

Internal Audit Best Value Summary

Introduction

Internal Audit has conducted a Best Value review of its service and this is a summary of the progress to date.

What is Internal Audit?

The Institute of Internal Auditors defines Internal Audit as ... *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.*

Why have Internal Audit?

The fundamental question which must be asked at the start of all Best Value reviews is, why provide the service at all? For Internal Audit, there are two main reasons;

- All local authorities are required by law to maintain an internal audit function.
- The provision of internal audit represents good business practice.

Statutory Requirements

The statutory requirement for Internal Audit is established by S.151 of the Local Government Act 1972 and the Accounts and Audit Regulations 1996.

S.151 of the Local Government Act 1972 provides that ...*every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for those affairs.*

Until 1996, the responsibilities of the Section 151 Officer, as set out in the Accounts and Audit Regulations 1983, included the requirement that he or she ...*shall maintain an adequate and effective internal audit of the accounts of the body.* In 1996, these regulations were changed. The regulations now read ... *A relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems...* This takes the responsibility away from the S151 Officer and places it with the Council. However, that does not preclude the S151 Officer from being responsible for internal audit on a day to day basis.

Good Business Practice

Internal audit has a long history across the public sector. Although there has always been internal audit in the private sector it has not been as widespread because it has not been a statutory requirement across all sectors of the economy.

However, in recent years there has been a move towards establishing and expanding internal audit in medium and large companies. In particular, this has developed

following the publication of the Cadbury, Hampel and Turnbull reports and the growing emphasis on the need for good corporate governance.

Corporate governance itself is simply the "system by which organisations are directed and controlled". Internal audit is ideally placed to test and comment upon the standard of corporate governance within an organisation. This has resulted in the growth of internal audit in the private sector.

How should the service be provided?

While all local authorities are required to have an internal audit, how it is provided, where it sits in the authority and, to a large extent, the work that it does is for the Authority to decide.

The provision of internal audit varies throughout local government although the majority are provided in-house and are part of the finance function. This is the case in Surrey, although in four of the eleven districts in the county have outsourced internal audit. In other authorities there is a mix of service provision where some of the audit service (particularly specialist services such as IT Audit) are provided by external suppliers in support of the in-house team.

In a new development, consortium arrangements have been organised among neighbouring authorities. This is probably the least common form of service provision.

To a large extent the method of service provision depends upon local circumstances. What might be right for one authority may not suit another. It also depends upon the service required and how much the authority wants its internal audit to be involved in corporate activities.

There are many arguments for and against outsourcing. The Institute of Internal Auditors, which has members working within organisations and providing an internal audit service as external consultants, has considered the matter and concluded that, although the position may differ between organisations, *..internal auditing is best performed by an independent entity that is an integral part of the organisation and which functions under the policies of senior management and the board of directors.*

The conclusion of the Best Value review at Guildford has been that the service is best provided in-house. However, this position will be kept under constant review. It may be that a partial outsourcing will be appropriate in the future, particularly in areas where it is difficult to recruit suitable staff such as IT Auditors. To an extent this has already happened. In 2000/01 a specialist was employed to carry out a review of the Council's IT network because the appropriate expertise was not available in-house.

What do Internal Audit's customers think of the service provided?

Internal Audit has always consulted with customers, particularly in the formulation of the annual audit plan. As part of Best Value, a questionnaire was sent out to staff, councillors and the District Auditor.

The results were encouraging. For example, customers consider that they have a good working relationship with internal audit, that the section is professional, takes their views into account and are happy with the standard of reports. The responses suggest that there needs to be some education about the role of internal audit regarding fraud and corruption and some respondents consider that the profile of the section needs to be enhanced.

As part of the improvements for 2001/02 it is planned that the section will develop a marketing strategy which will address these concerns.

How does Internal Audit at Guildford compare with other internal audit sections?

Comparison was undertaken through a series benchmarking exercises with authorities across the country and through the Institute of Internal Auditors GAIN programme. This is an international benchmarking exercise which includes public and private sector organisations around the world. Guildford was one of only 20 organisations in the UK to take part in this exercise in 2000.

Often the comparisons in benchmarking are only useful when they are adjusted to take account of the differences between organisations. For example, on a straight comparison of the numbers employed in internal audit, Guildford appears higher than the average for Surrey.

However, when the size of the different authorities is taken into account, Guildford performs well. As an example, the average number of days of internal audit per £ million spend for Guildford is 5.47, compared with an average for the group of 8.66 (in this example Guildford is more productive than two of the four authorities where internal audit is privatised). The same sorts of results have been found in other benchmarking exercises such as the national exercise run by CIPFA.

The GAIN exercise includes a measurement of performance based upon a number of factors covered in the questionnaire. They include items such as the level of experience of staff, the role of the Audit Committee and the timescale for the issue of reports. The average score for all participants was 170. Guildford Internal Audit scored 194.

Is Internal Audit competitive?

Best Value is intended to prove the competitiveness of the service under review. This has been achieved through the benchmarking exercises mentioned above.

What has been done to improve the service already?

Improvements have been made as the review progressed. A major success has been a review of the work undertaken by the section.

In 1999/00, 164 days were spent on what could be termed non-audit duties. These have developed over the years and have now been reviewed. Where possible they

have been discontinued, responsibility has been transferred to other services or the processes have been changed to make them more efficient. The time freed up will allow more audit work to be undertaken. In addition, the new arrangements mean that the section no longer requires the part-time post mentioned earlier. The funds released by this decision will be used to produce savings and finance the use of specialist auditors in areas such as IT.

Some of the other improvements are listed below.

- The work of the section has been reviewed and a number of non-audit duties have been transferred
- The section has developed a Mission Statement and objectives in line with those of the Council.
- Consultation procedures have been improved to ensure that the client's concerns are taken into account in all audit reports.
- A customer satisfaction survey is sent out after each audit.
- Performance Indicators have been introduced to measure the performance of the section and individual auditors.

In addition the Council has introduced an Audit Committee to ensure that the Council is audited satisfactorily.

What will be done to improve Internal Audit and the service provided?

Further improvements are planned for 2001/02. These include;

- Development of the use of performance indicators.
- A second round of consultation to find out how the service has improved and what more can be done.
- Develop the use of I.T. to, among other things,
 - minimise the amount of paper used and stored (which will assist the Council in its efforts to reduce waste and improve sustainability),
 - improve security, standardise working practices
 - reduce the amount of office space required.
 - Hold an on-line library of audit programmes.
- Prepare for the use of an intranet for internal management and the publication of reports.
- All members of the section taking part in the Institute of Internal Auditors Continuous Professional Development programme launched in 2000.
- Develop and in-house marketing strategy.
- Develop the office layout to allow greater co-operation with the Council's external auditors.