

Committee: Performance & Audit Committee

Agenda Item

Date: 22 November 2012

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Title: Internal Audit Benchmarking (incorporating Internal Audit Strategy and Charter & Terms of Reference 2012/13)

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Item for approval

Summary

This report informs Members of the results of the Internal Audit Benchmarking exercise requested at the August meeting of this committee.

Recommendations

1. That members approve the revised Internal Audit Strategy 2012/13 presented to the August meeting of this committee.
2. That members approve the revised Internal Audit Charter and Terms of Reference 2012/13 presented to the August meeting of this committee.

Financial Implications

3. None. There are no costs associated with the recommendations in this report.

Background Papers

4. None

Impact

- 5.

Communication/Consultation	The Internal Audit Strategy 2012/13 and Internal Audit Charter & Terms of Reference 2012/13 have been circulated to the Members and to Council's Corporate Management Team
Community Safety	none
Equalities	none
Health and Safety	none
Human Rights/Legal	none

Implications	
Sustainability	none
Ward-specific impacts	none
Workforce/Workplace	none

Situation

6. Internal Audit is statutory service that forms part of the Council's Corporate Governance Framework and is responsible for conducting an objective and independent appraisal of all of the Council's activities, financial and otherwise, through the internal audit of the Council's key financial systems and of the systems of internal control in all of the services provided by the Council.
7. To be able to provide assurance to the Council in its accounting records, annual Internal Audits are carried out on 10 key financial systems; a further 6 key financial systems are audited at least once every three years.
8. Members approval of the Internal Audit Strategy 2012/13 and the Internal Audit Charter & Terms of Reference 2012/13 was deferred at the August 2012 meeting of this committee until such time as benchmarking information could be brought forward comparing Uttlesford's internal audit function with that of other councils in terms of cost, team size and work programme.

Statutory Requirement for Internal Audit

9. Part 2 Regulation 6 of the Accounts and Audit (England) Regulations 2011 requires every local authority to maintain an adequate and effective internal audit of its accounting records and of its systems of internal control.

CIPFA Requirement

10. In 2006 The Chartered Institute of Public Finance Accountancy (CIPFA) published its Code of Practice for Internal Audit in Local Government in the UK.
11. The Council has adopted the CIPFA Code of Practice and is therefore expected to comply with the requirements set out in the Code. The current Code sets out the definitions and principles (the standards) which establish how a professional internal audit service should operate in the modern local government context. It provides a framework for measurement, management and monitoring of the function. CIPFA and the Chartered Institute of Internal Auditors (CIIA) are currently working together to produce new Internal Audit Standards specifically for the UK Public Sector organisations.

External Auditor Requirements

12. Until 2011/12 the Council had a managed audit agreement with its then External Auditor, the Audit Commission, who placed reliance on Internal Audit work in order to

form their opinion on the Authority's accounts. The Audit Commission were required to undertake specific control testing on material systems identified as part of their audit of the council's accounts. Protocols were agreed between the Internal and External Auditors as part of a managed audit agreement to define the areas and type of additional control testing Internal Audit carried out during their own key financial systems audits thus avoiding duplication of work wherever possible.

13. The Audit Commission had the right to charge extra in fees if Internal Audit was not of an acceptable standard on which they could place reliance. In practice the Audit Commission has never needed to charge any extra fees to as they have been able to place reliance on the quality of its Internal Audit work.
14. Ernst & Young have been appointed as the External Auditors for 2012/13 and the Internal Audit Manager is in the process of liaising with them to agree a new Audit Protocol and determine the new key financial audit testing to be undertaken under any new managed audit agreement.

Discretionary Key Activities

15. The CIPFA Code identifies that the scope of Internal Audit's remit includes the organisation's entire control environment.
16. Internal Audit is therefore responsible for providing assurance on controls within the Council's non-key financial systems, however this does not mean that internal audit must cover every one of the Council's systems every year. In practice, the planned scope of its work is concentrated on those systems comprising the highest risk to the council achieving its objectives.
17. Internal Audit can also, where resources and skills exist, provide additional services, including fraud-related and consultancy work.

IA Manager Requirements

18. The Internal Audit Manager is required to identify all systems operating within the Council in order to establish the full size of the potential audit area to be covered. The Internal Audit Manager has the responsibility for determining the priorities of the Internal Audit service, by reference to the Corporate Plan, Corporate and Directorate Risk Registers, the Corporate Management Team (CMT), the Performance & Audit Committee and other Members and the Council's External Auditors; this informs the Internal Audit Strategic Programme. Any restriction on scope of coverage would be a concern to internal audit and the organisation.
19. The CIPFA Code requires the Head of Internal Audit to produce an audit strategy and in recognition of the Independence of Internal Audit that the strategy should be approved, but not directed, by the audit committee. The Internal Audit Strategy and Strategic Programme are revised annually to take into account the new priorities and risks of the authority.
20. The CIPFA Code requires the Head of Internal Audit to prepare a risk-based audit plan designed to implement the strategy. In preparing the plan, the Head of Internal Audit should take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes.

21. All areas identified in the Internal Audit Strategy were subject to an audit needs risk assessment to identify their risk level and if they are were be included in the 2012/13 Internal Audit Programme. This is a rolling programme of planned audit work expected to be undertaken during the year that is subject to regular review and updating at strategic points throughout the year.

Benchmarking & Audit Plan Comparison

22. In response to the request from Members at the August meeting of the Committee, a benchmarking exercise has been carried into the cost of Internal Audits; the size of Internal Audits and systems covered by Internal Audit.

23. In the exercise Uttlesford DC Internal Audit has been benchmarked against the in-house Internal Audit sections of 9 other district councils using information provided by their audit managers and/or directly from their websites.

24. The 9 councils were selected based on the availability and transparency of the Internal Audit and supplementary data. By including different types of district councils a broader and more reliable picture is obtained.

25. In addition, a survey of the method of Internal Audit provision by all councils in Essex, Suffolk, Hertfordshire and Cambridgeshire has been undertaken.

Financial Bench Marking from Original Budgets 2012/13 (fig 1)

	Council Tax requirement	IA Budget	Budget %age of CT requirement	IA chargeable audit days	Daily chargeable rate	Housing Stock	
UTTLESFORD DC	£4,972,771	£104,270	2.10%	445	£234	y	
				510	£204		revised 07/12
				530	£197		revised 09/12
DAVENTRY DC	£3,533,040	£117,606	3.30%	384	£306	n	
EPPING FOREST DC	£8,167,592	£239,090	2.90%	775	£309	y	
FENLAND DC	£7,492,584	£107,150	1.40%	415	£258	n	
LICHFIELD DC	£5,769,160	£215,060	3.70%	424	£507	n	
MID DEVON	£5,174,060	£124,060	2.40%	498	£249	y	
ST ALBANS CITY & DC	£10,355,000	£174,350	1.70%	508	£343	y	
TENDRING DC	£7,641,000	*£167,300	*2.2%	*630	*£266	y	* estimate set prior to the results of a tendering process for Internal Audit The tendered figure has not been publically disclosed
TORRIDGE DC	£3,466,116	£96,401	2.80%	348	£277	n	

WARWICK DC	£7,851,257	£189,400	2.40%	435	£435	y	
TOTAL / AVERAGE FOR SAMPLE	£64,422,580 TOTAL	£1,534,697 TOTAL	2.38% AVERAGE	4,862 AVERAGE	£316 AVERAGE		

Audit Team Size (fig 2)

	IA Team Size	Audit Manager/CIA/HIA	Principal Auditor	Senior Auditor	Internal Auditor	IT Auditor	outsourced
UTTLESFORD DC	2.7	1			1.7		
DAVENTRY DC	2.7	1		1	0.7		
EPPING FOREST DC	4.4	1		2	1.4		
FENLAND DC	2.6	1			1.6		
LICHFIELD DC	3.0	0.5	0.5	2			
MID DEVON	2.8	1			1.8		
ST ALBANS CITY & DC	4.0	1			2	1	
TENDRING DC	4.1	0.5	1	1.6	1		<i>actual following tendering exercise; 30 days outsourced for computer audit</i>
TORRIDGE DC	2.0	1		1			<i>£10,984 budget for agency auditors; in addition to this Contract Specialist @ £133-£210 p.d</i>
WARWICK DC	2.6	1			1.6		

26. When benchmarked against the 9 councils in the exercise, Uttlesford DC Internal Audit:

- has the lowest daily chargeable rate (fig 1);
- has the 2nd lowest budget (fig 1);
- is the 3rd lowest in terms of Budget %age of CT requirement (fig 1) and
- is the equal 4th lowest in terms of team size (fig 2)

Audit Plan Comparison

27. Audit Plan areas for 2012/13 for the ten councils in the benchmarking exercise are reproduced at appendix A.

28. All of the councils in the exercise follow the CIPFA Code and have identified their own key financial systems (key systems/fundamentals/core audits/core financials) which are audited annually and as part of managed audit agreements with their respective External Auditors. The 13 Key Financial systems audits on the revised

UDC Internal Audit Programme 2012/13 are also being audited by the other council in the exercise during 2012/13.

29. The 'non-key financial' systems being audited in 2012/13 by the councils in the exercise reflect their compliance with the CIPFA Code requirement to provide internal audit of the systems of internal control in all of their services and are good examples of the multiple and diverse nature of the services district councils provide to their citizens.

30. 23 out of the 26 non-key financial audits on the revised UDC Internal Audit Programme 2012/13 are areas being audited in 2012/13 by at least one of the other councils in the exercise.

31. The 3 areas not being audited in 2012/13 by at least one of the other councils in the exercise are:

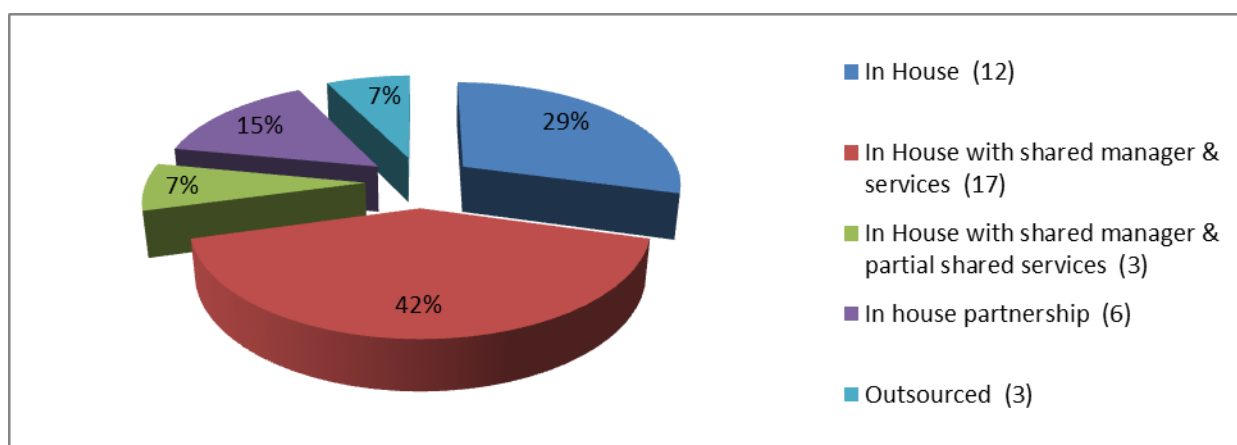
- **Access to Service** – originally programme to be combined with the Customer Service Centre, separated into 2 audits following consultation with management;
- **Homelessness** – historically treated as a separate audit from Housing Allocations at UDC;
- **Voids** – previously treated as part of the Housing Allocations audit. 2012/13 is follow-up work specifically on void turnaround times.

Internal Audit Provision

32. There are a total of 41 local authorities in Essex, Suffolk, Hertfordshire and Cambridgeshire. A full breakdown of the methods of provision is attached in Appendix A

33. There are 5 methods of Internal Audit provision in operation amongst these authorities:

- In House – 12 authorities
- In House with shared manager & services – 17 authorities
- In House with shared manager and partial shared services – 3 authorities
- In house partnership – comprising 6 authorities
- Outsourced – 3 authorities



Potential partnership / shared services for Internal Audit

34. In 2002 a partnership between Uttlesford DC and Stevenage BC was established to provide Internal Audit services to the two councils under one Internal Audit Manager. The partnership ended in 2007 when audit management and resource issues proved it would be a more economically viable option to return to a UDC in house Internal Audit Team of 1 Audit Manager and 2 FT auditors.
35. Internal Audit has actively sought alternative potential partners or opportunities for sharing services, most recently with Harlow DC in 2009 and again in 2011 with Epping Forest DC and Broxbourne BC involved in the later informal discussions. After consideration Uttlesford DC concluded that a partnership and/or a shared Internal Audit Manager arrangement with Harlow DC would not provide any resource or financial benefit to Uttlesford DC at that time, a similar conclusion being reached by Epping Forest DC, however Harlow DC and Broxbourne BC have appointed a shared Internal Audit Manager from 01 April 2012.
36. Opportunities for shared audit work and training between the four authorities continue to be being actively pursued, with the possibility of neutral cost audit swaps under consideration for late 2012/13 or 2013/14.

Internal Audit Strategy 2012/13 and Charter & Terms of Reference 2012/13

37. The CIPFA Code requires that:
- the purpose, authority and responsibility of Internal Audit must be formally defined by the organisation in terms of reference consistent with this Code
 - the Head of Internal Audit must produce an audit strategy; this is the high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities
 - the strategy should be approved, but not directed, by the audit committee.
38. We therefore recommend that Members approve the Internal Audit Strategy 2012/13 and the Internal Audit Charter & Terms of Reference presented to them at the August 2012 meeting of this committee.

Risk Analysis

39.

Risk	Likelihood	Impact	Mitigating actions
Adverse External comment if the Internal Audit Practice; Charter & Terms of Reference and Strategy do not comply with the CIPFA Code of	1 = Little or no likelihood Internal Audit function is an integral part of the Council	2 = Some risk or impact Statutory requirement, adverse External Auditor Report	Annual review of Charter & Terms of Reference and Strategy

Practice for Internal Audit in Local Government.			
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- 1 = Little or no risk or impact
- 2 = Some risk or impact – action may be necessary.
- 3 = Significant risk or impact – action required
- 4 = Near certainty of risk occurring, catastrophic effect or failure of project.