

NORTH YORKSHIRE AUDIT PARTNERSHIP



Ryedale District Council

*Review of the Effectiveness of the
System of Internal Audit
2008/2009*

REPORT ISSUED TO

Members of the Overview & Scrutiny Committee

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Chief Executive

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Corporate Director (S151 Officer) -

DATE OF ISSUE: March 2009

SUBJECT: REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2008/09

1. Introduction

- 1.1 The Accounts and Audit Regulations 2003 require all Councils to annually review their systems of Internal Control and to provide an adequate and effective Internal Audit function.
- 1.2 The regulations were added to with the issue of circular SI 564/2006. This required, inter alia, that the council undertake an annual review of the effectiveness of its system of internal audit, and to present the results of that review to the appropriate committee.
- 1.3 It has been established that the Overview & Scrutiny Committee receive reports on the Annual Governance Statement (AGS), and associated matters. Therefore it is the appropriate committee to receive, consider, review, and approve the report on the Review of Effectiveness of the System of Internal Audit.

2. Background and Issues

- 2.1 Internal audit at Ryedale DC is provided through the North Yorkshire Audit Partnership.
- 2.2 The Partnership team comprises of the Partnership Manager, with Audit Managers, and audit staff.
- 2.3 The Partnership works with the Corporate Director (S151) and in 2008/09 provided a planned 265 days of audit.
- 2.4 In addition it provides support to the Councils Risk Management processes and to the CAA self-assessment.
- 2.5 The Partnership works to the Cipfa Code of Practice for Internal Audit in Local Government (the CoP). The code has been reviewed and revised with the latest version issued in December 2006.
- 2.6 The code defines internal audit as: -

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The control environment is defined as comprising the systems of governance, risk management, and internal control.

- 2.7 The code sets out 11 standards for internal audit.

- 2.8 Of the 11 standards one is Performance and effectiveness. The remaining 10 relate to audit management, audit process, and audit relationships within the organisation.
- | | |
|------------------------|--|
| a) Audit Mgt | Independence; Ethics; Staffing Training & CPD; |
| b) Audit Process | Scope; Audit Strategy & Planning; Undertaking audit work; Due Professional Care; Reporting |
| c) Audit Relationships | Audit Committees; Relationships; |
- 2.9 The code does define an effective internal audit, as being one which should 'aspire to' the following: -
- understand the whole organisation, its needs and objectives;
 - understand its position in respect to the organisation's other sources of assurance and plan its work accordingly;
 - be seen as a catalyst for change at the heart of the organisation;
 - add value and assist the organisation in achieving its objectives;
 - be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact;
 - be innovative and challenging;
 - help to shape the ethics and standards of the organisation;
 - ensure the right resources are available – recognising that the skills mix, capacity, specialisms and qualifications/experience requirements all change constantly;
 - share best practice with other auditors;
 - seek opportunities for joint working with other organisations' auditors.
- 2.10 An assessment of the position of the IA team in respect of these aspirational effectiveness criteria is set out in Appendix 2.
- 2.11 With this background the issue is to determine what a Review of Effectiveness (RoE) is, and how it should be undertaken.
- 2.12 Guidance has been issued by the DCLG that is non-prescriptive. It therefore leaves councils to determine their own methodology. As the review has to be reported to the council (normally the Audit committee or equivalent) the scrutiny will be there and through the external auditor's review of the AGS.
- 2.13 It is neither practicable nor possible to use the annual external auditor's opinion in their audit letter though their tri-ennial review would probably be sufficient.
- 2.14 The RoE review is annual, and the regulation does not specify a fiscal year. Therefore the review has been undertaken between Feb and March to avoid adding further to the year-end maelstrom of tasks.
- 2.15 Cipfa have now prepared some guidance to practitioners through the Audit Panel and this has been considered in the preparation for and the execution of the review.
- 2.16 One key principle for which there continues to be only an inconclusive definition is the 'system of internal audit'. Therefore this review has focused on the Internal Audit function rather than take a much wider view that is

espoused by some, to include the overall control framework, and the Audit Committee itself. I consider that this wider definition more properly falls within the range of the AGS.

- 2.17 The general consensus is that until custom and practice have evolved further then a practical way of exercising this RoE is to undertake a self-assessment against the Cipfa code, and to undertake a survey of Heads of Service to determine their opinion of the effectiveness of the system of internal audit.
- 2.18 For the 2008/09 review we have continued with three-strand approach already established. Firstly to review the self-assessment undertaken, and primarily to consider what action has been taken to resolve the points arising, which were endorsed by the Overview & Scrutiny Committee. Secondly we will re-perform the survey to see if there has been any material change in opinion over the intervening period, and thirdly to note the performance of the internal audit team, in 2008/09 to the end of January 2009 as reported to the committee at its February meeting.
- 2.19 The self-assessment completed highlighted two specific areas where there could be improvement which were: -
- We need to consider establishing a formal Audit Strategy and Terms of Reference.
 - ↳ *This will be discussed with the Corporate Director (S151) with a view to presenting a report to the Overview & Scrutiny Committee in 2009.*
 - Encouraging greater inclusion of internal audit with new and developing projects.
 - ↳ *This has been an issue in both the surveys undertaken to date. There are some signs of an increasing acceptance that Internal Audit can play a valuable role with new projects and a gradual increase in the invitations to participate.*
- 2.20 The results of the survey (7 responses from 10 invitations) are attached as Appendix 1. They indicate that overall there is a high level of satisfaction and by logical extension, effectiveness.
- 2.21 One score for involvement with developing the audit plan was low, and we are working with that particular Head of Service to establish why and to ensure that this is not repeated.
- 2.22 Previously the identified weaker area is the involvement of internal audit with 'new and developing projects'. Clearly this is an area where internal audit are now being invited to participate. We would hope that your heads of Service agree to continue this in future.
- 2.23 The results largely correspond with the analysis of the self-assessment.

3. Consultation

- 3.1 Views have been sought from Deloitte, the Council's appointed external auditors who will, through their review of the AGS, also take this RoE review

into account. However, as they will undertake that role, there is, understandably reluctance on their part to give definite guidance or opinion.

- 3.2 Opinions have also been sought within the North Yorkshire Chief Internal Auditors Group and the current collective view is not consensual. This is no doubt because established custom has yet to evolve for this annual review.
- 3.3 The Partnership Manager (NYAP) has taken part with colleagues from Cipfa and IPF in the drafting and publication of initial guidance to practitioners, under the IPF/Cipfa 'Rough Guide' branding. This does mean that the Council, and the other councils within the Partnership are probably at the leading edge of developments with this RoE review.

4. Assessment and Conclusion

- 4.1 The review provides an overall opinion and assurance that the System of Internal Audit as defined above can be considered as effective.
- 4.2 Issues identified last year in the self assessment have been taken into consideration and actively pursued in this year.
- 4.3 Performance, reported to the last Overview & Scrutiny committee may be judged as satisfactory.
- 4.4 The results of the survey indicate an overall assessment of effectiveness scoring 97% (93% 2007/08; 98% 2006/07) at the median or above.
- 4.5 It does, however, point up the same weak area as last year, the 'involvement of Internal Audit with new and developing projects'. This is consistent with results at other councils, notably at District level, where capacity is always limited.

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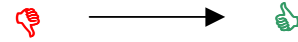
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Appendix 1

Ryedale District Council

[10 survey forms sent out, 7 responses]



1. Did we involve you sufficiently in setting the internal audit plan?
2. Was the Internal Audit (IA) approach professional, in terms of making arrangements, undertaking the audit, and meetings with your staff?
3. Was the audit report format in a style that you found clear, and easy to understand?
4. Did the audits and their reports raise concerns over control systems clearly and concisely?
5. Were the audits relevant and add assurance or value?
6. Did the audits give you a better knowledge and understanding of control systems and risk in your service areas?
7. Do you consider that the audits looked at your risk areas adequately?
8. Do you consider that we were sufficiently involved with your new and developing projects?
9. Has the contribution of IA given you enough assurance for the Annual Governance Statement?
10. In your considered opinion, has IA been 'effective'?

1		3	2	1	
			5	2	
		1	5	1	
		1	6		
		2	5		
		2	5		
		1	6		
	1	3	3		
		3	4		
		1	6		
Totals	1	1	17	47	4
Percentages	1.5	1.5	24	67	6

Figures in brackets are prior year results:- (2007/08; 2006/07)

73% (74; 75)
97% (93; 98)

Appendix 2

CIPFA CoP –Characteristics of Effectiveness that an effective Internal Audit should aspire to: -

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
Understand the whole organisation, its needs and objectives.	The audit plan demonstrates how audit work will provide assurance in relation to the authority's activities (and so indirectly to the objectives). Individual audit assignments identify risks to the achievement of those activities (and so indirectly to the objectives of the Council).	
Understand its position in respect to the organisation's other sources of assurance and plan its work accordingly.	Internal audit identifies other sources of assurance and takes this into account when preparing the internal audit plan.	Monitor and improve the IA governance and assurance arrangements where there are joint service delivery arrangements, e.g. payroll.
Be seen as a catalyst for change at the heart of the organisation.	Supportive role of audit for corporate developments such as corporate governance review, risk management and ethics. Supportive role of audit for individual projects may be catalyst for change.	Selling the message of the benefits of IA involvement to line management. Controls assurance and the AGS / assurance statement. Need to continue to extend the role of IA in new and developing projects.
Add value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work.	Need to continue to extend the role of IA in new and developing projects.
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.	When identifying risks and in formulating the plan changes on the national agenda are considered.	The Partnership maintains awareness of new developments in the services it audits, risk management and corporate governance.
Be innovative and challenging	Internal audit has taken a positive approach to its reporting arrangements by focusing on risks, and using a brief report style.	With the extension of the Partnership to include Hambleton & Richmondshire the report format has been reviewed and a revised style will be used from 1 st April 2009.
Help to shape the ethics and standards of the organisation.	Currently involved in KLoE/UoR. Involved in preparation of the AGS	

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
Ensure the right resources are available – recognising that the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.	This was covered in the report to CMT and O&S committee on the annual audit plan. Ryedale constrain the amount of audit plan time on a financial basis. It is therefore cash limited to a specified number of days. The art is in providing sufficient coverage within that limitation.	Prepare an audit needs analysis and be aware of any difference between the ideal and cost driven resources for Internal Audit.
Share best practice with other auditors.	CIA and benchmarking groups. Team briefings. Personal links with auditors elsewhere.	Develop some joint training seminars with the other members of the CIA group.
Seek opportunities for joint working with other organisation's auditors.	Always a consideration. NYAP exists. Joint working now extended to include Hambleton, and Richmondshire, leaving only the other two NY districts.	Seek the accession of Harrogate & Craven DCs in the medium term future. Bear in mind future changes and the potential to link (or merge) with the City~County partnership to deliver a pan North Yorkshire IA team.