

General Release

REPORT TO:	GENERAL PURPOSES & AUDIT COMMITTEE 25th June 2014
AGENDA ITEM:	12
SUBJECT:	Internal Audit Review 2013/14
LEAD OFFICER:	Director of Finance & Assets and Section 151 Officer
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: The Council is required by the Audit and Account Regulations 2011 to review the effectiveness of the Council's Internal Audit function, when preparing the Annual Governance Statement 2013/14. The Annual Governance Statement is published alongside the Annual Accounts.	
FINANCIAL SUMMARY: The Internal Audit contract for 2013/14 was a fixed price contract of £497,000 and appropriate provision was made within the budget for 2013/14.	
FORWARD PLAN KEY DECISION REFERENCE NO: N/A	

1. RECOMMENDATION

- The Committee is asked to review and comment on the Director of Finance & Assets and Section 151 Officer's assessment of the internal audit function

2. EXECUTIVE SUMMARY

2.1 This report details the Director of Finance & Assets and Section 151 Officer's review of the effectiveness of the Council's internal audit function and identifies areas for improvement. In assessing Internal Audit's effectiveness the Council has used the following criteria:

- Public Sector Internal Audit Standards
- CIPFA publication Audit Committee-Practical Guidance for Local Authorities
- Internal Audit performance 2013/14
- Stakeholders Feedback
- External Audit opinion.

3. System of review

- 3.1 The Accounts and Audit Regulations 2011 require the Council to review, at least annually the effectiveness of its internal audit function. The findings of this review need to be considered and published as part of the Committee's review of the effectiveness of the systems of internal control. This in turn forms the basis of the Committee's consideration of the Annual Governance Statement.
- 3.2 The Internal Audit service is one of the key foundations of the Council's Assurance Framework and governance structure, therefore the Committee needs to be satisfied that the function is effective ensuring they can place reliance on the Council's internal control systems.
- 3.3 The Director of Finance & Assets and Section 151 Officer has completed a review of the internal audit service and that is now reported to the Committee.
- 3.4 For the purposes of the review the internal audit service was defined as the service provided by Mazars PSIA Ltd via the internal audit contract and the small in-house client team that leads and manages the contract. The current contract for internal audit services was let in April 2008 for a period of seven years with an option for a three year extension. In January 2012 an extension of that contract to March 2018 was agreed on a recommendation from the Corporate Services Committee.
- 3.5 A peer review by another London Borough's Head of Internal Audit was conducted in 2012 to assess the extent to which the Council's internal audit service complied with the standards set out in CIPFA's Code of Practice for Internal Audit 2006. This showed that the Council's Internal Audit service compares extremely well against the standard and meets all of the criteria.
- 3.6 A self-assessment against the new Public Sector Internal Audit Standards (that came into effective on 1st April 2013) was conducted in March 2014 and this concluded that the internal audit function conforms to the standards. A programme of peer review is being established amongst London Boroughs and in due course this will facilitate an external review of conformance. It is required that an external review is conducted at least every 5 years.

4. Internal Audit Performance 2013/14

- 4.1 A key measure of the Internal Audits service's effectiveness is the action taken in implementing audit recommendations. The Council's target for audit recommendations implemented at the time of the follow-up audit is 80% for all priority 2 & 3 recommendations and 85% for priority 1 Recommendations.
- 4.2 The use of targets is accompanied by a stringent approach to the follow up process with tighter timescales for follow up work to commence linked to the level of assurance. Table 1 details the performance in all follow up work completed for audits carried out in 2009/10, 2010/11, 2011/12 & 2012/13.

Table 1: Implementation of Audit Recommendations to date

Performance Objective	Target	Performance 2010/11 (to date)*	Performance 2011/12	Performance 2012/13 (to date)*	Performance 2013/14 (to date)*
Percentage of priority one recommendations implemented at the time of the follow up audit	85%	93%	100%	95%	85%
Percentage of all recommendations implemented at the time of the follow up audit	80%	88%	93%	90%	84%

* audits are still being followed up for 2010/11, 2012/13 & 2013/14 and therefore the percentage will change. The outstanding follow-up for 2010/11 relates to security at Stubbs Mead depot and implementation has been delayed because of other building works.

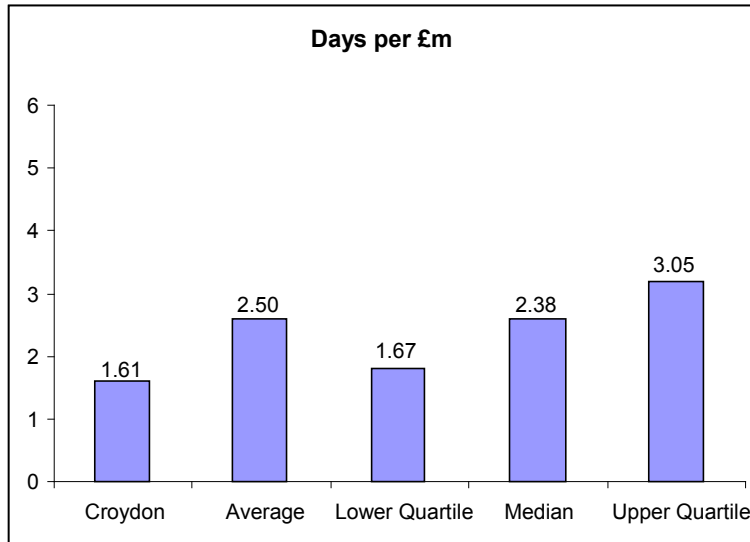
4.3 Table 2 details the Internal Audit service performance against key targets for 2013/14. All targets were either met or exceeded. Delivering 100% of the audit plan in year is an excellent performance that few London Boroughs manage and this is the eighth year running that this has achieved at Croydon.

Table 2: Internal Audit Performance

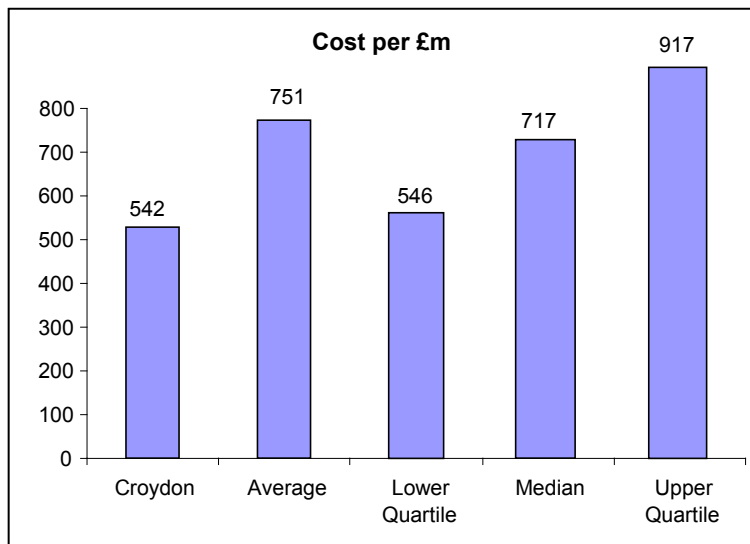
Performance Objective	Annual Target	Annual Performance	RAG
% of planned 2013/14 audit days delivered	100%	100%	G
% of 2013/14 planned draft reports issued	100%	100%	G
Number of 2013/14 planned draft reports issued	90	90	G
% of draft reports issued within 2 weeks of exit meeting with the Client	85%	85%	G
% of staff with full qualifications engaged on audit	40%	43%	G

4.4 To ensure the Council continuously improves its Internal Audit service, the Council participated in the CIPFA Audit Benchmarking Club 2013. A range of performance data and information relating to the Internal Audit service was compared, to ten other London Boroughs, in relation to cost and audit coverage. The headlines were that the Council was better than average in relation to the audit cost per £m gross turnover and the cost per chargeable day.

4.5 In addition the Internal Audit Service was benchmarked with all unitary authorities within the club from across England & Wales. The performance for 2012/13 is shown in the following graphs



This shows that because of its risk focused approach to internal audit, Croydon uses fewer days per £M of council gross expenditure than most other authorities.



This shows that the combination of well focused activity and reasonable costs per day results in costs per £M of council gross expenditure which are below the lower quartile for unitary authorities nationally.

- 4.6 Comparing the benchmarking indicators with the performance and impact indicators demonstrates a cost effective service delivering value for money.

5. Stakeholder Feedback

5.1 The added value of internal audit and a key measure of their effectiveness is stakeholder feedback. The auditee of every audit is asked to complete a customer satisfaction survey. There was a 25% response rate for audits carried out in 2013/14 and the summary results are shown in table 3.

Table 3: Customer satisfaction

2013/14 Good or Very Good	
Usefulness of the audit	87%
Effectiveness of audit in covering key areas	83%
Duration of audit	83%
Feedback of findings and the opportunity to provide explanations	87%
Timeliness of final audit reports	74%
Accuracy of findings in audit reports	70%
Value of the report and the recommendations	74%
Assessment of auditors knowledge	83%
Assessment of auditors professionalism	96%
Accessibility of the auditor and the audit service	91%

5.2 The overall score for 2013/14 was 84% which is slightly below the previous year (87%). This, however, compares with 75% when we started to measure in 2006/07.

5.3 The three highlighted areas on the table, although still positive, are areas of concern. These will be explored to see why the level of satisfaction is behind other indicators.

6. External Audit

6.1 The current external auditor has reviewed the overall arrangements for internal audit and reviewed the internal audit reports on key financial systems. In their report to this committee in June 2013 they reported:

“Overall, the overall arrangements for internal audit are considered appropriate. We have concluded that the Internal Audit service continues to provide you with an independent and satisfactory service and that we can take assurance from their work in contributing to an effective internal control environment. Reports provided to date will be used to inform our approach at year end.”

7. FINANCIAL & RISK CONSIDERATIONS

7.1 The Internal Audit contract for 2013/14 was a fixed price contract of £497,000 and appropriate provision was made within the budget for 2013/14. There are no additional risk considerations than those within the report.

(Approved by: Dianne Ellender, Head of Finance and Deputy S151 Officer)

8. COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 8.1 The Solicitor to the Council comments that the review of Internal Audit will meet the requirements for financial statements covered by the Accounts and Audit Regulations 2011.

(Approved by: Gabriel MacGregor, Head of Corporate Law, on behalf of the Council Solicitor & Monitoring Officer)

9. HUMAN RESOURCES IMPACT

- 9.1 There are no human resource considerations relating to this report.

(Approved by: Hansa Bharadia, HR Business Partner)

10. CUSTOMER FOCUS, EQUALITIES, ENVIRONMENTAL, CRIME AND DISORDER REDUCTION & HUMAN RIGHTS IMPACTS

- 10.1 Any impacts in relation to these areas are detailed in the strategic and departmental risk register. The process of managing risk through the risk register mechanism ensures that all impacts are considered and managed.

11. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

- 11.1 The publicity requirements for the financial statements referred to in this report mean that they will for part of the Council's Publication Scheme maintained under the Freedom of Information (FOI) Act.

CONTACT OFFICER:

Richard Simpson (Director of Financial & Assets and S151 Officer)

BACKGROUND DOCUMENTS:

None