

RESOURCES DIRECTORATE

INTERNAL AUDIT

BEST VALUE REVIEW

**FINAL REPORT + PERFORMANCE &
IMPROVEMENT PLAN**

CABINET 1ST MAY 2002

BEST VALUE REVIEW – INTERNAL AUDIT – RESOURCES DIRECTORATE FINAL REPORT AND PERFORMANCE & IMPROVEMENT PLAN

1.0 INTRODUCTION

- 1.1 Internal Audit is subject to a Year 3 (2002/03) Best Value Review. Preparatory work in the latter part of 2001 facilitated the early completion of the service's Best Value Review Plan. This document can be viewed in the Members Lounge or on the Council's Intranet site under "A" - Audit Services and/or "I" - Internal Audit. 175.1.1.13/forestnet/atoz/atozlist.html
- 1.2 It was evident in finalising the Review Plan that, because of the history of the service in providing business and project planning and ongoing performance measurement, most of the requirements of the Best Value process had already been met. This outcome coincided with the Best Value Project Team's decision, subsequently endorsed by Corporate Management Team, to facilitate a more streamlined approach to the best value process in certain circumstances.
- 1.3 A report was put before Resources Management Team (5th March 2002) and the Best Value Project Team seeking support to bring the review of Internal Audit to a speedier conclusion. This had the full support of the respective teams and both Councillor Wise (Portfolio Holder Finance & Support Services) and Councillor Dash (Chairman of the Corporate & Finance Review Panel). This report can be viewed on the Council's Intranet site again under Audit Services or Internal Audit. 175.1.1.13/forestnet/atoz/atozlist.html
- 1.4 It was agreed that Internal Audit should bring a final report to Cabinet summarising the findings of the review together with the prerequisite Performance and Improvement Plan (*refer to **Appendix 1***). This report is therefore summary in nature and members are directed to the Review Plan itself for more detailed information.

2.0 BACKGROUND TO THE SERVICE

- 2.1 Internal Audit forms part of the Resources Directorate's Audit Services section. It is a mandatory function whose primary aim is to ensure that the Director of Resources responsibilities, to maintain proper control over the Council's financial affairs as defined by S.151 of the Local Government Act 1972, are fully met.

Internal Audit acts as an independent appraisal function for the review of internal control mechanisms adopted by the Council. The budgeted costs for Internal Audit specifically in 2001/02 were £187,810.

- 2.2 Internal Audit is further regulated by the Accounts and Audit Regulations 1996 and the service has, from an operational and risk management aspect, recently adopted the CIPFA Code of Practice (2000) for Internal Auditors in Local Government in the UK.
- 2.3 The service has a responsibility to ensure that the Council maintains good stewardship of assets and that probity is maintained. It further ensures that assets are safeguarded from losses arising from fraud & corruption, waste, extravagance, poor value for money and inefficient administration. It also has to ensure the suitability and reliability of financial and management data developed by the organisation. The processes to fulfil this role include systems implementation review, financial & management system reviews, managed audits (for and on behalf of the District Auditor), probity & compliance audits, value for money reviews and fraud investigations.

3.0 EXECUTIVE SUMMARY

3.1 The case for a more streamlined approach for this review can be summarised as follows:

- ◆ Internal Audit is a regulatory function.
- ◆ It is subject to continuous review by the Council's external auditors.
- ◆ It is a support service of relatively low cost (less than 0.2% of gross income and expenditure).
- ◆ It has a history of performance data and is in the upper quartile across a range of performance measurement.
- ◆ It scores well in market cost comparisons.
- ◆ The Council's Section 151 Officer is supportive of the service. Other customers are generally satisfied with the service.
- ◆ Scope for further service improvement has been identified
- ◆ Members are supportive of this approach

3.2 The service's Best Value Review Plan provides comprehensive detail on the services performance against the four "Cs" (Challenge, Consult, Compare and Compete) and indeed considers a fifth "C", namely, Collaborate. The results of this review can be summarised as follows.

3.3 **Challenge** [Why have and Internal Audit service and how is it provided?]

3.3.1 The "why" can be answered in that Internal Audit is a mandatory service under the Local Government Act 1972 and the Accounts and Audit Regulations 1996. Its primary function is to ensure the good stewardship of public funds. It is worthy

of note that the private sector, following various financial scandals such as BCCI, Maxwell, Polly Beck and Barings, are now guided by the long established good practice in local government of effective internal control of which internal audit forms and intrinsic part.

- 3.3.2 The “how”, is again largely guided by regulation and practice established by the Accountancy profession and is subject to annual review by the District Audit Service (the Council’s external auditor). The service is fully defined in the Council’s Financial Regulations and adopts the Chartered Institute of Public Finance & Accountancy’s Code of Practice for Internal Auditors in Local Government in the United Kingdom.
- 3.4 **Consult** [Does audit consult with users on their needs & views of the service?]
- 3.4.1 Internal Audit is essentially a support service with limited scope to consult with the general public. Its stakeholders are primarily officers, members and District Audit with principle responsibility to the Council’s Section 151 Officer (Director of Resources).
- 3.4.2 There is a considerable amount of consultation with these defined stakeholders. Examples would include:
- ◆ Corporate & Finance Review Panel – annual performance
 - ◆ Corporate Management Team – audit planning & annual performance
 - ◆ Service Heads – audit planning and project reporting
 - ◆ Line Managers – project consultation
 - ◆ District Audit – respective audit plans, projects and service performance
- 3.4.3 Matters of consequence, arising from audit reviews or investigations, would be referred to the Leader, Chief Executive and appropriate Chairman by the Council’s Section 151 Officer.
- 3.4.4 As part of the Best Value review process two further forms of consultation were introduced a) Customer Satisfaction Survey and b) Audit Services staff questionnaire. The results of both studies have been very positive in support of the service but nonetheless provided some suggestions for improvement.
- 3.5 **Compare** [How does Audit’s processes & performance compare to others?]
- 3.5.1 Benchmarking with ten other Hampshire authorities has been conducted over the last four years. In terms of cost i.e. a) daily average unit cost b) cost as a percentage of Gross Income & Expenditure and c) cost as a percentage of Total Employee Costs, this Council’s Internal Audit service has remained consistently in the upper-quartile of lowest cost.
- 3.5.2 Regarding productivity i.e. the amount of time the service can allocate to productive work, the Council is just on the margins of upper quartile performance

and in respect of audit processes themselves the service meets or better the average for the Hampshire District.

- 3.5.3 Other internal comparisons were made in respect of sickness levels and the outcomes of a recent Stress Audit. The results for Internal Audit were favourable in all respects.
- 3.6 **Compete** [Best method and/or most cost effective service provision?]
- 3.6.1 A number of cost comparative exercises, to include the private sector, were undertaken and in all cases this Council's Internal Audit service was able to demonstrate good value for money.
- 3.6.2 Two substantial systems reviews were undertaken (under competition) for another local District Council. Formal feedback shows that the Council concerned was very satisfied with the outcome of the review and the professional way it was conducted.
- 3.6.3 Other options for service delivery were considered as part of this review but whilst this Council was able to maintain its audit service at full strength the in-house provision of the service was considered the most viable and cost effective solution.
- 3.7 **Collaborate** [Working across departmental boundaries]
- 3.7.1 By the nature of the service Internal Audit has always worked across departmental boundaries. It seeks to take a corporate perspective and collaborates with both internal and external bodies in ensuring adherence to the corporate and regulatory framework.
- 3.7.2 The service works closely with management and members in helping to set operational frameworks such as Financial Regulations, Standing Orders as to Contracts, ICT Security policies, Fraud and Probity, procurement policies etc. It also liaises closely with the local constabulary and Benefits Agency in terms of its fraud work and with the District Audit service in agreeing audit delivery.
- 3.8 Other matters relating to the standards and performance of this Council's Internal Audit service would include:
- ◆ District Audit Management Letters – this Council consistently manages its financial affairs well (significant reliance on internal audit in forming opinion).
 - ◆ Permitted to undertake "Managed Audits" for and on behalf of the District Audit service.

- ◆ Recent District Audit review of Internal Audit itself confirms that the required professional standards are met.
- ◆ The service is subject to continuous internal and external monitoring and has a history of good performance.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications but it is anticipated that efficiency savings will accrue from this best value review.
- 4.2 All actions required in meeting the appended Performance and Improvement Plan can be achieved within existing resources and budgets. No supplementary funding is required.
- 4.3 The cost of the review of £5,030 was contained within existing budgets. These review costs represent 2.7% of the total Internal Audit budget for financial year 2001/02.

5.0 ENVIRONMENTAL IMPLICATIONS

- 5.1 Any environmental issues have been considered as part of the sustainability assessment within the review. No major impact.

6.0 CRIME & DISORDER IMPLICATIONS

- 6.1 Whilst the Internal Audit service has some crime and disorder responsibilities this report does not impinge on those responsibilities.

7.0 CONCLUSIONS

- 7.1 Whilst the service can demonstrate good performance and low cost it is acknowledged that further improvements in service delivery can be achieved. The Best Value review process has already identified some areas of improvement and will be used as a catalyst for more improvement in the future.
- 7.2 The **Expected Outcomes** of the review are:
- ◆ Confirmation of a high performing service with scope for further improvement
 - ◆ Build on existing flexibility in helping services to respond to Government and internal initiatives.

- ◆ Further develop information exchange and best practice within the Hampshire District

7.3 The **Key Challenges** facing the service are:

- ◆ To continuously improve on an already high performance level and to become more customer focussed within the constraints permitted by S151 of the Local Government Act 1972.
- ◆ Managing change and additional work requirements within existing resources and to maintain a high standard of technical and professional competence.
- ◆ Whilst maintaining Internal Audit's regulatory responsibilities to be able to give support and respond to developments in service delivery across the Council.
- ◆ To help play a role in the improvement of internal audit and other services within Hampshire

8.0 **RECOMMENDATIONS**

- 8.1 It is ***recommended that*** Cabinet approve the Performance and Improvement Plan appended to this report.

For Further Information:

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Background Papers:

**Internal Audit - Best Value Review Plan
2002/2003 (February 2002)**

**Best Value – Internal Audit
A Streamlined Approach (5th March 02)**

INTERNAL AUDIT – BEST VALUE PERFORMANCE & IMPROVEMENT PLAN

There are currently no national Performance Indicators (PIs) for Internal Audit. Any developments in this area will be incorporated in future Performance and Improvement Plans.

The following schedule contains long-standing action and performance data. This has been supplemented by reference to the Best Value Review Plan (BVRP) 2002/03 for Internal Audit.

All targets and/or actions can be achieved within existing resources and budgets

| No. | ACTION PLAN | Prio rity | Target | 2000/01 Actual | 2001/02 Actual | 2002/03 Date/Officer |
|-----|--|----------------------|----------------|---------------------------|---------------------------|-----------------------------------|
| 1.0 | <u>PLANNING & PERFORMANCE:</u> | | | | | |
| 1.1 | Complete all fundamental systems reviews (Managed Audits) as agreed with District Audit. | High | 100% | 100% | 100% | March 2003 (Audit Team) |
| 1.2 | Complete all other system reviews as per revised Audit Plan. | Medium | 80%+ | 82% | 79% | March 2003 (Audit Team) |
| 1.3 | Meet planned Compliance and Probity testing and reviews. | High | 90%+ | 81% | 95% | March 2003 (Audit Team) |
| 1.4 | Meet planned (and unplanned) Corporate Projects and Value for Money (VFM) studies | Medium | 90%+ | 100% | 89% | March 2003 (Principal Auditor) |
| 1.5 | Offer corporate, financial, regulatory, and managerial advice. | Medium | 500+ Enquiries | 594 Enquiries completed. | 651 Enquiries completed | March 2003 (Audit Team) |
| 1.6 | Investigate all matters of fraud and/or irregularity as determined by audit review or referred by the Council's S.151 Officer. | High | 100% Reported | 13 Cases referred | <u>19 Cases referred</u> | March 2003 (Audit & |

| No. | ACTION PLAN | Priority | Target | 9 Concluded 2000/01 Actual | 18 <u>Concluded</u> 2001/02 Actual | Fraud Teams) 2002/03 Date/Officer |
|------|---|-----------------|---|--------------------------------------|--|---|
| 2.0 | <u>BENCHMARKING (HAMPSHIRE AUDIT MANAGERS GROUP):</u> <i>Note: Target is average midpoint of Group Mean & Top Score</i> | | | | | |
| 2.1 | Daily Average Unit Cost (per Auditor) | Medium | <£177 | £149 (2nd) | £152 (1 st) | Est. June 2003 (Manager) |
| 2.2 | Service Cost as a % of Gross Income & Expenditure | Medium | <0.18% | 0.12% (1st) | 0.13% (1 st) | Est. June 2003 (Manager) |
| 2.3 | Service Cost as a % of Total Employee Costs | Medium | <1.78% | 0.92% (1st) | 1.05% (1 st) | Est. June 2003 (Manager) |
| 2.4 | Average Productive Days per Auditor | Medium | >187 Days | 185 Days (4th) | TBO | Est. June 2003 (Manager) |
| 2.5 | % Productivity (Total Productive Time allocated/Total Resources %) | Medium | >71.9% | 71.2% (3rd) | TBO | Est. June 2003 (Manager) |
| No. | ACTION PLAN | Priority | ACTION REQUIRED | | | Date/Officer |
| 3.0 | <u>EFFICIENCY IMPROVEMENTS:</u> | | | | | |
| 3.1 | Adopt CIPFA Audit Matrices for fundamental financial systems (Managed Audits) | High | Adopted 2001/02 – no further action required. | | | Completed |
| 3.1a | Further to 3.1 above, determine whether use of the CIPFA Audit Matrices can be scaled from a full review to lower level audits where risk assessment permits. | Medium | Verify with District Audit and action if appropriate. | | | April 2002 (Manager & Sen Auditor) |
| 3.2 | Consider adoption of CIPFA Audit Matrices for other financial and management systems where available. | Medium | Review higher risk systems in the first instance | | | Sept. 2003 (Sen Auditor) |
| 3.3 | Keep under review recommended (District Audit) risk approach to auditing. | High | Procedures revised in 2001/02 - consider further room for improvement | | | Ongoing (Manager) |

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|------------|---|-----------------|--|------------------------------------|
| 3.4 | Keep under review new Team Working arrangements. <i>[BVRP Item 7 Paragraph 7.4.9]</i> | Medium | Team working implemented Jan 2002 – verify any improvements in productivity | Sept 2003 (Sen Auditors) |
| No. | ACTION PLAN | Priority | ACTION REQUIRED | Date/Officer |
| 3.5 | Examine potential for revising current three year Audit Plan to five years. <i>[BVRP Item 12 Paragraph 7.6.11]</i> | Medium | Agreed in principle with Assistant Director of Resources and the Council’s Section 151 Officer (Director of Resources). Review Audit Plan in depth. | April 2002 (Manager) |
| 3.6 | Examine potential for refining cash-up and stock-taking procedures. | Medium | Essential to maintain two auditors during routine cash-ups but consider options for reducing scale or number of visits and/or utilising other employees in the process | April 2002 (Audit Assistant) |
| 4.0 | <u>OTHER BEST VALUE FINDINGS:</u> | | | |
| 4.1 | Review potential sustainability improvements within Audit Services <i>[BVRP Item 1 Paragraph 4.4.2]</i> | Low | Currently reviewing sustainability impact by external contractors – as part of review determine if internal improvements can be made. | Jan 2003 (Principal Auditor) |
| 4.2 | Keep under review need for an ICT Specialist with Internal Audit. <i>[BVRP Item 2 Paragraph 7.3.6]</i> | Low | Review as part of E-Governance development (liaise as necessary with ADR (Ken Connolly)). | Ongoing (Manager & Sen Auditor) |
| 4.3 | Keep under review Customer Satisfaction Survey. <i>[BVRP Items 3 & 4 Paragraph 7.4.6]</i> | Medium | Only one issue identified to date i.e. improve communications at draft report stage. | Ongoing (Manager & Sen Auditor) |
| 4.4 | Assess “Staff Questionnaire” and facilitate suggested improvements. <i>[BVRP Item 5 Paragraph 7.4.7]</i> | Medium | 100% return. Some minor suggestions for improvement. Arrange special “one to ones” with staff to debate. | May 2002 (Manager) |
| 4.5 | Build previous performance targets and indicators into Best Value Performance and Improvement Plan. <i>[BVRP Item 6 Paragraph 7.4.8]</i> | High | Actioned. | Completed |
| 4.6 | Consider joining the Wansbeck benchmarking study | Low | Discuss further with Hampshire Audit | Sept 2003 |

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|------------|--|-----------------|---|----------------------------------|
| | [BVRP Item 8 Paragraph 7.5.5] | | Managers Group to determine advantages and disadvantages of subscribing to the study. | (Manager) |
| No. | ACTION PLAN | Priority | ACTION REQUIRED | Date/Officer |
| 4.7 | Keep under review Internal Audit sickness and measure against BVPI12 [BVRP Item 9 Paragraph 7.5.7] | Low | Put in place arrangements to review sickness on a quarterly basis. | June 2002 (Manager) |
| 4.8 | Support the Director of Resources (DoR) in further analysis of the Corporate Stress Audit. [BVRP Item 10 Paragraph 7.5.8] | Medium | DoR to initiate a further Stress study within Resources Directorate. | May 2002 (DoR) |
| 4.9 | Keep under review partnership arrangements within Hampshire [BVRP Item 11 Paragraph 7.6.11] | Low | In support of a statement by Councillor Colin Wise (Portfolio Holder Finance & Support Services) only areas where benefits to this Council accrue should be considered | Ongoing (Manager) |
| 5.0 | <u>MAJOR CORPORATE INITIATIVES:</u> | | | |
| 5.1 | To implement the Exor Group Limited “Sinclair” database for managing the Council’s Standing Approved List of contractors and suppliers. | High | Act as Project Manager for implementation | August 2002 (Manager) |
| 5.2 | Assist in the development of a high level Procurement Strategy for the Council. | High | Support the General Manager – Commercial Services and others in developing the strategy for Member approval. | Late 2002 (Principal Auditor) |
| 5.3 | Freedom of Information Act 2000 – establish policy and publication scheme. | High | Work with Legal representative to ensure conditions of the Act are met. | Feb 2003 (Principal Auditor) |
| 5.4 | Data Protection Act 1998 – Regulate and implement new registration database. | High | Implement new system. | Sept 2003 (Principal Auditor) |
| 5.5 | Best Value – maintain responsibilities for directorate and corporate guidance and ensure audit representation on all fundamental best value reviews. | High | Maintain role on Best Value Project Board and undertake representation of the majority of BV Reviews | Ongoing (Principal Auditor) |

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|------------|--|-----------------|--|--------------------------------------|
| 5.6 | Regulation of Investigatory Powers Act 2000 – train all relevant employees on requirements of the Act. | High | Finalise training developed (2001/02) jointly by Legal Services and Internal Audit. | June 2002 (Senior Investigations) |
| No. | ACTION PLAN | Priority | ACTION REQUIRED | Date/Officer |
| 5.7 | Joint working with the District Auditor on major reviews. | High | Completion of prior year review on ICT – BS7799 and consider involvement in E-Governance review. | Ongoing (Manager) |
| 5.8 | Plan for joint auditing of partnered operations with Test Valley District Council. <i>[BVRP Item 13 Paragraph 7.6.11]</i> | High | Formulate action plan with Test Valley | June 2002 (Manager & Asst DoR) |
| 6.0 | <u>UTILISING TECHNOLOGY:</u> | | | |
| 6.1 | Implement new Fraud Case Management system (Radius) to assist in the management of both benefit and internal fraud. | High | Implement new system. | April 2002 (Fraud Team) |
| 6.2 | Expand use of WinIDEA interrogation software to all system reviews where practicable. | Medium | Extend use of WinIDEA. | Ongoing (Sen Auditor) |
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