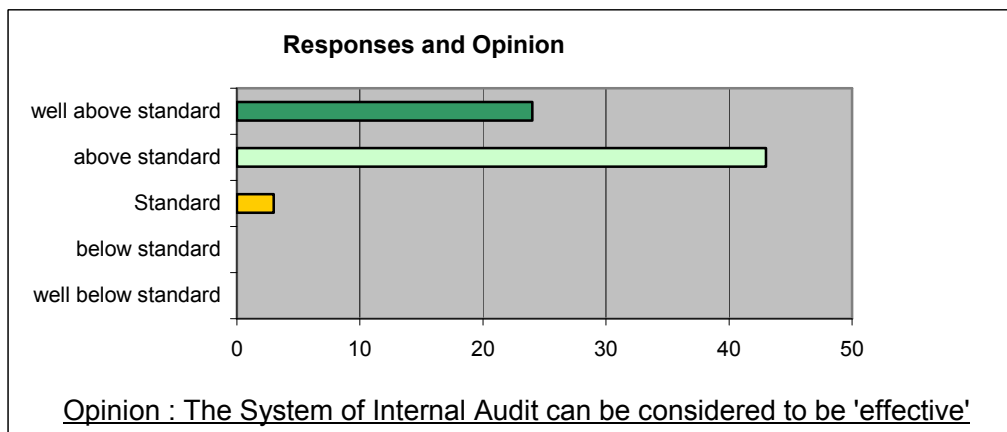




Independent Assurance

Internal Audit Report

Ryedale District Council Accounts & Audit regulation 6 Review of the Effectiveness of Internal Audit April 2011



Auditor : James Ingham CPFA

Circulation list: Members Overview & Scrutiny Committee
Chief Executive
Corporate Director (s151)

CONFIDENTIAL

SUBJECT: REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2010/11

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 2006/564, as further amended by circular SI 2011/81. This required, inter alia, that the council undertake an annual review of the effectiveness of its 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 of the Council 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 Internal Audit.

2. Background and Issues

- 2.1 Internal audit at the Council is provided through the North Yorkshire Audit Partnership (NYAP) who provide the internal audit function.
- 2.2 The Partnership team comprises of the Head of Partnership, with Audit Managers, and audit staff.
- 2.3 The Partnership works principally with the Corporate Director (s151) and in 2010/11 provided a planned audit service to the council. The Internal Audit plan comprised 265 days.
- 2.4 Additional to that plan is a provision of 'up to 35 days' to provide support to the Council's Risk Management processes.
- 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 Cipfa have issued a guide to the "Role of the Head of IA" and they have issued further guidance (consultation draft) for the application of the guide to Local Government. Once these have been finalised we will undertake a self-assessment against the principles contained therein. Initial consideration suggests that the Partnership should meet the guidance contained in the document.
- 2.7 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.

- 2.8 The code sets out 11 standards for internal audit.
- 2.9 Of the 11 standards one is Performance and effectiveness. The remaining 10 relate to audit management, audit process, and audit relationships within the organisation.

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|----|---------------------|--|
| 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; |
- 2.10 The code does try to 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.
- 2.11 An assessment of the position of the Partnership internal audit in respect of these aspirational effectiveness criteria is set out in Appendix 2.
- 2.12 With this background the issue is to determine what a Review of Effectiveness (RoE) is, and how it should be undertaken.
- 2.13 Guidance has been issued by the CLG 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.
- 2.14 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.
- 2.15 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.
- 2.16 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.
- 2.17 This review has focused on the Internal Audit function rather than take a much wider view that is espoused by some, defining “Internal Audit” to include the overall control framework, and the Audit Committee itself.
- 2.18 I consider that this wider definition more properly falls within the range of the AGS.
- 2.19 The general consensus is that until custom and practices 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 Directors and Heads of Service to determine their opinion of the effectiveness of the system of internal audit.
- 2.20 For the 2010/11 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 2010/11 as reported to the committee.

- 2.21 Cipfa have now issued a draft guide on the role of the Head of Internal Audit (HoIA) in local government. Once the final version is issued we will undertake a comprehensive self-assessment against the principles in the guidance. At this stage a preliminary self-assessment would suggest that the Partnership is effectively fulfilling the role.
- 2.22 The self-assessment completed highlighted specific areas where there could be improvement which were: -
- Encouraging greater inclusion of internal audit with new and developing projects.
 - ↳ *This has been an issue in all 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.*
- 2.23 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. One area that has a low 'score' is the involvement of internal audit with 'new and developing projects'. Clearly this is an area where internal audit need to be invited to participate. We would hope that your heads of service and project managers agree to consider this in future.
- 2.24 A second area, and perhaps of some concern is the view expressed by one respondent that the audits did not give a better understanding of control systems and risks in their service areas. This will be taken up with the respondent concerned and as a general point for the Partnership to improve the quality of the audit and associated reports issued.
- 2.25 The results largely correspond with the analysis of the self-assessment.
- 2.26 Reports are submitted regularly to the Overview & Scrutiny committee setting out the performance of the Partnership in providing the internal audit service, and reporting progress against the audit plan.

3. Consultation

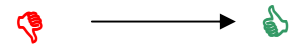
- 3.1 Views have been sought from Deloitte & Co. the Council's appointed external auditors, who will, through their review of the AGS will also take this RoE review into account. However, as they will undertake that role, there is, understandably reluctance on their part to give definite guidance or 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 required 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 will be actively pursued in this year.
- 4.3 Performance, must be judged as satisfactory.
- 4.4 The results of the survey indicate an overall assessment of effectiveness scoring 100% at the median or above for the assessment ~ (99% 2009/10; 97% 2008/09; 93% 2007/08; 98% 2006/07).
- 4.5 It does, however, point up some weak areas, though not significant, to do with the relevance of IA, did it 'add value or assurance'; looking at risk areas adequately; and the 'involvement of Internal Audit with new and developing projects'. This is consistent with results at other councils, notably at District level.

Ryedale District Council 2010/11

[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 working 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	5	1
			5	2
			3	4
			4	3
			4	3
		1	5	1
			4	3
		1	5	1
			5	2
			3	4
	0	3	43	24
	0	4	62	34

Totals

Percentages

Figures in brackets are prior year results:-
(2009/10; 2008/09; 2007/08; 2006/07)

96%
(86; 73; 74; 75)
100%
(99; 97; 93; 98)

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. Identified need 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.	Identified need 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.	Would like a crystal ball!
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.	The report format has been reviewed and a revised style has been used since 1 st April 2009. The format and the audit opinion descriptors are subject to a further re-assessment for 2011/12.
Help to shape the ethics and standards of the organisation.	Currently involved in AGS preparation, regular meetings with Monitoring Officer and s151 Officer.	Involvement by IA in Review of the constitution, and associated policies
Ensure the right resources are available	Resources for Internal Audit are limited by budget constraints. Currently the IA	May need to consider an audit needs analysis and be aware

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
– recognising that the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.	plan is driven by this constraint. Arrangements are in place to review the future need for external specialist input on IT audit.	of any difference between ideal and cost driven resources.
Share best practice with other auditors.	NYCIA and benchmarking groups. Team briefings. Personal links with auditors elsewhere.	We are developing some joint training seminars.
Seek opportunities for joint working with other organisation's auditors.	Always a consideration. NYAP exists. Joint working now includes 5 of the 7 NY Districts, leaving only the Harrogate and Craven, the other two district councils. The likelihood of their joining the Partnership is remote.	The current Partnership Agreement runs to 31.3.2012, and the business case for NYAP to merge with Veritau is being developed.