

COMMITTEE:	CABINET
DATE:	2 October 2002
SUBJECT:	Internal Audit Services – Review of Activities and Performance
REPORT OF:	Sue McHgh, Director of Finance & Corporate Services
Ward(s):	All
Purpose:	To provide a summary of the activities and performance of Internal Audit during the period 1 April 2002 to 31 August 2002.
Contact:	Martin Freeman, Head of Audit, Telephone 01323 415136 or internally on extension 5136.
Recommendations:	· Cabinet notes the contents of this report.

1.0	<u>Introduction</u>	
1.1	<p>The Institute of Internal Auditors' (IIA) August 2000 Position Statement on audit committees and internal auditors recommends that an organisation's audit committee (or appropriate equivalent) should:</p> <p><i>“Focus on obtaining a clear understanding of internal audit activities, functions and organisational structure as well as ensuring that the planned programme of work is appropriate.”</i></p>	

1.2	<p>Furthermore, there is a requirement within the internal financial control framework of the Comprehensive Performance Assessment Indicators for internal audit to report formally to Members.</p>	
1.3	<p>In accordance with these best practice recommendations, the following report has been written to provide a commentary on the activities and performance of the Internal Audit Service for the period 1 April to 31 August 2002.</p>	
2.0	<p><u>The Internal Audit Service at Eastbourne Borough Council</u></p>	
2.1	<p><u>Background</u></p>	
2.1.1	<p>The IIA define internal auditing as:</p> <p><i>“An independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”</i></p>	
2.1.2	<p>This definition now places far greater emphasis on working with clients to meet their expectations, to deliver solutions and improve operations. In recognition of this, particular</p>	

2.1.3	<p>Much work has also been carried out during the last 12 months in improving the image and profile of the Section through new corporate developments, some of which are mentioned in section 6 of the report.</p>	
2.2	<p><u>Level of Service Provided</u></p>	
2.2.1	<p>The Director of Finance and Corporate Services provides Management with a level of Internal Audit Service covering the following:</p>	
	<ul style="list-style-type: none"> · The continuous appraisal and review of internal control systems and procedures to secure the efficient operation of the Council's affairs. Internal Audit provides objective examination, evaluation and reporting on the adequacy of internal controls as a contribution to the economic, efficient and effective use of resources. 	

	<ul style="list-style-type: none"> · Routine audits to ensure that good standards of financial management are maintained and to ensure that decisions taken by Management are being complied with. 	
	<ul style="list-style-type: none"> · A consultancy service in relation to performance review, value for money and fraud or irregularities, financial or otherwise. 	
	<ul style="list-style-type: none"> · Other services as determined by the Director of Finance and Corporate Services in meeting her statutory responsibilities. 	
2.3	<u>Provision of Additional Services</u>	

2.3.1	<p>In addition to the above, Internal Audit are available to Management for carrying out special projects as determined by the Client Department and the Head of Audit, providing suitable staff and other resources allow.</p>	
2.4	<p><u>Audit Plan</u></p>	
2.4.1	<p>In order to achieve the objectives of the Internal Audit Service, work is planned and agreed with Management and Members.</p>	
2.4.2	<p>Cabinet approved the current Strategic and Operational Internal Audit Plans on 10 April 2002. These Plans cover 4 financial years starting 1 April 2002 and concluding on 31 March 2006.</p>	
3.0	<p><u>Staff Resources</u></p>	

3.1	<u>Recruitment campaigns</u> -	
3.1.1	A Trainee Auditor was recruited internally with effect from 1 May 2002.	
3.1.2	Following this appointment, the Section has had a full complement of staff (3.2 FTE posts).	
4.0	<u>Training</u>	
4.1	<u>Vocational Training</u>	
4.1.1	Members of the Audit Section have attended a number of training courses during the review period including: <ul style="list-style-type: none"> · Report Writing; · IT security and associated issues facing the Council; · An introduction to contract audit; · Raising the profile of Internal Audit; · Embedding Risk Management Workshop. 	

4.1.2	<p>Attendance at these courses has resulted in improvements within the Section and can be related directly to service and corporate objectives.</p>	
4.2	<p><u>Professional Qualifications</u></p>	
4.2.1	<p>CIPFA benchmarking exercises have highlighted a lower than average attainment of professional qualifications in the Section. Whilst 3 members of the team have acquired the Association of Accounting Technician's professional qualification, there are no qualified accountants. This is now being addressed and from September 2002, 2 Auditors will commence study towards the CIPFA accountancy qualification. The Trainee Auditor will also start studying for the Association of Accounting Technicians professional qualification. These long-term courses of professional study will significantly raise the qualifications of the Internal Audit function.</p>	

5.0	<u>Audit Activity</u>	
5.1	Much of the planned work of Internal Audit is structured to gain assurance on the adequacy of internal controls. This Section of the Report provides a commentary on the work of Internal Audit across the Council.	
5.2	<u>Routine Audits</u>	
5.2.1	Routine audits are undertaken on a rolling cyclical programme, with the frequency of review determined by an assessment of risk.	
5.2.2	The objective of routine audits is not only to discharge the Director of Finance and Corporate Services' legislative s151 responsibilities but also to provide an assurance to Management on the proper and effective administration of their area of responsibility.	
5.2.3	Routine audit work carried out during the period under review has covered services such as Coastline Caterers, Cavendish Sports Centre, the Sports Park, Tourist Information Centre, Seafront Gardens Contract, Elections and Electoral Registration, Building Control and Recruitment. At the time of writing this report, a number of these reviews are ongoing.	
5.2.4	Areas where improvements could be made have been identified during the reviews and where reports have been issued Management has agreed to implement the recommendations made. Formal follow up of these recommendations to ascertain compliance will be carried out at the prescribed time.	
5.2.5	In addition to the above, a follow up audit has also been carried out on Car Parking and the Coach and Lorry Park.	
5.3	<u>Computer Audit</u>	
5.3.1	Computer audits are concerned with reviewing and testing internal controls and data within systems. This forms an integral part of the audit of those computer systems to determine whether they are working properly. Furthermore, it makes use of information within computer systems for other purposes, for example data files that contain management information can be reviewed to ascertain if the Council is achieving its objectives efficiently.	

5.3.2	Of particular note is the work that has been carried out during the period under review on IT security with the ultimate goal being the formulation of an Information Security Policy in compliance with ISO17799, the Code of Practice for the Management of Information Security. The section has also prepared an Internet Policy (see 6.2) and carried out training on this subject.	
5.4	<u>Main Financial Systems</u>	
5.4.1	It should be noted that there have been recent developments in the approach to auditing the main financial systems. Previously this work had to be carried out within set time scales in order to assist the External Auditor in their work on the Statement of Accounts. However, in future Internal Audit work on the main financial systems (excluding that on the financial ledger) will be undertaken throughout the year.	
5.5	<u>System Developments</u>	
5.5.1	Eastbourne Theatres are currently looking to purchase a new Box Office Computer System. Internal Audit has provided initial advice to Theatres Management on this project and the Computer Auditor is a member of the Project Team. Further audit time has been allocated in the Plan for 2002/03 to review implementation of the new system.	
5.6	<u>Special Investigations</u>	
5.6.1	To date, 14.2 days have been spent carrying out 5 special investigations. None of these investigations have so far required formal interviews with officers of the Council.	
5.6.2	In one case however, involvement was sought from the Sussex Police Computer Crime Unit. As a result the Council may be required to obtain a Court Order in order receive information from a third party vital to the investigation. This investigation is ongoing.	
5.6.3	Where relevant, recommendations in respect of the investigations have been made to Management to strengthen internal controls and prevent repeat cases.	
6.0	<u>Audit Activity in New Developments</u>	
6.1	Audit has carried out work on the following new corporate developments.	

6.2	<u>Internet Policy</u>	
6.2.1	An Internet Policy has been written setting out clear guidelines governing the use of e-mails and Web access. The Head of Audit and Computer Auditor are currently involved in an extensive training programme to raise awareness of issues surrounding electronic communications. The Head of Audit and the Computer Auditor have dedicated a significant amount of time during the review period to this training and other associated electronic communication issues.	
6.3	<u>Anti Fraud and Corruption Policy</u>	
6.3.1	The existing Anti Fraud and Corruption Strategy has been revised. The new Policy is designed to encourage prevention, promote detection and identify an avenue for investigation in cases of fraud and corruption.	
6.3.2	In addition, a Whistleblowing Guide has been written to encourage staff and others with serious concerns about unlawful conduct, financial malpractice or dangers to employees, the public or the environment to come forward and voice those concerns.	
6.3.3	The Anti Fraud and Corruption Policy and Whistleblowing Guide identify that the Council has put in place procedures to assist in the prevention, detection and investigation of fraud and corruption. Consequently the protection of public funds and assets has been strengthened.	
6.4	<u>Integrated Performance Management Framework</u>	
6.4.1	A key component of the government’s White Paper “Strong Local Leadership – Quality Public Services” is the introduction of Comprehensive Performance Assessment for local authorities including a review of corporate governance arrangements. It is the Government’s intention that CPA will “form the cornerstone of the government’s performance framework for local government.”	

6.4.2	<p>The Council will now be required to demonstrate its capacity to direct resources and management capability to services that matter to the community.</p>	
6.4.3	<p>Initial discussions have recognised the need for closer working within the Council to ensure the non-duplication and effectiveness of the programmed Internal Audit work on Best Value. It has therefore been proposed that a core working group is formed from (principally) the Strategic Development and Internal Audit Divisions to review the strategic documents in place within the Council and the corresponding performance monitoring systems. Other work of the Group could include a mapping exercise of activity and related performance monitoring.</p>	
6.5	<p><u>Corporate Authorised Signatory List</u></p>	
6.5.1	<p>Internal Audit has streamlined the procedure for recording and updating the list of authorised signatories. It is anticipated that a great deal of officer time can be saved as a result of the new procedure.</p>	
6.6	<p><u>Financial and Contract Procedure Rules</u></p>	
6.6.1	<p>The Head of Audit is a member of the small working group charged with reviewing the Council's Financial and Contract Procedure Rules. This work will recommence later in the year.</p>	
6.6.2	<p>On the basis of the work already undertaken, it is clear that in order to carry out a whole scale review of the Rules including proper consultation with officers across the Council, much more audit time must be invested.</p>	

6.7	<u>E-Government Working Group</u>			
6.7.1	The Government's Modernising agenda provides an opportunity for innovation in service delivery through electronic communication. However there are significant risks of fraud and misuse of information associated with electronic service delivery and the move towards paperless systems.			
6.7.2	The Head of Audit is therefore a member of the Council's E-Government Working Group. The objectives of this group are to consider policy areas such as e-commerce, e-procurement, e tendering, disaster recovery / business continuity and security. Through membership of this group the Head of Audit is well placed to consider and provide advice on the audit implications of future electronic service delivery.			
7.0	<u>Internal Audit Coverage</u>			
7.1	The table below summarises audit coverage to date together with the planned total time for the Council's departments and other key areas of work.			
	Audit Activity	Planned Days	Days to Date	% of Audit Time
	Finance & Corporate Services	85	4.8	1.4
	Tourism & Leisure	108	48.6	14.5

Planning Regenerati on & Amenities	28	10.3	3.1
Housing Health & Comm. Finance	95	4.8	1.4
Chief Executives	47	9	2.7
New Developme nts	52	29.3	8.8
Special Investigati ons	30	14.2	4.3
Risk Manageme nt	40	4.3	1.3
Best Value	30	11.9	3.6
Equality Objectives	-	1	0.3

	Sussex Audit Group	14	6.7	2
	Other Non-Chargeable Time	338	189	56.6
	Totals	867	333.9	100
7.2	<u>Analysis of Audit Coverage</u>			
7.2.1	The second half of the financial year will see particular focus on the completion of planned departmental assignments.			
7.2.2	Risk Management work will increase over the coming months with the launch of the strategic risk management project and the Head of Audit's membership of the Service and Financial Planning Group. A recruitment campaign will be carried out during September / October to appoint a part-time Auditor on a fixed term contract to carry out "pure" audit work that would otherwise have been undertaken by the Head of Audit.			

7.2.3	<p>Work on Best Value will increase in the second half of the year through the Head of Audit's work on the Integrated Performance Management Framework and membership of the project team carrying out the Best Value Review of Information, Communication and Consultation.</p>
7.2.4	<p>A higher than forecast amount of time has been required in carrying out special investigations. If this trend continues then the 30 days originally allocated will be exceeded.</p>
7.2.5	<p>No time was allocated to Equality Objectives (see 8.3 below) during the initial audit planning process. In order to accommodate the time necessary for this important work, some planned audit assignments may not be completed during the year. In order to manage any shortfall, the following course(s) of action may need to be followed:</p> <ul style="list-style-type: none"> · Reducing the time allocated to some assignments; · Moving the reviews of lower risk areas into future years; · Amalgamating some reviews; · Keeping a “watching brief” on areas of activity through membership of corporate review and working groups; · A combination of some or all of the above.

7.2.6	<p>Other non-chargeable time, i.e. annual leave, sick leave, training, administration is broadly in line with the original forecast. Nevertheless, attempts will be made to reduce the amount of time spent on administration etc. during the remainder of the year.</p>	
8.0	<u>Best Value</u>	
8.1	<u>Audit Plan</u>	
8.1.1	<p>The Head of Audit has planned (as far as possible) for audit assignments to complement and integrate with Best Value Reviews. More detailed timing of assignments is agreed in advance with the relevant Heads of Service and Managers.</p>	
8.2	<u>Best Value Review of Finance</u>	
8.2.1	<p>Internal Audit have been the subject of a Best Value Review during 2001/02 as part of the wider review incorporating Financial Management and Financial Strategy.</p>	
8.2.2	<p>Set out below are some of the significant service improvements identified through the Best Value Review and consultation exercise, which have been included in the Improvement Plan.</p> <ul style="list-style-type: none"> · New Audit Plan drawn up by applying a risk assessment over all of the Council's services; · Audit assignments to be planned (as far as possible) to fit in with Best Value Reviews; · Control issues identified through audit work to be considered at Best Value Review meetings; · New performance targets for the issue of draft and final reports; · All Members to have access to final audit reports via the computer network; · Improvements in computer interrogation techniques; · The Head of Audit to lead on corporate risk management. 	

8.2.3	Action has been taken within the Section to implement the recommendations made in the Improvement Plan. However, further work is required on the preparation of a new Audit Manual and Charter.	
8.3	<u>Equality Objectives</u>	
8.3.1	The Head of Audit was a member of the Equalities Best Value Review Team.	
8.3.2	Future Audit involvement in the equality programme has been secured through the Head of Audit's membership of both the Corporate Equality Planning Group and the Equality Steering Group. The Head of Audit is also the Equality Representative for the Finance and Corporate Services Department. Audit will have a key consultancy role to play in the self-assessment process.	
9.0	<u>Sussex Audit Group and Sussex Auditors Computer Sub-Group</u>	
9.1	The Head of Audit and the Computer Auditor have continued attending the Sussex Audit Group and Computer Sub-Group respectively.	
9.1.1	There are many benefits of participating in these groups, namely: <ul style="list-style-type: none"> · A strong sense of trust and support has developed between member authorities which has facilitated the sharing of information, policies, best practice etc; · Opportunities for lower cost for in-house training; · Networking opportunities; · Opportunities for sharing Internal Audit resources; · Participation in Sussex Audit Group benchmarking exercises. 	
9.1.2	As a result of the last process benchmarking exercise, Internal Audit reports were improved, providing a more user friendly format including a grading of the priority of recommendations (high, medium or low) and a requirement for the Auditee to sign up to time scales for implementation. An executive summary and assurance rating have also been added.	
9.1.3	Assurance is measured using two criteria, an appraisal of the control of the system in operation and a review of the findings.	

10.0	<u>Corporate Governance</u>	
10.1	<u>Risk Management</u>	
10.1.1	Effective risk management is needed to enable the Council to deliver its key business objectives and has a vital role to play in ensuring that the organisation is well run.	
10.1.2	The Council is also increasingly entering into partnerships with public, private and voluntary organisations. Part of the process of setting up these partnerships is to ensure that all relevant risks are identified and controls built into the management arrangements.	
10.1.3	Despite this and the significant benefits that can be obtained from a system of business risk management (controlled insurance costs etc.) little has been done in this area. That said, the link between Audit and risk management as systems for controlling risks has been recognised and the Head of Audit is now responsible for leading on risk management issues.	
10.2	<u>Audit Committee Arrangements</u>	
10.2.1	Councils have a responsibility to all stakeholders for the efficient and cost effective delivery of services. For this reason, there are important regulatory and value for money aspects to Council audits.	
10.2.2	The Cadbury Committee stated that regular review by an audit committee would improve the quality and effectiveness of internal and external audit as well as the accounting and control systems in place. They could also provide a forum for raising governance concerns.	

10.2.3	<p>The Cadbury statement on audit committees has been acknowledged as a sensible one for all public sector bodies, though progress on implementation has been ad hoc. At Eastbourne, Cabinet is fulfilling the role of the audit committee. However, recent high profile corporate scandals have once again identified the need for a separate and independent audit committee with enhanced roles. The IIA have, for example, recently produced a paper on Corporate Governance reforms that states “an effective audit committee would provide a safeguard to help prevent governance failures.” The Institute goes on to say that audit committees should be empowered to:</p> <ul style="list-style-type: none"> · Set the ‘tone at the top’, upholding corporate integrity and enforcing zero tolerance of ethical misconduct; · ...monitor an effective, full-time internal audit function that reports directly to the audit committee; · Promote coherent communication between the head of internal audit, senior management and the audit committee and an understanding of their respective responsibilities; · Benchmark internal controls against recognised frameworks to ensure effectiveness, efficiency, reliability and legal compliance; · Question internal and external auditors about the organisation’s key risks...and the processes in place to identify and manage risk on an ongoing basis. 	
10.2.4	<p>If the risk management and internal control link between Auditor and Committee is not in place, or it is confined to low level financial controls rather than higher level management of risk, then it could be argued that a fundamental part of the corporate governance process is missing. By providing the audit committee and management with information about risk management processes Internal Audit can provide support to the Council’s Corporate Governance framework.</p>	
10.2.5	<p>The Council has not yet carried out a formal review of its corporate governance arrangements and does not have a code of corporate governance practice or action plan. This work will be required and must consider the benefits that the Council can derive through the establishment of a separate independent audit committee.</p>	
11.0	<p><u>Consultations</u></p>	
11.1	<p>The Internal Audit Plan is subject to consultation with senior officers across the Council and the External Auditor.</p>	
12.0	<p><u>Human Resource and Financial Implications</u></p>	

12.1	A recruitment campaign will be carried out to appoint a part-time Auditor on a fixed term contract to carry out audit assignments whilst the Head of Audit is working on risk management issues. It is anticipated that any additional staffing costs can be met through a combination of existing budget provisions together with savings made through reduced insurance premiums, lower insurance excesses etc.	
13.0	<u>Environmental, Youth and Anti-Poverty Implications</u>	
13.1	There are no environmental, youth or anti-poverty implications as a result of this report.	
14.0	<u>Summary</u>	
14.1	This report provides details of the activities and performance of the Internal Audit Service for the period 1 April 2002 to 31 August 2002 and highlights the need for a future review of the Council's corporate governance arrangements.	
Martin Freeman Head of Audit		
<p>Background Papers:</p> <p>The Background Papers used in compiling this report were as follows:</p> <p>Report to Scrutiny 18 February 2002 on the Best Value Review of Finance</p> <p>Report to Cabinet 10 April 2002 on the Audit Plan 2002 to 2006</p> <p>Report to Cabinet 5 September 2002 on the Anti Fraud and Corruption Policy</p> <p>The IIA's July 2002 Paper "A New Agenda for Corporate Governance Reform"</p> <p>The IIA's August 2002 Position Statement "Audit Committees and Internal Auditors"</p> <p>Comprehensive Performance Assessment Indicators – Code of Audit Practice</p> <p>To inspect or obtain copies of background papers please refer to the contact officer listed above.</p>		
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