Consultation takes place at all stages of audit work to ensure service provision is of a high standard. Customers are also invited to feedback on individual audit assignments to improve service delivery

7.2 There are no conflicts of interests to declare.

8. RECOMMENDATION

- 8.1 That the Audit Committee considers the effectiveness of Internal Audit in 2013/14 and the assurance provided on the adequacy as a key component of the council's internal review processes and internal control environment.

DIRECTOR OF POLICY AND RESOURCES

Civic Centre
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB

Author: D Baker/C Andrews
Date: 02 June 2014

Background Papers used in the preparation of this report:
CIPFA Role of Head of Internal Audit
CIPFA Local Government Application Note for the UK Public Sector Internal Audit Standards

Conformance with the PSIAS and the Local Government Application Note

Standards/Requirements	Evaluation/Comments
Code of Ethics	Requirement met and communicated in the audit charter
Attribute Standards	
1.Purpose, Authority and Responsibility	Requirement met and defined in the audit charter
2.Independence and Objectivity	Covers - Organisational Independence; Direct Interaction with the Audit Committee; Individual Objectivity; Impairment to Independence or Objectivity Impairment to Independence or Objectivity Requirements broadly met and defined in the audit charter
3.Proficiency and Due Professional Care	Requirements met and defined in the audit charter
4.Quality Assurance and Improvement Programme	Covers - Quality Assurance and Improvement Programme; Internal and External Assessments; Conforming with Professional Standards Requirements broadly met and defined in the audit charter however external assessments to be explored and PSIAS monitoring to be introduced.
Performance Standards	
1.Managing the Internal Audit Activity	Covers- Planning; Resource Management; Policies and Procedures; Reporting to Senior Management and the Audit Committee Requirements met and defined in the audit charter

2. Nature of Work	Covers- Governance Risk Management Internal Control Requirements met
2. Engagement Planning	Covers- Objectives; Scope; Resource Allocation; Work Programme Requirements broadly met defined in the audit charter however some aspects are not currently applicable (consultancy arrangements)
3. Performing the audit engagement	Covers- Identifying Information; Analysis and Evaluation; Documenting Information; Engagement Supervision Requirements met and defined in the audit charter however retention requirements need to be consistent with the council's policy (under development).
4. Communicating Results	Covers- Quality of Communications; Errors and Omissions; Conformance with Professional Standards; Disclosure of Nonconformance; Disseminating Results; Audit Opinion Requirements met and defined in the audit charter however PSIAS monitoring needs to be introduced.
5. Monitoring Progress	Requirements met
6. Communicating the Acceptance of Risks	Requirements met

Head of Internal Audit Statement Principles	Core HIA responsibilities	Non-Compliance / Areas for Improvement
<p>The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.</p>	<p>Helping to promote the benefits of good governance throughout the organisation.</p> <p>Working with others in the organisation who have a responsibility for promoting good governance.</p> <p>Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects.</p> <p>Promoting the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality.</p> <p>Demonstrating the benefits of good governance for effective public service delivery and how the HIA can help.</p> <p>Offering consultancy advice where the HIA considers that it is appropriate, drawing up clear terms of reference for such assignments.</p>	<p>Decision making report checklist does not include specific reference to IA advice but does include finance therefore HIA receives all reports and agendas</p>
<p>The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.</p>	<p>Giving assurance on the control environment. This includes risk and information management and internal controls across all systems.</p> <p>Reviewing the adequacy of key corporate arrangements including eg risk strategy, risk register, counter fraud and corruption strategy, corporate plan.</p> <p>Producing an evidence based annual internal audit opinion on the organisation's control environment.</p> <p>Working closely with others to ensure that sufficient and relevant evidence is used. Where relying on others, clarifying the degree and basis for the reliance.</p>	

	<p>Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the organisation's interests. Assessing whether lines of responsibility and assurance are clear.</p> <p>Liaising closely with the external auditor to share knowledge and to use audit resources most effectively.</p> <p>Producing an internal audit strategy that fits with and supports the organisation's objectives.</p> <p>Reviewing the organisation's risk maturity (including the organisation's own assessment) and reflecting this in the strategy.</p> <p>Consulting stakeholders, including senior managers and non-executive directors/elected representatives on the internal audit strategy.</p> <p>Setting out how the HIA plans to rely on others for assurance on the organisation's controls and risks and taking account of any limitations in assurance given by others.</p> <p>Liaising with external inspectors and review agencies where appropriate when drawing up the internal audit strategy.</p> <p>Liaising with the external auditor on the internal audit strategy, but not being driven by external audit's own priorities</p>	<p>Liaison arrangements are restricted to external audit only</p>
<p>The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.</p>	<p>Escalating any concerns through the line manager, Chief Executive, Audit Committee and Leadership Team, legal officers, external auditor as appropriate.</p> <p>Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements.</p> <p>Consulting stakeholders, including senior managers and non-executive directors/elected representatives on the internal audit strategy</p>	<p>A formal review of effectiveness is planned for January 2015.</p>

<p>The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose.</p>	<p>Leading and directing the internal audit service so that it makes a full contribution to and meets the needs of the organisation and external stakeholders.</p> <p>Determining the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate.</p> <p>Informing the Leadership Team and Audit Committee if there are insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given.</p> <p>Implementing robust processes for recruitment of internal audit staff and/or the procurement of internal audit services from external suppliers.</p> <p>Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met.</p> <p>Developing succession plans and helping staff with their career progression.</p> <p>Establishing a quality assurance and improvement programme that includes:</p> <ul style="list-style-type: none"> – Ensuring that professional internal audit standards are complied with. – Reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders. – Providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets. – Putting in place adequate ongoing monitoring and periodic review of 	<p>Within HR policies</p>
-----------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

	<p>internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence based and of good quality.</p> <ul style="list-style-type: none"> – Ensuring that any internal auditors declare any interests that they have. – Seeking continuous improvement in the internal audit service. <p>Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from them, implementing improvements where appropriate.</p> <p>Demonstrating how internal audit adds value to the organisation.</p>	
<p>The HIA in a public service organisation must be professionally qualified and suitably experienced</p>	<p>The HIA is Cipfa qualified and maintains Continuous Professional Development as part of this qualification, with a proven record in the role of HIA</p>	