

20 JUNE 2016

**TITLE OF REPORT: Review of the Effectiveness of
Internal Audit 2015/16**

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. To ask the Committee to review the effectiveness of internal audit within the Council for 2015/16.

Background

- 2 The Accounts and Audit Regulations 2015 require all authorities to “conduct an annual review of the effectiveness of internal audit and for a committee of the body to consider its findings” and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement. Best practice highlights that “internal audit”, in this context, includes not only the Internal Audit Service but also the Audit and Standards Committee in 2015/16.
- 3 The review ensures that the opinion of the Chief Internal Auditor given in the Internal Audit Annual Report, included as a separate report on this agenda, can be relied upon as a key source of evidence in the Annual Governance Statement.
- 4 The Strategic Director, Corporate Resources has delegated responsibility to maintain an adequate internal audit of the Council’s financial affairs as required by Section 151 of the Local Government Act 1972.
- 5 The review of the effectiveness of the system of Internal Audit for 2015/16 has been undertaken by the Council’s Internal Control Group, which includes the Strategic Directors of Corporate Resources and Corporate Services and Governance. This review is based upon the following: -
 - Self-assessment against Public Sector Internal Audit Standards (PSIAS).
 - Self-assessment against the CIPFA Statement on the Role of the Head of Internal Audit.
 - Reliance placed upon Internal Audit by the Council’s external auditor.
 - Assessment of the effectiveness of the Audit and Standards Committee.
 - Relevant performance information.

Self-assessment against PSIAS

- 6 For the year ended 31 March 2016 the Internal Audit Service has been assessed against current Internal Audit practices and compliance with professional standards. This assessment was undertaken by external audit. During 2014/15, the Internal Audit Service was assessed against current Internal Audit practices and compliance with professional standards as set out in PSIAS by external auditors, Mazars.
- 7 The standards have 4 areas as detailed below:
- Definition of Internal Auditing
 - Code of Ethics
 - Attribute Standards
 - Performance Standards
- 8 As previously reported to Audit and Standards Committee on 26 January 2015, the outcome of the assessment was positive and found that the Internal Audit Service is substantially compliant with the standards in all significant aspects and that there are no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of the system of internal control.
- 9 A number of minor recommendations were made following the external assessment and the Chief Internal Auditor has undertaken a self-assessment during 2015/16 against the recommendations the outcome of this is shown at Appendix A.

Self-Assessment against the CIPFA Statement on the Role of the Head of Internal Audit

- 10 This assessment requires an evaluation of how the five principles of this statement are embedded within the Council and the Chief Internal Auditor's skills and personal experience. The statement has common themes with the PSIAS. The self-assessment found arrangements to be compliant with the statement and a copy is attached at Appendix B.

Reliance Placed Upon Internal Audit by the Council's External Auditor

- 11 A joint working protocol is in place between Internal Audit and the Council's external auditor, Mazars. Wherever possible the external auditor will seek to rely upon the work of Internal Audit in discharging their own responsibilities. During 2014/15 Mazars did not place specific reliance on any of Internal Audit's work but through regular monthly meetings work has been co-ordinated wherever possible and intelligence shared.

Assessment of the Effectiveness of the Audit and Standards Committee

- 12 CIPFA's guidance "Audit Committees – Practical Guidance for Local Authorities (2013)" includes a checklist for measuring the effectiveness of the Council's Audit and Standards Committee. This assesses in more detail some of the areas examined in the assessment against PSIAS.

- 13 A review, based on this guidance, was carried out by the Council's Internal Control Group on 18 May 2016. This covered the following areas:
- Purpose and Governance
 - Functions of the Committee
 - Membership and Support
 - Effectiveness of the Committee
- 14 Evidence includes the Constitution and the Audit and Standards Committee's overseeing of risk management, counter-fraud arrangements and the Annual Governance Statement. This review found the Audit and Standards Committee to be operating effectively with some minor areas for action. A copy of the assessment is attached at Appendix C.

Performance Information

- 15 Performance monitoring of the work carried out by the Internal Audit Service provides further assurance that the system of Internal Audit is operating effectively and adding value to the Council as a whole. During 2015/16 The following key performance indicators are relevant:
- 91.3% of audits were completed within budgeted time against a target of 90%.
 - 83% of the total number of planned audits for the year have been completed against an annual target of 90%.
 - Productive or chargeable time was recorded at 71% of overall time against an annual target of 70% of overall time.
 - Twenty one customer satisfaction questionnaires have been issued in the period, of which 15 have been returned, 2 are overdue. Of the 15 customer satisfaction questionnaires returned, 14 recorded satisfaction at 100% against a target range of 97.5 – 99%. However, one respondent scored satisfaction at 58% and further work will be undertaken to establish what the issues were with the specific audit and why it was felt that the audit didn't add value.
 - The target for implementation of audit recommendations is 90%. The current rate of implementation of all recommendation is 97%, with 97% of all medium priority and 96% of all high priority recommendations having been implemented.
- 16 As previously reported to the Audit and Standards Committee on 5 October 2015, benchmarking continues to highlight the Internal Audit Service as being low cost with high productivity in comparison with other local authorities. The net cost per chargeable day for Gateshead Council was £286 compared to an average of £324, with 182 chargeable days compared to an average of 179 days demonstrating that the Council is receiving value for money from its Internal Audit Service.

Opinion of the Effectiveness of Internal Audit

- 17 Based on the review detailed above the Council's Internal Control Group concluded that the Council's System of Internal Audit is operating effectively.

Recommendations

- 18 The Committee is asked to consider and endorse the opinion that the Council's system of internal audit is operating effectively.

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