

Appendix 2 – Internal Audit Section – Performance and Effectiveness Review

Internal Audit Section compliance with the Public Sector Internal Audit Standards

1. From the 1st April 2013, a new set of Internal Audit Standards – the Public Sector Internal Audit Standards (PSIAS) were introduced, which now provides a coherent and consistent internal audit framework for the whole of the public sector. These new standards effectively replace the CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom.
2. The most significant new requirement of the PSIAS is for an external assessment of Internal Audit services to be conducted at least once every five years by a qualified, independent assessor. The recent Peer Review represents such an assessment, intended to measure compliance with the Standards and drive continuous improvement in the quality and effectiveness of the audit service. A full report on the review is provided separately on the Committee agenda.
3. The Peer Review of the City of London Corporation Internal Audit Section in February 2014 was carried out by the Head of Governance (Head of Internal Audit) at the London Borough of Croydon, who is also a member of the UK Public Sector Internal Audit Standards Advisory Board.
4. The assessment outcome was that the City of London Internal Audit Section generally conforms with the PSIAS requirements. This rating means the reviewer has concluded that the relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the Standards in all material respects.
5. Certain minor developments are necessary to ensure full compliance, outlined below, with plans in place to address. These relate to documentation of succession planning for the Head of Audit and Risk Management role, minor revision to the Audit Charter, and the inclusion of some additional information within audit planning documentation on placing reliance on other sources of assurance.
6. In addition to a review of conformance with the Standards, stakeholder views on the impact of the Internal Audit Service were sought and positive feedback received in respect of the professionalism of staff, the risk-focus of internal audit work and the usefulness of audit recommendations

Internal Audit Section Key Performance Indicators

7. A number of Key Performance Indicators were agreed for the Internal Audit section for monitoring during the 2013/14. Performance against these indicators is set out in the table below. Where targets have not been achieved, further comments on corrective action are provided after the table.

Performance Measure	Target	2013/14 Performance	2012/13 Performance
completion of audit plan	90% of planned audits completed to draft report issued stage by end of plan review period (31st March 2013)	79% - target not achieved, Delay in completion at year end due mainly to impact of vacancies, and a significantly higher level of investigation work	85%
% recommendations confirmed fully implemented at time of formal follow-up	Overall – 75% Red – 100% Amber – 80% Green – 70%	Overall – 90% Red – 100% Amber – 90% Green – 89%	Overall – 65% Red – 100% Amber – 67% Green – 64%
timely production of draft report	80% of draft reports issued within 4 weeks of end of fieldwork	79% - marginally below target	77%
timely agreement and issue of final report	80% of final reports (including agreed management action plan) issued within 5 weeks of issue of draft report	59% - drop in achievement	84%
customer satisfaction	through key question on post audit surveys, and Chief Officer interviews	98% - target met	98%
% of audit section staff with relevant professional qualification	75%	87.5%	79%

8. **Completion of the audit plan** – Completion of the 2013/14 audit plan was at 79% at the end of April 2014, this compares to an 85% completion performance in 2013/14.

9. During the year there was a small reduction in audit resource availability because of a vacancy from the 1st April until the 17th June which has been filled with an audit apprentice. There was a larger than anticipated carry forward of audit work from 2012/13 due to one auditor vacancy, a significantly higher level of investigation work and some audit reviews taking longer than their planned day allocations. Additional unplanned cash checks were undertaken during the summer of 2013, and significant investigation activity has continued during the whole year. In addition two senior auditor vacancies arose during the Autumn 2013. Two permanent senior auditors commenced work at the beginning of January 2014 which has brought the internal audit section to a full complement of staff. A senior auditor has recently resigned, and a recruitment exercise underway to replace this role, which will become vacant from the 5th May 2014. The two interim senior auditors, who were recruited and in place from the beginning of December 2013 are being retained, whilst the carry forward work from 2013/14 is completed and the recent vacancy is recruited to.
10. Interim resources will be used as required to supplement the in-house team, as vacancies arise. A much greater carry forward allocation has been made within the audit planning resourcing assumptions for 2014/15, and a contingency allocation is now in place for unplanned work.
11. The internal audit plan was reviewed and work re-prioritised where necessary regularly during the year as a result of the reduced resources available for the originally planned work.
12. **Implementation of Recommendations** – Overall implementation of audit recommendations as measured by formal follow-up reviews undertaken over the last year is now at 90% for 2014/15. A significant improvement on the 65% performance for 2013/14.
13. **Timely production of draft report** - performance in issuing draft reports promptly, following completion of audit fieldwork, is marginally below target at 79%, a slight improvement on performance for 2012/13 which was 77%. A more concise audit report format was piloted during 2013/14 and will become the new standard reporting style for 2014/15.
14. **Timely agreement and issue of final report** –performance in finalising Internal Audit work within 5 weeks of the issue of the Draft report is below target level (58% for 2013/14 and is reduced from the level achieved in 2012/13 of 84%. An increased emphasis on agreeing draft audit recommendations, at audit exit meetings, has been adopted during the year which was designed to assist with the timely completion of audits.
15. Although in the majority of the cases the delay beyond the target days is not excessive, this is disappointing. In some instances, delays have been caused by Departments taking longer to ensure they agree realistic timescales for the implementation of recommendations. A new process will be introduced from the beginning of 2014/15 to require responses to be provided within 3 weeks, rather than 4 weeks of the issue of draft internal audit reports, to enable more time for follow-up, chasing and escalation should the due response date not be achieved.

16. **% of audit section staff with relevant professional qualification –** following the appointment of two professional qualified senior auditors at the beginning of January 2014, the % of audit section staff with relevant professional qualifications has now increased to 87.5%.
17. **Customer satisfaction –** The internal audit section continues to issues out a post-audit questionnaire (PAQ) to the relevant Chief Officer at the finalisation of each major audit review. Whilst the responses to these PAQs are nearly always positive, the response rate is low.
18. The Audit and Risk Management Committee requested a wider review of the level of Customer Satisfaction with the services provided by the Internal Audit Service. This was completed in two phases through interviews with Chief Officers in the Summer 2013 and Winter 2013/14.
19. The feedback from Chief Officers and senior managers was positive, recognising the shift in the internal audit approach over the last three years from a service predominantly focused on financial regularity to a service which gives broader assurance about both financial and non-financial controls and adds value to decision making.
20. Areas of improvement were identified from these discussions which are being progressed to enhance further the value added by the internal audit function. The most important area being promoting the full scope of the internal audit role with Chief Officers and Senior Managers within Departments, particularly in providing advice and guidance, when new processes and systems are implemented and the internal audit role in providing assurance over areas much wider in scope than purely financial compliance.

Other Development areas for the section:

21. The new release of the audit automation software (MK) is being reviewed. It is planned to implement the latest release of this software in the first half of 2014/15 to improve the ease of use of the system for documenting internal audit work and following-up internal audit recommendations.
22. Auditor skills and personal development is a key focus for the section. Particular attention is being given to the sharing of skills and expertise more widely within the team, particularly in specialist audit areas where succession planning is an important consideration. Review of the IS/IT audit capability will be a key consideration for the first 6 months of 2014/15 due to the changed risk landscape following the implementation of the Agilisys contract and the phased retirement of the IS/IT Audit Manager in November 2014.
23. Detail of the utilisation of internal audit time resource for 2013/14 is provided in **Appendix 3**.