

<h1>Audit Committee</h1>	Agenda Item: A.10
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Meeting Date: 24th January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework: Yes
 Public

Title: Internal Audit Effectiveness Review
 Report of: Director of Resources
 Report Number: RD81/13

Purpose / Summary:

Cumbria County Council commissioned an external review of the Internal Audit Shared Service in spring 2013.

This review was conducted in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal audit services from 1st April 2013.

Recommendations:

Members are requested to note the report findings and resulting action plan attached at Appendix A.

Audit Committee	24 th January 2014
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1 BACKGROUND

- 1.1. Cumbria County Council commissioned a review of the Internal Audit Shared Service in spring 2013. This was to assist the incoming Group Audit Manager in developing the audit service in line with the Public Sector Internal Audit Standards (PSIAS). These standards became mandatory for all UK public sector internal audit services from 1st April 2013.
- 1.2. Grant Thornton undertook the review as a piece of consultancy work separate from the external audit team who carry out the final accounts work at the County and District councils. This approach was designed to provide an independent assessment of the Internal Audit Service and invite recommendations for further developments to ensure conformance with the PSIAS.
- 1.3. The attached report at **Appendix A** summarises the approach taken and the findings arising from the review, along with an agreed action plan for implementation.
- 1.4. The review has highlighted a number of strengths and good practice arrangements in place by the Internal Audit Shared Service along with 17 recommendations which are geared to aid further service improvements. Audit management welcome the findings of the review and has already established a series of internal working groups which will support the effective implementation of the agreed recommendations. Progress made by these working groups will be reported to the Shared Service Operational Board.

2 CONSULTATION

Not applicable

3 CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 3.1. Internal Audit is in place to support the Council's arrangements for governance, risk management and internal control. The Internal Audit Service reports to the Audit Committee and senior management team, who are key elements of the Council's corporate governance structure. As such, it is applicable for members of the Audit Committee to receive this external review on the effectiveness of Internal Audit and note the resulting action plan which details the improvements to ensure the service conforms to the PSIAS.

4 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 4.1. To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

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Appendices **A – Internal Audit Effectiveness Review - Executive**
attached to report: **Summary and Agreed Action Plan.**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Community Engagement – not applicable

Economic Development – not applicable

Governance – Audit Committee's Terms of Reference include responsibility for consideration of reports dealing with the management and performance of the providers of internal audit services

Local Environment – not applicable

Resources – not applicable

Cumbria County Council

Internal Audit Effectiveness Review

11 November 2013



Grant Thornton

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Introduction

Grant Thornton were commissioned to carry out an effectiveness review of the Shared Internal Audit Service ("the Shared Service") for Cumbria County Council ("the Council") in relation to its planning, performance, people, profile and products. This report sets out our findings and recommendations from the review in line with the below scope and approach.

Background

The Council hosts the Shared Service which commenced with Carlisle City Council in December 2010, followed by Copeland Borough Council in March 2011 and the Cumbria Police Authority in August 2012. Anticipated benefits focused on financial savings and a more robust internal audit function as per the Business Case. The Council provided the service to the Cumbria Police Authority (now the Office of the Police and Crime Commissioner and Cumbria Constabulary) and the Lake District National Park Authority, which has continued. In total, there were 3,700 planned days for the provision of internal audit services in 2012/13 and a total of 19.6 full-time equivalent staff members.

The Service is headed by the Group Audit Manager who joined in May 2013. There are four Audit Manager posts within the structure with responsibility for specific clients and / or County Council Directorates. Each Audit Manager leads a team of audit staff working to deliver their respective audit plan. The Business Case envisaged that the auditors would form a pool from which staff could be drawn by the Audit Managers depending on the skills and experience required to deliver the specific audits.

The Shared Service now provides internal audit services to Eden District Council and South Lakeland District Council as a 'customer' rather than as part of the Shared Service. We were informed that this has increased confidence amongst management and Members that the Shared Service was the right approach.

Prior to the Shared Service, traditional financial systems audits were dominant in the respective internal audit plans. The Shared Service has since expanded its range of services to include "hot assurance", counter fraud work, input to Corporate Governance, value for money and ICT audits.

New Public Sector Internal Audit Standards ("PSIAS") came into effect in April 2013 and it is against these standards that this review seeks to assist internal audit to continue to develop its service.

Scope

Following discussions with the Assistant Director (Finance) of the Council in April 2013, we prepared an engagement letter setting out the scope of our work in relation to the review of the effectiveness of the Shared Service.

It was agreed that we would assess the Shared Service with regard to PSIAS as well as good practice seen elsewhere in the public sector and beyond.

The aim of the review was to provide you with an high level 'as is' assessment of the current operations against these criteria and also to generate improvement advice for your consideration.

Further discussions with the Assistant Director (Finance) and the new Group Audit Manager on 13 June 2013 further defined the review scope to focus on:

- Planning of the work of the Shared Service;
- Performance of the shared service;
- People within the Shared Service;
- The profile of the Shared Service;
- Products of the Shared Service.

Introduction

Approach

We recognised that this remains a particularly challenging time for local government generally given the comprehensive spending reviews and subsequent cuts to public sector spending and that Cumbria County Council was not immune from the impact.

We also recognised that there had been a recent change in the leadership of the Service and that one of the Audit Managers has recently left. This review was also seen by the Council as an opportunity to help internal audit to further develop into a modern service, focussing on what really matters, providing robust assurance and adding real value.

Our approach to the review included:

- Interviews with key stakeholders using the Service, for example s151 officers and Chairs of Audit Committees;
- Interviews with Shared Internal Audit Service staff including the use of a confidential questionnaire;
- Reviewing key internal audit documents such as audit plans, reports, files and benchmarking information;
- Assessing the Service against the PSIAS; and
- Highlighting relevant good practice we have seen elsewhere in the public / private sectors.

Executive summary

We set out below our overall conclusions from our review of the effectiveness of the Shared Internal Audit Service along with the key improvement advice.

Conclusions

The Shared Service ("Service") is designed to be an independent, objective assurance and consulting provider which adds value and improves its clients' operations.

We identified opportunities to fine tune the approach to internal audit planning in order that it demonstrates clearer business understanding, links to the clients' strategic objectives and corporate priorities, provides an improved balance between past and future assurance (adequacy of design of proposed systems / arrangements) and is presented for approval in a timely manner.

There is a need to improve the performance and effectiveness of the Shared Service and that of management in the response to internal audit reports. In addition, there is a need to improve client engagement when scoping audit assignments to set higher expectations for the Service.

Internal Audit Service staff have relevant qualifications, experience and show evidence of professional development. There are opportunities to use staff more effectively across Shared Service Clients to share best practice, benchmark systems, provide new challenges and a fresh perspective. Stakeholders held the Service in high regard with direct reporting lines to senior management and the Chairs of Audit Committees. Further work needs to be done to demonstrate the benefits from creating the Shared Service and the value that internal audit brings to the organisations.

Internal Audit reports vary in style, receive a mixed response and take far too long to finalise. They need to be standardised, more succinct, insightful and impactful. Further work needs to be done with key stakeholders in relation to the grading of audit recommendations.

In terms of the Public Sector Internal Audit Standards, the Shared Service demonstrates compliance with the Code of Ethics around integrity, objectivity and confidentiality. However, there are areas for further improvement. The Group Audit Manager and Assistant Director (Finance) who commissioned this review, already recognise many of the strengths and areas for development in relation to the Service. The findings and recommendations from this review will provide additional information which will also aid compliance with the new Public Sector Internal Audit Standards and help enhance the Service.

Key Improvement Advice

Our review identified the following areas of focus:

- Approval of the Audit Charter and development of the Quality Assurance and Improvement Programme;
- Develop a uniform risk-based approach to internal audit planning in order that similar risks across clients are identified and responded to in a consistent and timely manner;
- Improve the balance between the time spent on traditional fundamental systems and strategic / corporate / operational risks in order to ensure that assurance is provided in the areas that really matter to key stakeholders;
- Develop the Internal Audit Manual to provide a reference source from which all staff can operate ensuring a clear and standardised approach to documenting, reviewing and reporting internal audit work;
- Increase client engagement, in particular at senior management level, in order that internal audit really understands the organisational risks and can focus their efforts in areas of significance to management, so that internal audit's work is welcomed and of more value;
- Develop key performance measures for the Service in order to aid the Group Audit Manager, Section 151 officers, management and stakeholders to identify and monitor performance as well as take any necessary corrective action; and
- Realise the benefits from creating the Shared Service, in particular, making better use of audit staff across the clients to share best practice, benchmark systems, provide staff with new challenges and clients a fresh perspective.

Executive summary - continued

We set out below further information in respect of areas of good practice / areas for further development.

Planning

Areas of good practice

- ✓ The internal audit plan is evolving with a move away from traditional audit areas towards more wider corporate and strategic topics.
- ✓ In general, Chairs of Audit Committees felt that the plans were focussing in the right areas and that internal audit were able to articulate reasons for items in the plan.
- ✓ The development of the plan is led by the Audit Manager responsible for the Shared Service client and includes input from staff who work on that client ensuring knowledge is shared.
- ✓ The plans give sufficient flexibility to enable internal audit to respond to ad hoc requests and emerging issues.

Areas for further development

- There is no standardised approach to planning across all Shared Service clients which would assist in challenging the basis for inclusion.
- Although not required by the PSIAS, there is no medium term (3 year) strategic plan to identify when audits might be conducted which could assist both management and the Audit Committees when challenging the timings of future reviews.
- There still remains a higher proportion of the plan being spent on traditional financial systems and schools than other Councils in the peer group.
- The internal audit plan does not appear to have any regard to other assurance providers and therefore there might be gaps or duplication in assurance which are not identified.

Performance

Areas of good practice

- ✓ An assignment scoping document is produced to guide the work of internal auditors.
- ✓ All files are required to contain certain control documentation.
- ✓ All files are reviewed by the Audit Managers with some low risk areas being delegated to the Principal Auditors.
- ✓ A self-assessment against the CIPFA Code of Practice for Internal Audit has been produced annually and presented to Cumbria County Council's Audit Committee.

Areas for further development

- 60% of staff surveyed did not know what quality standards are being used to assess their work.
- Reports take too long to finalise. Our sample of 10 reports took an average of 109 days to finalise following the issue of a draft.
- There is no mandatory close out meeting prior to issuing a draft report.
- Performance is measured only in terms of days completed against planned days and the percentage of planned reviews delivered. Further measures would assist in monitoring performance and provide valuable information to management and the Audit Committees.
- Benchmarking information is not routinely produced and presented to management or the Audit Committees which again would help to put internal audit's performance into perspective.

Executive summary - continued

People

Areas of good practice

- ✓ The skills of the current internal audit staff are respected by the s151 officers and Chairs of Audit Committees in terms of covering their assurance needs and taking forward the service.
- ✓ All those stakeholders interviewed felt that there had been some improvement since Shared Internal Audit Service was introduced.
- ✓ Training needs are assessed on an annual basis via appraisals and following this an annual training and development plan is produced.
- ✓ The service has a similar percentage of qualified / part qualified staff when compared to the average.

Areas for further development

- Staff within the Service appear to be working on the client from which they transferred into the Service and not getting the opportunity to work across clients thus providing them with new challenges and the ability to benchmark services and share good practice.

Profile

Areas of good practice

- ✓ The Group Audit Manager reports to the Assistant Director (Finance).
- ✓ The Group Audit Manager and Audit Managers have direct access to the Chairs of the Audit Committees, Chief Executive and all members of the Corporate management Team.
- ✓ The positions of Group Audit Manager and Audit Managers are well regarded by the Chairs of Audit Committees and the profile is sufficient that the opinion of internal audit is held in high standing by the Chairs.

Areas for further development

- An Internal Audit Charter is not yet in place, but has been drafted and we understand will be presented to the Shared Services Operations Board. This could be used to help highlight the benefits of internal audit and the value it brings to the Councils.
- Client satisfaction questionnaires are issued after each audit, but these are rarely returned.
- There has been no report which sets out the success to date of the Shared Service which would assist in raising its profile amongst current and potential future users.
- 87% of staff felt that being part of a Shared Service has only partly or not changed IA delivery in a beneficial way.

Products

Areas of good practice

- ✓ Chairs of Audit Committees felt that internal audit reporting had improved in the last 12 months.
- ✓ Audit reports give an opinion on the overall system reviewed as well as prioritise recommendation in order to focus attention and direct effort.

Areas for further development

- A number of stakeholders commented that the internal audit reports were too long, difficult to digest and lack impact.
- Reporting style varies depending on the Audit Manager, but they do contain a scope, overall evaluation, detailed findings and an action plan.
- There are no documented criteria which sets out what rating to apply to recommendations which could lead to inconsistencies.
- Audit recommendations tracking and reporting appears to be a purely numerical exercise and not used proactively to identify emerging themes / issues to which management, the Audit Committees and internal audit could respond.
- The Annual Internal Audit Reports do not consistently make reference to the outcomes from follow-up work.
- The majority of internal audit staff believe that quality has remained the same in the last year.

Action Plan

No.	Recommendation	Management response
	<i>Planning</i>	
1	The Group Audit Manager should work with the Audit Managers to develop a uniform, risk-based approach to internal audit planning.	Agreed, a risk based approach to audit planning for 2014/15 has been agreed by the Shared Services Operations Board and the County Council's Audit and Assurance Committee. The approach will now be rolled out across the Shared Service.
2	The Group Audit Manager should present to Audit Committees on the coverage of key risks annually and over a longer term.	Audit plans will be prepared annually in line with the requirements of the PSIAS. Longer term plans will be prepared as appropriate for specific types of audit work (eg main financial systems which will be audited on a rolling programme).
3	Under the risk-based internal audit approach, the Service should consider the need to audit financial systems annually, potentially releasing days to focus on areas of greater risk.	Agreed, main financial system reviews will be undertaken according to a longer-term rolling programme, thus freeing up resources to focus on areas of governance and strategic and operational risk.
4	The Internal Audit Plan should clearly identify the key risks that each audit review is designed to address. In addition, the rationale for each audit should be clearly articulated including management and / or Audit Committee Members' concerns.	Agreed, audit plans will include a description of the key risks/reasons for inclusion on the plan.
5	The benchmarking information provided by CIPFA should be reviewed and used to direct internal audit resources more effectively.	Agreed, the outcomes from 2012/13 CIPFA benchmarking have already been presented to the County Council's Corporate Management Term and the Shared Services Operations Board, together with a plan of how resources will be used more effectively in preparing the 2014/15 audit plans and beyond.
6	Management should work with the Group Audit Manager to develop Integrated Assurance Framework for each client thus facilitating the identification of gaps or duplication in assurance provision.	Agreed, this work is beginning alongside the preparation of audit plans for 2014/15 and will be further developed in future years.

Action Plan

No.	Recommendation	Management response
	<i>Performance</i>	
7	<p>An Internal Audit Manual should be developed and introduced following the review of the internal audit approach, standardisation of working papers and reporting format. Training should then be provided to all staff to ensure that they fully understand the requirements within the manual. The Manual should be followed by all staff and used to provide feedback in terms of compliance with agreed standards and practices thus driving improvements in quality.</p>	<p>Agreed. Several services development projects are due to commence and the required outputs from the projects include documented procedures that will form the basis of the service's audit manual. Training on the risk based audit approach and the standards for documentation and recording of audit work will be provided to the team in advance of the new approach being rolled out. It is also intended that the Quality Assurance and Improvement Programme will include a mechanism for monitoring compliance with agreed processes and providing feedback to audit staff.</p>
8	<p>Shared Service Internal Audit performance measures should be developed, discussed and agreed with management and the Audit Committees, e.g.</p> <ul style="list-style-type: none"> • Issue of audit scoping within an agreed number of days prior to start on site; • 100% of scoping documents to be agreed; • Draft reports to be issued within an agreed number of days following debrief meeting; and • Draft reports to be finalised within an agreed number of days following issue to management. <p>Actual performance should be reported to management and the Audit Committees on a regular basis.</p>	<p>Agreed, a project is due to commence to establish an internal performance management framework for internal audit. A suite of performance measures will be developed in consultation with the Shared Services Operations Board, as well as colleagues across the North West Audit group to identify good practice. Measures recommended here will be incorporated as appropriate.</p> <p>Performance against these measures will be reported within the quarterly progress reports for each client and to the respective audit committees. For the County Council, this report goes to the Corporate Management Team and Audit and Assurance Committee.</p>

Action Plan

No.	Recommendation	Management response
	<i>People</i>	
9	More opportunity should be provided for staff, where appropriate, to work across the various clients used by the Shared Service in order to start to realise one of the main benefits perceived from the creation of the Service.	Agreed, recent Internal Audit management meetings have focused on allocation of work across all team members to ensure that all staff have equal opportunities to work across the Shared Service and that knowledge is shared across the team. This approach will be further developed when allocating work from the 14/15 audit plans.
10	The results of the staff survey should be reviewed by the team to collectively identify appropriate outcomes which address both personal development and improved service delivery opportunities.	Agreed, the staff survey undertaken as part of this review of internal audit will be used alongside internal staff consultation exercises to identify staff development and service delivery improvements.
	<i>Profile</i>	
11	The Group Audit Manager should agree a plan to raise the profile of the service, agreeing measures of success with key stakeholders.	Agreed, work is already underway to raise the profile of internal audit through attendance of corporate and directorate management team meetings. A formal plan will be prepared early in the next financial year to further raise the profile of the service across all clients.
	<i>Products</i>	
12	<p>A standard format for internal audit reports should be developed for the Shared Service. These should include an Executive Summary which clearly and succinctly articulates:</p> <ul style="list-style-type: none"> • The conclusion / assurance level; • Audit objective and scope; • Background to the review; • Areas of good practice, i.e. what is working well; • Areas for improvement, i.e. what is not working well; • Summary of recommendations; and • Conclusion from any follow-up work. 	Agreed, A project has commenced to review the internal audit formats in use and create a standard format that incorporates the requirements of the PSIAS as well as the recommendations included here.

Action Plan

No.	Recommendation	Management response
	<i>Products –continued</i>	
13	The Group Audit Manager should meet with s151 officers and the Audit Committees to discuss and agree a criteria for determining the ratings for audit recommendations.	This is to be considered as part of the review of the audit report format (see R 12). A proposal will be taken to the Shared Services Operations Board and the respective Audit Committee to gain agreement to a standardised approach to the grading of audit recommendations across the Shared Services.
14	<p>The Shared Service should use the audit recommendation tracking exercise to identify:</p> <ul style="list-style-type: none"> • Directorates where implementation is particularly slow or not in accordance with the agreed timescales; • Senior managers who do not implement recommendations and provide the Audit Committees with the opportunity to request their attendance before the Committee; and • Recommendations which are not implemented and therefore might identify themes which can be followed up by internal audit. 	Agreed, this information will be presented to County Council directorates on a quarterly basis and to the client key contact for the Shared Services clients. Results of follow-up audits are included within the progress report to Audit & Assurance Committee to allow them to follow up any issues with the implementation of agreed actions.
15	All audit scoping documents should be agreed with the relevant senior manager responsible for the audit area prior to the commencement of the fieldwork.	A review of the approach to scoping internal audit reviews is about to commence and this recommendation will be fed into the project scope. We agree that it is important that client management feed into the scope of audit reviews and that there is agreement to the scope, but the project may not necessarily conclude that approval by client management of the scoping document is a necessary step in the process.
16	The Shared Service should develop and agree objectives with the respective Service users in relation to their requirements from internal audit. This must have clear regard to the requirements of the PSIAS.	A set of objectives for internal audit will be developed in consultation with the Shared Services Operations Board.

Action Plan

No.	Recommendation	Management response
	<i>Products - continued</i>	
17	The Group Audit Manager should ideally attend the Audit Committees of all the Shared Service users at least once a year. As a minimum, we would recommend that attendance coincides with the presentation of the Head of Internal Audit's Annual Internal Audit Report which includes the opinion.	Agreed in principle. The Group Audit Manager is keen to engage effectively with all Audit Committees across the Shared Service and has already attended those at the Police, Copeland, the County Council and has met with the audit committee members at Carlisle City. However it is considered more relevant that the Group Audit Manager attends as she determines appropriate or to cover for any unavailability of the Audit Managers who have delegated 'Head of Audit' responsibility for the clients of the Shared Service.



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