

PROJECT DOCUMENTATION

PROJECT UPDATE REPORT

DRAFT

Best value review of internal audit

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1. BACKGROUND

A report was agreed by the Audit Committee on 11 December 2009 which outlined the reasons for undertaking a service review of internal audit and the proposed scope and timescale of a review. On 25 January 2010, a finalised Project Initiation Document (PID) was issued to the Project Board after an initial meeting held 22 January 2010. The PID was also provided to the Audit Committee 5 March 2010. . This draft report provides a summary of the progress made to date with the service review.

2. PROJECT INITIATION DOCUMENT (PID)

The main purpose of the service review of internal audit was to review the performance of internal audit in order to develop a clear strategy setting out a vision for its future role, remit and structure to meet the new challenges facing the Council. The following stages were set out in the PID under section 12 - Project Plan and I have provided an updated position regarding each stage with anticipated completion dates.

	Project Stage	Responsibility	Timetable
1	Environment Scan	Project Team	Completed - March
2	Good Practice Assessment	KPMG	Completed - April
3	Benchmarking Review	KPMG	Completed - May
4	Stakeholder Input	Project Team	June
5	Identify and assess options	Project Team	June/July
6	Recommendations	Project Team	June/July

3. PROJECT STAGES

Set out below is a brief summary of each stage to date,

3.1 Environmental Scan

A workshop was undertaken in order to establish what future issues and challenges face the Council. The following main issues and challenges were identified:

- Government cuts in public sector funding;
- The development of joint working with other public bodies
- Best Value 2; and
- The Council modernisation programme;

The Council modernisation programme Phase 1 and 2 has seen departments reduce from 5 to 4 with some services realigned. Phase 3 has now commenced which involves a review of all services. Preparation for Best Value 2 is high on the Council agenda as is performance management. Externally the council faces government spending cuts which will place pressure on all services regarding finance, resource utilisation and in some cases services will face increased demand from the public. In the future there will be a requirement for joint working between public sector bodies in order to maintain and deliver services to the public. The role of internal audit will be to promote good governance, assess governance and management of existing risks and internal controls, provide advice on proposed developments and build relationships with other internal audit services.

3.2 Good practice

KPMG was tasked to undertake a good practice review comparing the internal audit service against the CIPFA Code of Practice for Internal Audit in Local Government and leading practice principles. The key conclusion arising from this review was that an internal audit function is in place, which is supported by management and delivers its services in accordance with the principles set out in the CIPFA Code of Practice and standards set by the Institute of Internal Auditors.

It was noted that there was one significant aspect of non-compliance with internal standards relating to the absence of a dedicated Head of Internal Audit. In addition to this they noted that there were opportunities to enhance the quality and value of the internal audit service. These relate primarily to:

- Developing the audit universe and strategy to increase coverage of non-financial risks;
- Developing a communication strategy for Internal Audit to raise its profile in areas not traditionally covered in detail by the audit plan;
- Providing Internal Audit staff with audit specific training and developing continuous auditing through the use of IT packages;
- Giving consideration to employing non-finance personnel within the function; and
- Applying more rigour and challenge to documenting processes and identifying risks.

3.3 Benchmarking review

A benchmarking exercise was undertaken by KPMG to establish the performance of the internal audit service in relation to other councils and the other public and private sector organisations. The benchmarking exercise covered cost, structure, staffing and process. More work is required to confirm the results of the benchmarking review. However, their initial results indicate that:

- The budget for internal audit is at an appropriate level for an organisation the size of Argyll & Bute Council and is in line with other local authorities.
- KPMG are in the process of confirming headcount for the section to ensure it is not slightly below the median in comparison to other local authorities.
- The function cannot tolerate dropping below its current headcount without diminishing its capacity to deliver and complete the internal audit plan.
- The methodology and process of internal audit is in line with internal audit standards and is consistent with other organisations. As highlighted in section 3.2 there are opportunities for Internal Audit to improve its overall approach and quality of delivery.

3.4 Stakeholder input

In order to obtain key stakeholder views on the current service and future expectations, a questionnaire was prepared for the following stakeholder groups:

- Members of the Audit Committee;
- Heads of Service and 3rd Tier Managers;
- External Audit; and the
- Strategic Management Team (SMT).

The scoring criteria used was a range from 1 strongly disagree to 5 strongly agree. The only stakeholder group to yet complete the questionnaire is the SMT and this will be done at a meeting in the near future.

3.4.1 Audit Committee - Questionnaire Results

All 6 members of the Audit Committee were sent questionnaires and responses were received from 5. The questionnaire covered 4 main sections Understanding, Skills and Experience, Communication and Performance of Internal Audit. The majority of responses ranged predominately between agree 4 and strongly agree 5. In addition comments were made regarding the mix of staff and skill set available to internal audit. One recipient stated that as they were new to the Audit Committee they had limited knowledge to effectively reply but provided a good overview response. In overall terms the comments received were supportive of internal audit.

3.4.2 Heads of Service and 3rd Tier Managers - Questionnaire Results

A combined questionnaire was constructed for both Heads of Service and 3rd Tier Managers. The questionnaire had 3 sections Planning, Skills and Experience and the Work Programme of internal Audit. The questionnaire was sent to a total of 13 officers split between Heads of Service and 3rd Tier Managers. All responded with the majority of the responses ranging between agree 4 and strongly agree 5 with statements relating to internal audit. Specific comments were made regarding the timely and professional manner in which audits had been carried out for their section. Other comments wished more involvement with Internal Audit on service priorities, risks and wider strategy.

3.4.3 External Audit – Grant Thornton - Questionnaire Results

A questionnaire was prepared for external audit as a key stakeholder in the work of internal audit. The questionnaire had 3 sections covering Understanding, Skills and Experience and the Work Programme of Internal Audit. The responses received for Understanding were broadly supportive of internal audit. Regarding the section covering Skills and Experience, external audit recorded their disagreement within this section, commenting on there being no Head of Internal Audit and ongoing staff pressures. They stated that their response was based on the current mix of staff, reliance on contract audit staff and KPMG for delivery of the audit plan. The final section of the questionnaire asked questions related to the Work Programme of Internal Audit. The response from external audit was highly supportive of the work undertaken by internal audit. They commented that their relationship with internal audit was strong and that they have been able to rely on the work carried out by the section. This had produced a positive impact reducing both the amount of work required to be undertaken by external audit and the audit fee.

4. EMERGING THEMES FROM THE REVIEW TO DATE

The following themes have emerged from the review:

- The Audit Committee is broadly supportive of Internal Audit;
- Management were found to be supportive of Internal Audit with no major trends or concerns raised;
- Management find the work carried out by Internal Audit to be professional and helpful;
- Management wanted more involvement with Internal Audit on service priorities, risks and wider strategy.

- External audit had concerns regarding the present internal audit structure and the reliance placed on contract staff and KPMG;
- The Council is pushing ahead with a modernisation agenda and additionally there are major external funding challenges that will need to be faced which may increase risks;
- Innovative and collaborative working with other Public Sector organisations will be of high importance;
- Internal Audit needs to prepare a strategy that objectively assesses the adequacy of existing risks and controls, works with and provides advice to departmental services on proposed developments.; and
- Overall, internal audit's objectives must be aligned to the Council's and should help improve the effectiveness of service delivery.

5. CONCLUSIONS

Presently the information gathered from the completed project stages is beginning to outline a possible future strategy for the advancement of Internal Audit. In broad terms the future role of Internal Audit should encompass:

- Providing assurance and in helping the business to design and improve controls;
- The focus of the work – financial and non financial risks and controls;
- The role and importance of control in the Council; and
- The responsibilities of the services and the directorates in relation to their controls and risks.

In the future the audit plan should be risk based and prepared with reference to various sources of assurance performed across the Council. The plan will be prepared to clearly identify how and if all risks are adequately covered within services and departments using a traffic light system.

The use of alternative methods to provide assurance over financial controls should be incorporated into any future strategy. This should include the use of software packages such as Idea so that continuous auditing can be undertaken of major financial systems. Thought should also be given to further shifting responsibility for financial reviews and reinforcement of accountability.

In addition, Internal Audit should look at co-operation with other Internal Audit services in other Councils and wider public sector.

A final report outlining the options will be compiled June/July for presentation to the Project Board and Audit Committee.