

<b>REPORT TO:</b>	<b>GENERAL PURPOSES &amp; AUDIT COMMITTEE</b> <b>11 July 2019</b>
<b>SUBJECT:</b>	<b>Internal Audit Review of Effectiveness 2018/19</b>
<b>LEAD OFFICER:</b>	<b>Director of Finance, Investment &amp; Risk (Interim Section 151 Officer)</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<p>The Council is required by the Audit and Account Regulations 2015 to review the effectiveness of the Council's Internal Audit function when preparing the Annual Governance Statement 2018/19. The Annual Governance Statement is published alongside the Annual Accounts.</p>	
<b>FINANCIAL SUMMARY:</b> The Internal Audit contract for 2018/19 was a fixed price contract of £377,280 and appropriate provision was made within the budget for 2018/19.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO:</b> N/A	

## **1. RECOMMENDATION**

- The Committee is asked to review and comment on the Director of Finance, Investment & Risk (interim Section 151 Officer)'s assessment of the internal audit function.

## **2. EXECUTIVE SUMMARY**

2.1 This report details the Director of Finance, Investment & Risk (Section 151 Officer)'s review of the effectiveness of the Council's internal audit. In assessing Internal Audit's effectiveness the Council has used the following criteria and sources of information:

- Public Sector Internal Audit Standards
- Internal Audit performance
- Stakeholders Feedback
- External Audit opinion.

## **3. System of review**

3.1 The Accounts and Audit Regulations 2015 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 in ensuring it can place reliance on the Council's internal control systems.

3.3 The Director of Finance, Investment & Risk (interim 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 contract for internal audit services was re-let in April 2018 for a period of six years with an option for a two year extension.

3.5 A peer review by another London Borough's Head of Internal Audit was conducted during the course of 2015/16 to assess the extent to which the Council's internal audit service complied with the Public Sector Internal Audit Standards. This showed that at that time the Council's Internal Audit service 'Generally Conformed' to the standards and details were reported to this committee at the time. The Public Sector Internal Audit Standards require that an external review is carried out at least every 5 years.

## **4. Internal Audit Performance 2018/19**

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 90% 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 2014/15 through to 2018/19.

**Table 1: Implementation of Audit Recommendations to date**

Performance Objective	Target	Performance 2014/15	Performance 2015/16 (to date*)	Performance 2016/17 (to date*)	Performance 2017-18 (to date*)	Performance 2018/19 (to date*)
Percentage of priority one recommendation implemented at the time of the follow up audit	90%	100%	91%	98%	92%	78%
Percentage of all recommendations implemented at the time of the follow up audit	80%	89%	88%	87%	88%	72%

\* Audits are still being followed up for each of these years, therefore the percentage will change.

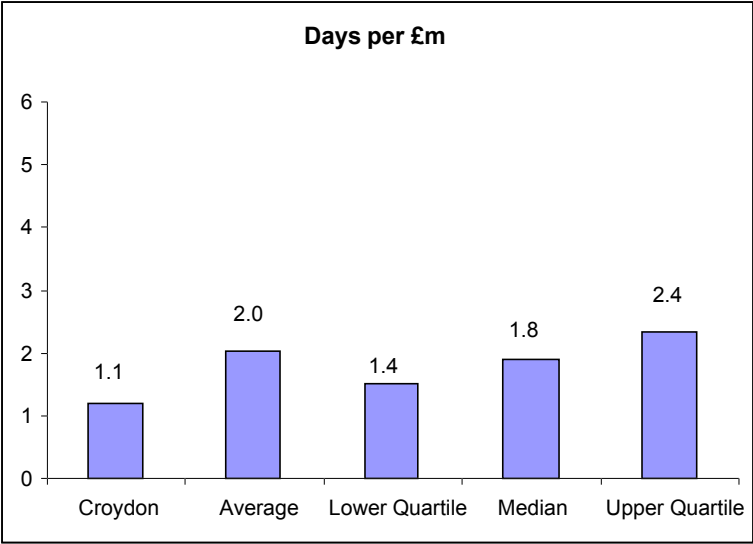
4.3 Table 2 details the Internal Audit service performance against key targets for 2018/19. Delivering 100% of the audit plan is an excellent performance.

**Table 2: Internal Audit Performance**

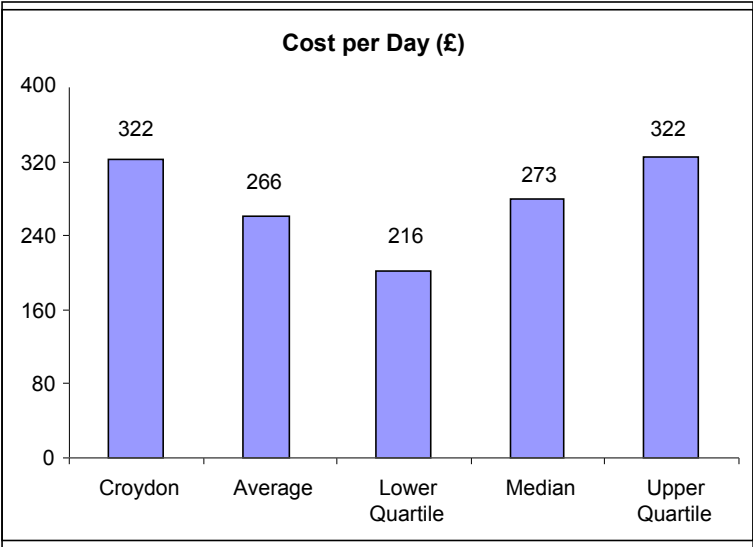
Performance Objective	Annual Target	Annual Performance	RAG
% of planned 2018/19 audit plan delivered	100%	<b>100%</b>	<b>G</b>
Number of 2018/19 draft reports issued	82	<b>82</b>	<b>G</b>
% of draft reports issued within 2 weeks of exit meeting with the Client	85%	<b>89%</b>	<b>G</b>
% of staff with full qualifications engaged on audit	40%	<b>41%</b>	<b>G</b>

4.4 To ensure the Council continuously improves its Internal Audit service, the Council participated in the CIPFA Audit Benchmarking Club 2018. A range of performance data and information relating to Internal Audit cost and audit coverage was compared to 14 unitary authorities within the benchmarking club from across England & Wales. The headlines were that the Council was below average in relation to the number of audit days per £m gross turnover and reasonable in the cost per chargeable day. These resulted in a better than average audit cost per £m gross turnover.

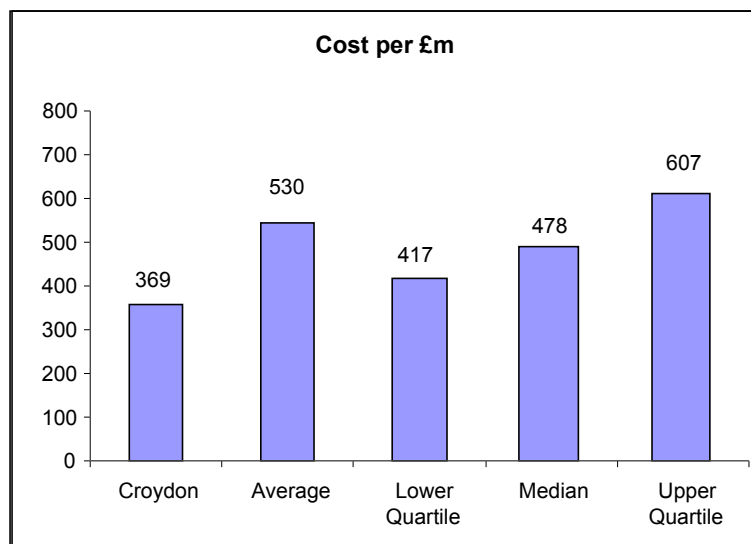
4.5 The performance for 2017/18 is shown in the following graphs



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



This shows the cost of each day of internal audit activity. Croydon is in line with the upper quartile, reflecting the fact that costs are generally higher in London than the rest of the country.



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

## 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 disappointing 15% response rate for audits carried out in 2018/19. This is down from the previous year (17%). The summary results are shown in table 3.

**Table 3: Customer satisfaction**

	2017/18 Good or Very Good	2018/19 Good or Very Good
Usefulness of the audit	88%	100%
Effectiveness of audit in covering key areas	94%	100%
Duration of audit	88%	82%
Feedback of findings and the opportunity to provide explanations	88%	91%
Presentation & Clarity of reports	94%	100%
Accuracy of findings in audit reports	88%	82%
Value of the report and the recommendations	88%	100%
Assessment of auditors knowledge	88%	91%
Assessment of auditors professionalism	94%	91%
Accessibility of the auditor and the audit service	94%	91%

5.2 The overall score for 2018/19 was **92%** which is similar to last year (90%). This compares with 75% when we started to measure in 2006/07.

5.3 Where adverse comments are received these are followed up individually with the auditee to identify if there are learning points in relation to the individual auditor, a specific audit, or the audit process in general.

## **6. Public Sector Internal Audit Standards (PSIAS)**

- 6.1 The PSIAS require that “external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.”
- 6.2 Such an assessment was carried out in early 2016 by the Head of Internal Audit at the London Borough of Harrow. Her qualifications for conducting this review are: She is a member of Chartered Institute of Internal Auditors with 32 years experience of local government internal audit including 25 years experience in internal audit management. This was organized as part of the London Audit Group’s peer review group which includes most of the 33 London Boroughs.
- 6.6 The review concluded that: **Based on the work carried out it can be confirmed that internal audit at the London Borough of Croydon GENERALLY CONFORMS with the UK Public Sector Internal Audit Standards.**
- 6.7 More recently, Croydon Council’s head of internal Audit has carried out a self-assessment which confirms that the service still GENERALLY CONFORMS with the standards.

## **7. External Audit**

- 7.1 As part of their interim audit work, the council’s external auditor gave the following report on internal audit to this committee at its meeting in March 2016:

“We have completed a high level review of internal audit’s overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also reviewed internal audit’s work on your key financial systems to date.”

“Overall, we have concluded that the internal audit service provides an independent and satisfactory service and that internal audit work contributes to an effective internal control environment.”

## **8. Conclusion**

- 8.1 A comparison of the benchmarking indicators with the performance and impact indicators demonstrates a cost effective service delivering value for money.

## **9. FINANCIAL & RISK CONSIDERATIONS**

- 9.1 The Internal Audit contract for 2018/19 was a fixed price contract of £377,280 and appropriate provision was made within the budget for 2018/19. There are no additional risk considerations than those within the report.

(Approved by: Ian Geary, Head of Finance, Resources & Accountancy)

## **10. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 10.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the s151 Officer's Internal Audit review will assist the Council to meet the requirements of Regulation 3 Accounts and Audit Regulations 2015.

(Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

## **11. HUMAN RESOURCES IMPACT**

- 11.1 There are no immediate human resource considerations arising from this report for LBC employees or staff.

(Approved by: Gillian Bevan, Head of HR for Resources)

## **12. CUSTOMER FOCUS, EQUALITIES, ENVIRONMENTAL, CRIME AND DISORDER REDUCTION & HUMAN RIGHTS IMPACTS**

- 12.1 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.

## **13. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 13.1 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.

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**CONTACT OFFICER:** Lisa Taylor, Director of Finance, Investment & Risk (interim Section 151 Officer)