

CAMBRIDGE CITY COUNCIL

REPORT OF: Director of Business Transformation

TO: Civic Affairs Committee

25 June 2014

WARDS: All

INTERNAL AUDIT: REVIEW OF EFFECTIVENESS 2013 / 2014

1 INTRODUCTION

- 1.1 In accordance with the requirements of the Accounts and Audit Regulations 2011 the Council conducts an annual review of the effectiveness of Internal Audit. This is to be considered as part of its governance assurance processes, including the production of the Annual Governance Statement.

2 RECOMMENDATION

- 2.1 Members are requested to consider and comment on the Review of Effectiveness.

3 OVERALL OPINION

- 3.1 The report demonstrates that the Council has an effective system of Internal Audit including a policy framework, Internal Audit function, designated audit committee and effective management engagement.**

4 INTERNAL AUDIT EFFECTIVENESS

- 4.1 The Accounts and Audit Regulations 2011 require all Councils to annually review the effectiveness of its Internal Audit and to present the results of that review to the appropriate committee.
- 4.2 An assessment of Internal Audit has been carried out which is presented for consideration by this Committee. It contains an opinion on the effectiveness of the service including self-assessments against a number of publications, these include:
- “*Public Sector Internal Audit Standards*”. These standards replace the “*Code of Practice for Internal Audit in Local Government in the UK (CIPFA, 2006)*”. While they were only introduced on 1 April 2013, it has been used in order that any actions requiring conformity can be established early on and appropriate plans put in place; and
 - The “*Statement on the Role of the Head of Internal Audit in Local Government*” (CIPFA, 2010).

- 4.3 The review was undertaken by the Head of Internal Audit and the report (**Appendix 1**) is presented for Members' consideration and comment.
- 4.4 To further ensure appropriate independent scrutiny of the service, an external assessment will be undertaken to validate the assessment and this is planned for 2015.

5 CONCLUSION

- 5.1 Consideration of a range of views on the system of Internal Audit operating within the Council during 2013 / 2014 indicates that this has been both appropriate and effective. The associated Action Plan has been established in order to continue to monitor the compliance with the Standards.

6 IMPLICATIONS

- (a) **Financial Implications:** None
- (b) **Staffing Implications:** None
- (c) **Equal Opportunities Implications:** None
- (d) **Environmental Implications:** None
- (e) **Community Safety Implications:** None

BACKGROUND PAPERS: The following are the background papers that were used in the preparation of this report:

- Internal Audit Plans
- Internal Audit reports issued
- Internal Audit Terms of Reference
- Accounts and Audit (Amendment) (England) Regulations 2011
- Statement on the Role of the Head of Internal Audit in Local Government, CIPFA
- Public Sector Internal Audit Standards, IIA / CIPFA

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HEAD OF INTERNAL AUDIT

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

2013 / 2014

ANNUAL REVIEW

- 1. BACKGROUND**
- 2. CURRENT ARRANGEMENTS FOR INTERNAL AUDIT**
- 3. BASIS FOR OPINION**
 - Staff Resources
 - Training and Experience
 - External Audit Opinion
 - Public Sector Internal Audit Standards
 - Statement of Role of Head of Audit
 - Risk Management and Governance Arrangements
 - Civic Affairs Committee
- 4. CONCLUSION**

APPENDICES

- A** IIA / CIPFA: Public Sector Internal Audit Standards (Action Plan)

1 BACKGROUND

- 1.1 The Accounts and Audit Regulations 2011 require all Councils to annually review the effectiveness of Internal Audit and to present the results of that review to the appropriate committee.
- 1.2 An assessment of Internal Audit has been carried out which is presented for consideration by Civic Affairs Committee. It contains an opinion on the effectiveness of the Internal Audit Service including a self-assessment against "*The Public Sector Internal Audit Standards 2013*". Progress against the previously established Action Plan is included.

2 CURRENT ARRANGEMENTS FOR INTERNAL AUDIT

- 2.1 Internal Audit at Cambridge is provided through an in-house team which is part of the Business Transformation Department, headed up by the (shared) Head of Internal Audit (HIA). It works closely with others in the Council tasked with assurance, governance and risk management but retains a separate identity in relation to the performance of Internal Audit and investigation functions for the Council.
- 2.2 The HIA reports directly to the Director of Business Transformation but also has direct access, if required to the Chief Executive, Leader of the Council, Executive Members and the Chair of Civic Affairs Committee.
- 2.3 At the start of 2013 / 2014 the in-house team comprised 6.03 fte approved posts including the HIA, and a number of changes were made in the year reducing the headcount to 4.29 fte. Due to its size, the section is not structured around client / service based teams or Council directorates. This has allowed the opportunity for auditors to develop a depth of knowledge / relationships with customers in relation to the work of a number of services rather than specific areas. However, a number of officers have specific technical attributes that provide the organisation with a "first point of contact". This provides some continuity to the customer who can regularly deal with the same auditor over a period of time.
- 2.4 The overarching strategy for the service is set out in the Annual Audit Plan (approved in March 2014 by Civic Affairs Committee) and this is reiterated in its Terms of Reference. Arrangements for investigation work are defined in the Council's policies and procedures for Anti-Fraud and Whistleblowing and these are reported on in the Annual Report on the Prevention of Fraud and Corruption. Internal Audit work follows recognised best practice standards and is independently reviewed by External Audit.
- 2.5 To examine the system of internal audit, this review considered several key elements and assessed their contribution in enabling the section to fulfil its responsibilities. These were:
 - The structure and resourcing level, including qualifications and experience of the audit team;
 - The extent of compliance with the Public Sector Internal Audit Standards;

- Comparison with the Statement on the Role of the Head of Internal Audit;
- Ensuring that the Section successfully audits the most appropriate areas on a prioritised (risk) basis; and
- The performance of the audit team (details of which are reported in the Head of Internal Audit Opinion report).

3 BASIS FOR OPINION

3.1 Staff Resources

During 2013 / 2014 there were a number of changes made to the structure, namely:

- April 2013. Ongoing vacancy of a Senior Auditor post (0.6 fte);
- July 2013. South Cambridgeshire DC joined the shared management arrangements, reducing the HIA to 40%.
- August 2013. Resignation of a Senior Auditor (1.0 fte);
- August 2013. Resignation of an Audit Assistant (1.0 fte);
- September 2013. Review of internal audit structure, resulting in the deletion of an Audit Assistant post, deletion of the ongoing vacant Senior Auditor post and agreement to fill the full time post;
- September 2013 – February 2014. Use of agency / temporary staff to continue to backfill the agreed audit plan until successful recruitment.
- October 2013. A Senior Auditor returns from maternity leave.
- February 2014. Senior Auditor post advertised¹

3.2 Training and Experience

3.2.1 Training plans encourage ongoing improvement via both career progression and continuing professional development. The following information about qualifications and experience of staff available for audit work demonstrates the significant experience and rich qualification mix in the Section.

Audit Experience	Cambridge City Council service ranges from a minimum of 7 years' service within Internal Audit to over 25 years Previous work experience is with external auditors, banks and other local authorities.
Qualifications	Qualified Accountants – CIPFA (x2); ACCA (x1) Institute of Internal Auditors – Diploma (x1); Certificate (x1)

¹ Subsequent appointment made in April 2014

3.2.2 The level of experience of audit staff remained constant during the year. There was some staff rotation to enable a breadth of experience and for continuing professional development and this will continue based on operational need and the priority and timing of work. This approach provides increased flexibility to meet audit needs, particularly in time specific and statutory audits.

3.3 External Audit Opinion

3.3.1 External Audit comment in the Annual Audit Letter on the adequacy, or otherwise, of Internal Audit as well as other governance arrangements. The latest report taken to Civic Affairs Committee concluded that they could place reliance on the work of Internal Audit.

3.3.2 Liaison with the external auditor offers the opportunity to share information and to inform risk assessments to allow for the optimum use of finite resources.

3.4 Public Sector Internal Audit Standards (PSIAS)

3.4.1 PSIAS came into effect from 1 April 2013 and details of the new standards were discussed on the Civic Affairs Committee agenda in March 2013. Specific guidelines relating to their adoption by Local Government have been used to provide a checklist for establishing the degree of compliance. Analysis is shown in **Appendix A**, together with a summary improvement plan.

3.4.2 Following the review, in accordance with standard 1322, significant deviations must be reported to those charged with governance. It is pleasing to note that only minor issues have been identified – such as regular reviews of our procedures (which are undertaken anyway) and the new requirement of obtaining an external appraisal of the service over a 5 year period. It can be concluded therefore that there are **no significant areas** to be addressed.

3.5 Statement on the Role of the Head of Internal Audit in Local Government

3.5.1 CIPFA published its Statement on the role of the Head of Internal Audit (HIA) in Local Government in December 2010 following widespread consultation. The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure Internal Audit against. As well as articulating the core responsibilities of the HIA, it also identifies the personal and professional skills needed.

3.5.2 Based on five principles, it defines the core activities and behaviours that belong to the role of the HIA and the organisational arrangements needed to support them. For each principle it sets out the governance arrangements required to ensure that HIAs are able to operate effectively and perform their core duties. It also sets out the core responsibilities of the HIA.

3.5.3 There is a series of attributes and personal qualities which sit below these principles, some subjective. A full review against the standards was undertaken and reported to Civic Affairs in June 2012. This indicated that the role of the Head of Internal Audit at Cambridge met the underlying aims of the five principles. Minor improvements were identified and these are also highlighted within the new PSIAS.

3.6 Risk Management and Governance Arrangements

- 3.6.1 Prioritisation of the work of Internal Audit is achieved by the development and delivery of an annual risk based Audit Plan. This describes the assurance plans for the Section and includes some capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and risk based work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources.
- 3.6.2 The Section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The Section reviews corporate and departmental risk registers, business plans and discusses Council objectives and priorities with Directors and Heads of Service to assess assurance needs. The Audit Plan is discussed and approved by Civic Affairs Committee in March each year.
- 3.6.3 It is considered that the 2013 / 2014 Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with senior management and Committee. During the year some audit work was deferred or cancelled due to the timing of the audits. The impact of budget cuts and organisational change was reflected in the reassessment of the work and alternative means of gaining assurance where appropriate.
- 3.6.4 For 2013 / 2014, the agreed Audit Plan again shows links to the corporate aims / objectives in order to clearly demonstrate how audit work relates to the achievement of Council objectives.

3.7 Civic Affairs Committee

- 3.7.1 The system of Internal Audit includes the role of the "Audit Committee" and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Committee remained the same during 2013 / 2014 with continuity of membership assisting in maintaining an effective committee. All members are also provided with access to audit reports through the secure portal set up on the intranet. This provides for increased transparency of the audit service delivered as well as providing assurance that governance arrangements are operating appropriately within the organisation.

4 CONCLUSION

Consideration of a range of views on the effectiveness of Internal Audit operating within the Council during 2013 / 2014 indicates that this has been both appropriate and effective. The report demonstrates that the Council has an effective system of Internal Audit including a policy framework, Internal Audit function, audit committee and effective management engagement.

COMPLIANCE AND QUALITY IMPROVEMENT PLAN (PSIAS 1320)

For the purposes of the review, the following definitions are used:

- Chief Audit Executive (CAE) = Head of Internal Audit
- Board = Civic Affairs Committee
- Senior Management = Strategic Leadership Team

Reference	STANDARD	COMMENTARY	ACTION
1000	Purpose, Authority and Responsibility		
	The purpose, authority and responsibility of Internal Audit activity must be defined in an Internal Audit charter, consistent with the <i>Definition of Internal Auditing</i> , the <i>Code of Ethics</i> and the <i>Standards</i> . This should be approved by Senior Management and the Board.	The Terms of Reference are regularly reviewed the last update being in December 2012.	The Terms of Reference and Audit Manual will be compared with the new Standards to ensure compliance. Once reviewed it will be submitted to senior management and the Board for approval. Progress: A revised Audit Charter (replacing the Terms of Reference) together with a Code of Ethics for Internal Audit was referred to Civic Affairs Committee in March 2014 as part of the Audit Plan papers.
1110	Organisational Independence		
	The CAE must establish effective communication links with the Chair of the Board and Chief Executive	There is no scheduled meeting between the Civic Affairs Committee chair and the HoIA. Formal meetings are part of the committee cycle throughout the year. Access is available to the Chief Executive on request.	Agree arrangements for liaison / communication meetings between HoIA and Civic Affairs Chair (and opposition spokesperson) Progress: Following change in Committee membership, this will be resurrected.
1220	Due Professional Care		
	Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.	The Audit Manual sets out the standards individual auditors must meet in their allocated assignments. The Manual is based on the previous Code of Practice and therefore needs to be reviewed to take account of any changes required to meet the PSIAS and to reflect improvement made locally since it was last reviewed.	Review and update the Audit Manual Progress: Ongoing reviews throughout the year enable the Audit Manual to remain up-to-date.

Reference	STANDARD	COMMENTARY	ACTION
1300	Quality Assurance and Improvement Programme		
	The CAE must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.	The objective is to provide for an assessment of compliance with the PSIAS, together with efficiency and effectiveness of internal audit activity. Previous annual reviews against Code of Practice have been referred to Civic Affairs. The programme should also identify opportunities for improvement	This appendix is to be referred to as the Improvement Programme. Progress: Action is ongoing at delivering the improvements.
1312	External Assessments		
	External assessments must be conducted at least once every 5 years by a qualified independent assessor from outside the organisation. The CAE must discuss with the Board: <ul style="list-style-type: none"> - The form of external assessments. - The qualifications / independence of the external assessor – including conflicts of interest. 	NEW REQUIREMENT. External assessment can be either “full” assessment or self-assessment with independent external evaluation. Ongoing discussions with other local authorities within the county to look to undertake a peer review in order to minimise costs.	Proposals will be submitted to Civic Affairs detailing future arrangements and timescales agreed. Progress: We are looking to establish consistency across the partnership and it is proposed to look at external validation in 2015.
2040	Policies and Procedures		
	The CAE must establish policies/procedures to guide the internal audit activity.	The Audit Manual sets out the necessary policies and procedures.	As per Standard 1220.
2120	Risk Management		
2120.A2	The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.	Fraud survey reviewed.	Proactive work will be facilitated once IDEA software is obtained later in 2013. (This is an interrogation software package, which will allow various tests on data sets across the authority). Progress: Software obtained March 2014. Liaison with other Cambridgeshire authorities to establish training arrangements, work routines etc. This provides for the opportunity for continuous auditing of Council datasets rather than just reliance on the National Fraud Initiative.