

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

27 SEPTEMBER 2007

REPORT OF THE DIRECTOR OF FINANCE

INTERNAL AUDIT PERFORMANCE MANAGEMENT

1. EXECUTIVE SUMMARY

- 1.1. Following the introduction of the new CIPFA Code of Practice for Internal Audit in Local Government and a recent review of the Internal Audit service by the Audit Commission a number of indicators for regularly measuring the performance of the internal audit service have been implemented to enhance those already in use. A report was submitted to this Committee on 28 June 2007 and further details were requested.

2. BACKGROUND

- 2.1. CIPFA issued a new 'Code of Practice for Internal Audit in Local Government' in January 2007. The Code identifies as best practice a number of measures for evaluating the performance of the Internal Audit service.
- 2.2. In anticipation of the expected requirements of the new Code of Practice a number of actions to improve performance management were identified in a report to this Committee on 21 November 2006.
- 2.3. Following publication of the new Code of Practice a number of additional performance indicators that reflect professional best practice have been identified and implemented. Systems have also been developed within the Internal Audit Section to monitor and report the relevant management information.
- 2.4. The Audit Commission reviewed the effectiveness of the Internal Audit service in March 2007, and made the recommendation - "Agree the set of performance measures to be used to monitor Internal Audit with the Audit and Risk Management Committee." This was reported to this Committee on 28 June 2007. Further explanation of the background, particularly with regard to the targets of 100%, was requested by the Committee.

3. PERFORMANCE INDICATORS

- 3.1. The Internal Audit Section has previously utilised the following indicators to evaluate ongoing performance. These indicators have been accepted as reasonable and appropriate measures that have complied with perceived best practice within the profession and were acceptable to the Audit Commission:

- a. Percentage of Internal Audit Plan days achieved against a target of 90%.

Delivery of Audit Plan Days has been used as a measure of output, although it does appear paradoxical and more a measure of input. The rationale lies in the concept of the Audit Needs Assessment, which is the computation of the number of standard audit days needed to complete an effective audit of the entities identified as comprising the so-called "Audit Universe". This is simply the systems, issues and projects in an organisation that are subject to audit. The concept was used by all professional firms and recommended by the relevant professional institutes, for some years. 90% achievement was the average benchmarked target achieved and the minimum % acceptable by the Audit Commission when reviewing the effectiveness of Internal Audit.

- b. The number of audit reports completed within 14 days of the completion of the audit, against a target of 100%.

It is crucially important that information arising from audits is communicated to management rapidly for it to be of use and to be worthwhile conducting the audit. 14 days has proved to be the optimum target time. A shorter time does not confer extra benefit to management but has the potential risk of error arising from rushed work. The target of 100% has been regularly achieved and there is no benefit in making it more challenging but some risk, hence it has been maintained.

- c. Percentage of Customer Survey Feedback forms returned indicating a 'good' opinion of the service, against a target of 100%.

Managers are invited to complete a feedback form following the completion of every audit. A series of questions on aspects of an audit, to be answered by a "yes" or "no", are posed and an assessment made as a result of the number of positive responses. The assessments available range from "less than satisfactory" through "satisfactory" and "good" to "excellent" which are the same as the range of opinions that can be given following audits. Previously, all forms returned have been rated at least "good" hence it is appropriate to aspire to maintain that high quality of opinion of the service.

- 3.2. Performance Indicator 3.1.a. will continue to be used. However, to comply with the recommendations of the Audit Commission and the requirements of the CIPFA Code, the following additional performance indicators have been implemented to measure output for 2007/08 and will be monitored using the PIMS system:

- a. Number of high risk systems audited as a percentage of the total identified, against a target of 100%.

Systems identified in the Audit Plan are categorised as low, medium or high risk. The high risk systems are crucial to the effective operation of the Council hence it is essential that they are all audited. Resources might be drafted into the Section or fewer resources devoted to low and medium risk areas in order to transfer them to complete the audits of high risk items. Consequently, it is a priority for the Section to achieve 100% of this target.

- b. Percentage of Internal Audits completed, against a target of 100%.

Audit planning is now based on risk. Hence the Plan is based on the risks identified and audits planned to review the controls in place. Inevitably, the number of audits completed during the year might be less than that planned, but a 100% target is considered an appropriate aspirational target as the intention is to review all risks identified and resources might be transferred to enable the target to be achieved.

- c. Number of follow-up audits undertaken as a percentage of the total number of audits completed, against a target of 100%.

Follow-up audits are essential to verify that recommendations have been implemented as agreed and to comply with professional standards of auditing, hence the target must be 100% to ensure that the intention to follow-up all audits is clearly stated.

- 3.3. Additionally, the Internal Audit Section will monitor and report regularly to the Finance Department Management Team and this Committee as appropriate, on additional data concerning the work of Internal Audit:-

- a. The % of customer survey forms returned indicating a "good" opinion of the service.
- b. The % of audit reports completed within 14 days of close of the audit.

These were previously used as performance indicators.

- c. The % of systems audited that resulted in a "less than satisfactory" opinion.
- d. The % of High Risk systems audited that resulted in a "less than satisfactory" opinion.
- e. The % of high priority recommendations made in audit reports.
- f. The % of medium priority recommendations made.

The latter four are relevant to the quality of the control environment of the Council and so important information for management. They could be considered the "output" of Internal Audit work but are not used as performance indicators as they cannot be used to manage the work of the Section.

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1. There are none arising from this report.

5. LOCAL MEMBER SUPPORT IMPLICATIONS

5.1. There are no local Member support implications.

6. LOCAL AGENDA 21 STATEMENT

6.1. There are no local agenda 21 implications.

7. PLANNING IMPLICATIONS

7.1. There are no planning implications.

8. EQUAL OPPORTUNITIES IMPLICATIONS

8.1. There are no equal opportunities implications.

9. COMMUNITY SAFETY IMPLICATIONS

9.1. There are no community safety implications.

10. HUMAN RIGHTS IMPLICATIONS

10.1. There are no human rights implications.

11. BACKGROUND PAPERS

11.1. Internal Audit Annual Plan 2007/08.

11.2. CIPFA Code of Practice for Internal Audit in Local Government – January 2007.

11.3. Audit Commission Review of Internal Audit 2005/06 – May 2007.

12. RECOMMENDATION

12.1. That the introduction of the new performance indicators for Internal Audit be agreed, in line with the Audit Commission recommendation.

IAN COLEMAN
DIRECTOR OF FINANCE