

Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety

Report to:	Audit Committee
Date:	09 July 2012
Subject:	Review of the Effectiveness of Internal Audit

Summary:

There exists a statutory requirement for bodies such as the County Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by an appropriate committee of the Council. This paper discharges that responsibility by reporting the findings of work undertaken by a joint officer / councillor working group. Whilst identifying a few areas for ongoing monitoring and improvement, the group concluded that the Council does have an effective system of internal audit.

Recommendation(s):

The Committee endorse the opinion of the Review Group that the County Council maintains an effective system of internal audit.

Background

- 1.1 Regulation 6(3) of the Accounts and Audit (England) Regulations 2011 requires this Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by a Committee of the Council. The Audit Committee is the most appropriate one in the case of this Council. It is sensible to consider this aspect in advance of finalisation of the Annual Governance Statement of the Council as the effectiveness of the system of internal audit is a key aspect of the governance framework. The Annual Governance Statement will be considered in draft at the next meeting of this Committee and will be finalised by September in time to be incorporated into the audited financial statements of the Council.
- 1.2 In this context 'internal audit' is not just restricted to the role, activity and effectiveness of the internal audit team; it also applies to the role, activity and effectiveness of this Committee itself. Aspects of risk management and health and safety are also relevant to this review. Guidance makes it clear that is not the role of the external auditor to undertake this work. It is for the authority itself to complete a review.

2. The Review Group

- 2.1 Guidance from CIPFA on this issue suggests that this review is best undertaken by a group of officers and / or members. In terms of the officer input this should not directly involve the Head of the Internal Audit service or any audit team member. The Head of Internal Audit can, however, provide material to be considered by the Review Group.
- 2.2 The following Review Group has been established to undertake this role:

Councillor Mr B Young– Chairman of the Audit Committee
Councillor Mrs C M H Farquharson – former Vice Chairman of the Audit Committee (term of office ended on 18th May 2012)
David O'Connor – Executive Director – Performance & Governance
David C Forbes – Assistant Director – Finance and Resources

3. The Review Activity

- 3.1 CIPFA have developed and issued a Code of Practice for the provision of internal audit services in the public sector. In tandem with the development of that Code, CIPFA have also published a self assessment questionnaire to assess compliance with the Code and thereby the effectiveness of the internal audit service aspect of the internal audit system. In addition CIPFA have published a good practice note on the role of the Head of Internal Audit (HIA). The Review Group considered compliance of the Lincolnshire HIA with that document as part of the last year's review. Progress on actions arising from that review is outlined at 4 below. Also considered below is progress on one other matter raised as part of last year's review relating to the impact on service effectiveness of the budget reductions flowing from the Council's core offer review of its services.
- 3.2 Historically self assessments have been undertaken on both the effectiveness of the internal audit service itself and on the performance of the Audit Committee. Both reviews resulted in action plans being derived and delivered to address issues raised. No need was identified in the last year to repeat that activity.

4. Actions taken in 2011/12

4.1 Issues carried forward from last year's review were as follows:

- The changes in practice proposed as a result of the review of the Cipfa good practice guide on the role of the HIA. This is dealt with at 4.2 below.
- The continued delivery of an effective internal audit service should be carefully monitored during the year to ensure that the 25% reduction in budget does not materially impact upon service quality or effectiveness. This is dealt with at 4.3 below.

4.2 In relation to compliance with the Cipfa good practice guide on the role of the HIA three issues were identified last year where further action was required. These are outlined below together with action taken.

- *Where the HIA does have operational responsibilities the HIA's line manager and the Audit Committee should specifically approve the internal audit strategy for these and associated plans and reports and ensure the work is independently managed.*

The Lincolnshire HIA does have non-audit operational responsibilities but these are for services that have a direct synergy with internal audit (eg. risk management, health & safety, business continuity). Historically, when such service areas have been reviewed independent resources have been employed. It is accepted that this aspect would be strengthened by having such work commissioned by, and reported directly to, the Asst Director – Finance & Resources. This has been implemented.

- *Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.*

Whilst the strategy is presently approved by the Committee it is not presented to the Management Board. This was corrected for the 2012/13 audit plan.

- *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.*

A review of Council's assurance arrangements with the development of a Combined Assurance Model, including greater engagement with the Management Board has been concluded successfully. This will help the Council to obtain wider assurance across its critical activities and key risks by leveraging assurance from other sources and will help inform Internal Audit work where independent assurance will be of most value. It is pleasing to report that this initiative has been recognised by CIPFA for its 'innovation and excellence' in public sector auditing – Audit Lincolnshire were the winners of the Cliff Nicholson Award 2012.

4.3 In terms of the effectiveness of the internal audit service itself in the light of the 25% reduction in available resources, the following developments over the year were noted.

- The Internal Audit Strategy has been presented and approved by both the Management Board and the Audit Committee.

- Work has also been undertaken on articulating the Councils' Risk Appetite – the level of risk the Council is prepared to take and / or accept on its strategic risks to the successful delivery of the Business Plan. This has informed the revised Risk Management Strategy – currently in draft. Whilst this has been communicated to the Executive, Management Board and the Senior Management Team further work is required to help ensure that well measured risk decisions are taken with confidence and understanding the risk appetite.
- Internal Audit has faced significant challenges during the 2011/12. Whilst coverage has reduced by 17% the introduction of the Combined Assurance model will ensure that the Councils' assurance arrangements continue to be effective.
- During the year performance was monitored by the Section 151 Officer and the Audit Committee. The 11th June meeting of this Committee considered and approved the Head of Internal Audit's Annual Opinion Report which provides information on delivery of the internal audit service in 2011/12 – key performance results are summarised in the table below.
- The main challenge facing the service in the future is around scheduling work – the service shall manage this issue through their client engagement process and will escalate any problems to the relevant Director. The reality is that whilst Senior Management recognised the role of Internal Audit and Risk, it is not at the top of their priorities given the transformational changes and service issues they face.
- Key performance information for the 2011/12 year is summarised below:

Performance Indicator	Target	Actual to 31st March 2012
Productivity & Efficiency		
Actual audits versus planned (by no of audits)	85%	89%
Financial Systems	100%	100%
% of Reports issued within 2 weeks of closure meeting	90%	91%
Quality of Service		
Client questionnaire scoring better than average for all categories	Good to Excellent	Good to Excellent

The Review Group felt that adequate progress had been made during the year.

5.1 The Review Group considered a number of actions that could be undertaken over the year ahead to enhance the system of internal audit. The Group felt that the following would be appropriate actions for the year ahead in light of their current assessment.

- The Executive Director – Performance & Governance will remind the Corporate Management Board of the need for clients of the internal audit service to respond in a timely and positive manner to requests for meetings and responses to draft conclusions and recommendations.
- The continued expansion of the client base of Audit Lincolnshire presents a risk that there may, in theory at least, be a detriment to the service delivered to the County Council. Consequently the Audit Committee will need to keep this potential risk in mind when monitoring the performance of the service over the coming year.
- The Audit Committee should undertake a self assessment of its role and performance during early 2013 in light of the likely change in membership of the Committee that will emerge following the May 2013 County Council elections. This will be useful for the post May 2013 Committee as it will identify both the strengths of the current arrangements and areas for potential improvement.

Conclusion

The Review Group are of the opinion that the County Council has an effective system of internal audit.

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by David C Forbes, who can be contacted on 01522 553642 or david.forbes@lincolnshire.gov.uk.