
REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	18 June 2014	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/internal audit/effectiveness/18 June 2014 effectiveness of IA 2014
SUBJECT:	EFFECTIVENESS OF INTERNAL AUDIT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

- 1.1 To note the findings and the conclusion that the internal audit function is considered to be effective.

2.0 Purpose of Report

- 2.1 This report is designed to give Members an overview of the effectiveness of Internal Audit.

3.0 Detail

- 3.1 Paragraph 6(3) of the Accounts and Audit (England) Regulations 2011 requires that "A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit".
- 3.2 There is no mandatory requirement or guidance on who should perform the review. The assessment has been undertaken by me in conjunction with the Head of Governance and Assurance at Derby City Council. It also takes into account the assessment of the effectiveness of the Internal audit partnership carried out by the other organisations for which it provides internal audit services.
- 3.3 All local authorities have a statutory requirement to make provision for internal audit and for the purpose of the regulations, in accordance with proper standards of professional practice as set out in the Public Sector Internal Audit Standards from 1 April 2013.
- 3.4 Since 1 January 2012, the internal audit function has been provided by the Central Midlands Audit Partnership, an internal audit partnership formed by Derby City Council and South Derbyshire District Council.
- 3.5 My assessment is based on the framework guide developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Better Governance Forum

which aims to provide practical support to help make internal audit more effective. This has been achieved by assessing the internal audit function against the 6 building blocks for effective internal audit identified in the guidance. My assessment against these building blocks is summarised below:

3.5.1 Leadership

Leadership plays a pivotal role in the effectiveness of the internal audit service in that it makes the most of people, develops the best systems & processes and ensures compliance with professional standards.

In 2010, CIPFA published “The Role of the Head of Internal Audit (HIA) in public sector organisations” to clarify the role of the HIA and to raise the profile of internal audit. CIPFA believe organisations should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements. The Statement articulates the core responsibilities of the HIA, as well as the personal and professional skills that they need. The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. These principles are:

Principle 1:

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

Principle 2:

Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control

Principle 3:

A senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee

Principle 4:

Must lead and direct an internal audit service that is resourced to be fit for purpose

Principle 5:

Must be professionally qualified and suitably experienced

I have carried out an assessment against these 5 principles in conjunction with the Head of Governance and Assurance at Derby City Council and have concluded that they are sufficiently implemented to demonstrate compliance with best practice. The assessment is attached at Appendix 1.

3.5.2 Governance and relationships

Internal audit is one of the cornerstones of effective governance. Therefore, an effective internal audit function is paramount if the Council is going to demonstrate it has embedded the principles of good governance. Internal Audit is responsible for reviewing and reporting on the adequacy of the authority’s internal control environment and also making recommendations for improvement. Based on the work of Internal Audit, the Head of the Audit Partnership provides a level of assurance to

the Council on the effectiveness of its system of internal control in his annual audit opinion.

3.5.3 Customer focus

Customer focus is essential not just for the manner in which internal audit is approached, but also to ensure that internal audit understands the organisation and focuses on the current and future risks to the organisation and supports the achievement of the Council's objectives.

The partnership has a framework for consulting with all of its clients at the audit planning stage, following completion of the fieldwork, through draft report and then post audit to get feedback.

Following every audit review, a customer satisfaction survey is sent to the relevant manager. The responses received from managers in 2013/14 is summarised below:

Overall Rating	Number
Excellent	12
Good	12
Fair	0
Poor	0
Very Poor	0

3.5.4 People

The staff in the Internal Audit partnership has the appropriate technical skills and knowledge to perform effectively and access to training and other material to maintain their skills. The majority of the team have either a professional accountancy qualification (3 CIPFA and 2 ACCA, plus 2 part-qualified) or an internal auditing qualification (3 PIIA).

The IT Audit staff have relevant IT degrees and one has recently gained the CISA (Certified Information Systems Auditor) qualification, whilst the other has completed the ITIL qualification. The Audit Partnership also benefits from having one member of staff who is IRRV qualified. In addition, 4 staff have completed the CIPFA Certificate in Investigative Practice.

All of the staff have personal development and training plans as part of their Individual Performance process. Personal development is achieved through a combination of sources including in-house training, external courses/seminars/groups, personal research and studying for a relevant professional qualification.

3.5.5 Systems and processes

The Partnership has processes that support the delivery of high quality work that are regularly reviewed by its management team to maintain efficiency, relevance and effectiveness. Audit assignments are properly planned and work undertaken is evidenced appropriately. Audit reports include an opinion on risk and the control

environment, are agreed with the appropriate officer and all recommendations are followed up to ascertain the progress being made on implementation.

The following performance measures contribute to the overall assessment of the effectiveness of internal audit:

	2013/14		2012/13	
	Target	Actual	Target	Actual
Productivity	70.7%	72.6%	73.2%	70.1%
% of audit plan completed	91.0%	93.5%	91.0%	90.7%

Detail on the performance of the Internal Audit service is provided in the CMAP Annual Report which accompanies the Head of Audit's "Annual Audit Opinion" report.

3.5.6 Professional Standards

Standards provide a consistent framework of professional practice. They are the fundamental building block for effectiveness and the starting point for any internal audit team.

Conformance with the Public Sector Internal Audit Standards is a key element for determining whether an internal audit service is effective. CMAP's summary assessment against the PSIAS is attached at Appendix 2. This is based on conformance self-assessments carried out using both CIPFA and the Chartered Institute of Internal Auditors (IIA) checklists. The outcome is consistent with the overall assessment that was reviewed by the Audit Sub-Committee at its meeting on 25 September 2013.

3.6 Conclusion

From the evidence reviewed, my overall conclusion is that the internal audit service that the Council receives can be assessed as effective.

4.0 **Financial Implications**

4.1 None

5.0 **Legal Implications**

5.1 The Authority is obliged under the Accounts and Audit Regulations (England) 2011 to maintain an effective internal audit.

6.0 **Corporate Implications**

6.1 None directly

7.0 Community Implications

7.1 None directly

8.0 Background Papers

8.1 None

Appendix 1

Assessment against CIPFA's "The Role of the Head of Internal Audit in public organisations"

Principle	Compliant	Current position
<p>Principle 1: 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>	Yes	<p>The Head of the Internal Audit Partnership has a role to play in promoting corporate governance and spreading good practice. The internal audit strategy sets out how the Head of Internal Audit fulfils this role. Through internal audit, the HIA reviews and makes a judgement on the whole range of controls including those relating to achieving value for money and the prevention and detection of fraud and corruption.</p>
<p>Principle 2: Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control</p>	Yes	<p>The HIA provides the Council with a range of assurances which includes the Annual Head of Audit Opinion.</p>
<p>Principle 3: A senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee</p>	Yes	<p>The Council is part of the Central Midlands Audit Partnership. Therefore the role of the HIA is free from any interference in the work of internal audit. The HIA has full access to the Director of Finance and if required the Chair of Audit Sub Committee.</p>
<p>Principle 4: must lead and direct an internal audit service that is resourced to be fit for purpose</p>	Yes	<p>The Central Midlands Audit Partnership resources are currently proportionate to the size, complexity and risk profile of the Council and enable the HIA to give a reliable opinion on the Council's control environment. Because reliance is placed on the work of internal audit and the HIA ensures that all the work is consistently of a high quality and in line with professional standards. The HIA ensures that all staff demonstrate the highest ethical standards.</p>
<p>Principle 5: must be professionally qualified and suitably experienced</p>	Yes	<p>The HIA is a qualified accountant and a member of the Chartered Institute of Public Finance & Accountancy with 27 years internal audit experience, of which 21 years have been as a Head of Internal Audit.</p>

Appendix 2

Compliance with the Public Sector Internal Audit Standards

PSIAS requirement - Summary	Generally/ Partially/Does Not Conform	Comments
Definition of Internal auditing	Generally	The opinions and recommendations that CMAP provide do help the organisation and are valued by stakeholders.
Code of ethics	Generally	CMAP sets high standards for doing their job and maintain these in practice.
Attribute standards		
<i>1000 Purpose, Authority and Responsibility</i>	Generally	CMAP's internal audit activity has a formal definition of its purpose, authority and responsibility
<i>1100 Independence and Objectivity</i>	Generally	CMAP's Internal Audit Charter and planning documents do not contain major restrictions upon its internal audit activity
<i>1200 Proficiency and Due Professional Care</i>	Generally	CMAP formally defines how it operates in its Internal Audit Charter and documented procedures.
<i>1300 Quality Assurance and Improvement Programme</i>	Generally	CMAP has established a culture of continuous improvement to prevent problems and to underpin day-to-day delivery of a reliable assurance and consulting service.
Performance standards		
<i>2000 Managing the Internal Audit Activity</i>	Generally	CMAP's internal audit work adds value to the Council (and its stakeholders) through objective and relevant assurance, by contributing to the effectiveness and efficiency of governance, risk management and control processes.

PSIAS requirement - Summary	Generally/ Partially/Does Not Conform	Comments
<i>2100 Nature of Work</i>	Generally	CMAP's internal audit work evaluates and contributes to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.
<i>2200 Engagement Planning</i>	Generally	CMAP develops and documents a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
<i>2300 Performing the Engagement</i>	Generally	The internal auditors identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
<i>2400 Communicating Results</i>	Generally	Internal auditors communicate results of each audit engagement.
<i>2500 Monitoring Progress</i>	Generally	The Head of the Audit Partnership has established and maintains a system to monitor the disposition of results communicated to management.
<i>2600 Communicating the Acceptance of Risks</i>	Generally	The Head of the Audit Partnership communicates in both audit reports and reports to Audit Sub-Committee any instances where the identification of risk has been accepted by management and monitors progress on actions taken by management and reports accordingly on progress of implementation.

Definitions as per IIA

Generally Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

Partially Conforms means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

Does Not Conform means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.