

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>REVIEW OF INTERNAL AUDIT</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

## **Wards Affected**

County-wide

## **Purpose**

To inform the Committee of the outcome of the external review of Internal Audit.

## **Key Decision**

This is not a Key Decision.

## **Recommendation(s)**

**THAT the attached improvement plan be approved.**

## **Key Points Summary**

- The Council Audit function is mostly compliant but there are some minor issues to ensure full compliance.
- There are some improvement issues in terms of planning, resource control and balancing priorities in the Audit Plan.
- A mixed economy approach to the provision of future joint audit appears to be the best option.

## **Alternative Options**

1 None.

## **Reasons for Recommendations**

2 To agree improvement measures.

## **Introduction and Background**

3 The Council's Internal Audit function was last subject to external review in 2007. The review process provides assurance that the audit function is assessed as being fit for purpose. The

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Further information on the subject of this report is available from  
David Powell, Director of Resources on (01432) 393518)

review was carried out by AKA Limited.

## **Key Considerations**

### **Scope of the Review**

4. The scope of the review was focussed primarily upon the Council's Internal Audit function but also considered work undertaken jointly with National Health Service Herefordshire (NHS).
5. The review assessed Internal Audit against the CIPFA Code of Practice for Internal Audit in Local Government. Where joint working was undertaken it also considered the Internal Audit standards for NHS.
6. The review was also asked to assess the scope for extending the joint audit approach with NHS.

### **Main Findings**

7. The review found that Internal Audit was largely compliant with the CIPFA Code of Practice on Internal Audit. Minor improvement issues to ensure full compliance with the CIPFA code form the basis of the attached action plan.
8. The profile of Internal Audit amongst officers and members was felt to be good. External audit have been able to place reliance on the work of Internal Audit.
9. The relationship between the chief internal auditor and the Audit and Governance Committee was described as "good" and it supported the Council's governance arrangements.
10. Internal Audit generally performs well and the audit plan is largely completed each year. It was noted that almost all recommendations made by Audit are accepted and most are implemented within agreed timescales. One area of improvement was noted around decreasing the proportion of audit assignments that exceed their budgeted days.
11. The review found that Internal Audit provides honest, reliable, robust advice and assurance. Whilst audit "does what it should do"; a more strategic focus around the partnership agenda should be achieved.

### **Good Practice**

12. The review concluded that the audit manual provides clear guidance to audit staff. In particular the points of good practice are:
  - a. Flow charting of individual audit processes from managing the audit plan to delivering audit assignments;
  - b. Recording of matters to be considered in planning future audits and identifying future audit work;
  - c. Analytical review;
  - d. Pre and post audit checklists;
  - e. Grading of follow up work according to audit opinion and type of system audited;
  - f. Quality review documents and procedures; and

g. A graded approach to audit opinion work.

13. The Chief Internal Auditor's interim and end of year report to the Audit and Governance Committee clearly summarises audit opinions and provides the committee with sound reliable evidence to enable it to discharge its responsibilities.

#### **Compliance with CIPFA Code of Practice**

14. The Internal Audit section largely complies with the Code of Practice for Internal Audit.
15. Overall the checklist for the CIPFA Code of Practice includes 107 specific standards and the Internal Audit service fully met 100 with 7 being partially met. The areas having partial compliance have been grouped as follows:
- a. Chief Internal Auditor should have opportunity to meet privately with the Chair of the Audit and Governance Committee. Currently the Chief Internal Auditor attends all Chair and Vice Chair briefing meetings with the Director of Resources.
  - b. At least some of the informal internal and external audit meetings should be replaced by regular, structured meetings. This would encourage a structured approach to sharing audit programmes.
  - c. The evidence examined by the review demonstrated a high standard of professionalism within the audit section but the proportion of professionally qualified staff in internal audit is low compared to other unitaries.
  - d. A higher level of stakeholder consultation before finalisation of the audit plan is required so that views and information from services can inform weightings and priorities for audit work
  - e. When the 2009/10 plan was compared with other unitary authorities it had a higher than average resource allocation for some audits.

#### **Balance of Audit Coverage**

16. The review challenges the Council to consider altering the balance of audit coverage. Any such change would enable more time for "adding value" or providing assurance on strategic issues. The use of benchmarking information suggests that for 2009/10 the number of days for fundamental systems review work was above the unitary average. In addition the level of audit provided to schools was three times higher than the unitary average and the review commented this may reflect a culture of dependency in schools.
17. Contract audit was an area that the review felt should have a higher allocation of days. This view was proposed given the move to commissioning services that the council is undertaking.

#### **Options for Joint Working**

18. The review was also asked to look at areas for further joint audit working with NHS Herefordshire. It noted that there is now an opportunity for the Council and NHSH to extend the scope for joint working.
19. The circumstances making such an approach more likely to be successful have been improved with the move to a common accounting system and greater integrated working. The approach that could be adopted is best described as a mixed economy approach. Such an approach would allow for the difference in scale of audit requirements with NHSH having a lower audit day requirement than the Council.

20. Since the review has been received outline agreement has been reached for the Council to provide approximately 50 audit days to NHSH. Specialist value for money type of work will be jointly market tested by both organisations.

## **Community Impact**

- 20 None.

## **Financial Implications**

- 21 None.

## **Legal Implications**

- 22 None.

## **Risk Management**

- 23 Changes in the level of audit provision may result in increased level of risk. However, these would need to be mitigated before any significant change is introduced.

## **Consultees**

- 24 None.

## **Appendices**

Appendix - Improvement Plan

## **Background Papers**

None identified.

**APPENDIX**

	<b>Improvement Area</b>	<b>Action</b>	<b>By When</b>	<b>Owner</b>
1	Opportunity for Chief Internal Auditor to meet with Audit & Governance Committee	Chief Internal Auditor to meet with Chair of Committee twice a year	First meeting October 2010 and regularly thereafter	Chief Internal Auditor
2	Regular meetings between Chief Internal Audit and External Audit Manager	Quarterly meetings between Chief Internal Auditor, Director of Resources and External Audit Manager	First meeting October 2010 and quarterly thereafter	Director of Resources
3	Appropriate staffing to meet objectives	Continue to pursue rolling programme for staff to acquire Institute of Internal Audit qualifications	Ongoing as part of service plan	Chief Internal Auditor
4	Fully consult stakeholders on audit plan	Wider consultation with management team and JMT to include individual meetings and sign off by JMT	January 2011	Chief Internal Auditor
5	Ensure plan demonstrates a clear understanding of the organisation's function	i) Audit Plan format and content to be revised in line with CIPFA bench marking club good practice;  ii) Wider engagement with management teams and JMT.	December 2010  December 2010	Chief Internal Auditor
6	Establish appropriate escalation procedures for Internal Audit recommendations not implemented by the agreed date	Protocol now in place  Use functionality of new software to track report recommendation	Achieved  April 2011	Chief Internal Auditor  Chief Internal Auditor

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