

Audit Committee – 26th October 2005

Report of the Director of Finance

Dudley Internal Audit Services – Value for Money

Purpose of Report

1. To provide the Committee with information about the economy, efficiency and effectiveness of the Council's Internal Audit Service.

Background

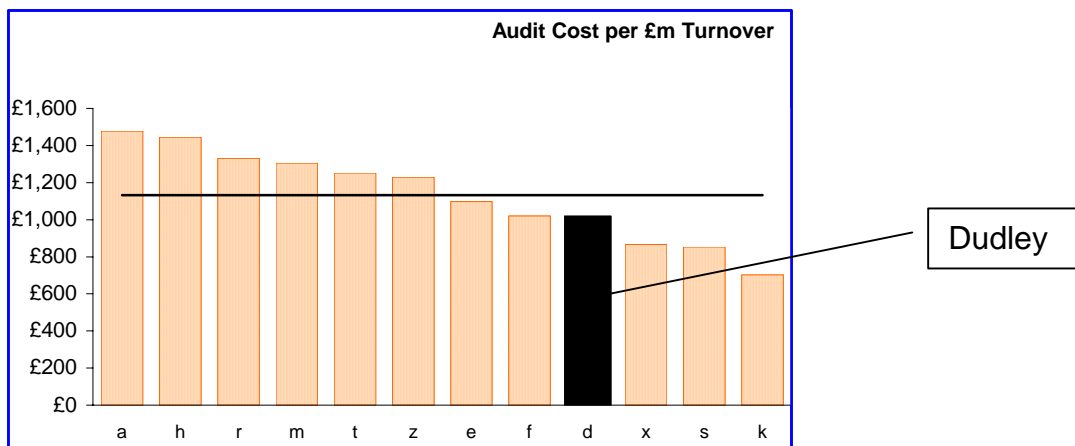
2. At its last meeting, the Committee asked for a report on the value for money of the Council's internal audit function.
3. There is a statutory requirement to provide internal audit. The Accounts and Audit Regulations 2003 require the Council to have "*an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices.*" Internal Audit is also an essential function in supporting me, as the Council's designated Chief Financial Officer (Section 151 Officer) in discharging my statutory responsibilities "*to make arrangements for the proper administration of (the Authority's) financial affairs*". The Council has, therefore, delegated responsibilities for internal audit to me, but the Head of Audit Services has the right to take issues directly to the Council's Chief Executive, should the need arise.
4. The primary objective of the internal audit service is to provide assurance to the Authority and to me that the internal control environment is adequate and robust. In the past this assurance has related almost entirely to the financial control environment, but is now extended increasingly to the broader control environment as audit work includes reviews of the procedures for key non-financial control functions, such as risk management and performance management.
5. The roles and responsibilities of internal audit are set out in the Council's Financial Regulations and the service operates in accordance with proper internal audit practices by complying with the CIPFA Code of Audit Practice, which sets out the basis for the provision of an internal audit service in the public sector.
6. The provision of internal audit, which is, of course, overseen by this Committee, is based on a five year strategic plan, and annual detailed plans, which are developed from and based on a range of factors, including:-
 - (a) an assessment of key risks;

- (b) experience and previous audit work;
- (c) joint working with external audit;
- (d) discussions with service Directors and senior colleagues;
- (e) my requirements as the statutory Chief Financial Officer;
- (f) and the level of resources made available to internal audit is a balance between the judgement of what is required to deliver overall statutory responsibilities, the details of the strategic and annual plans and what can reasonably be afforded.

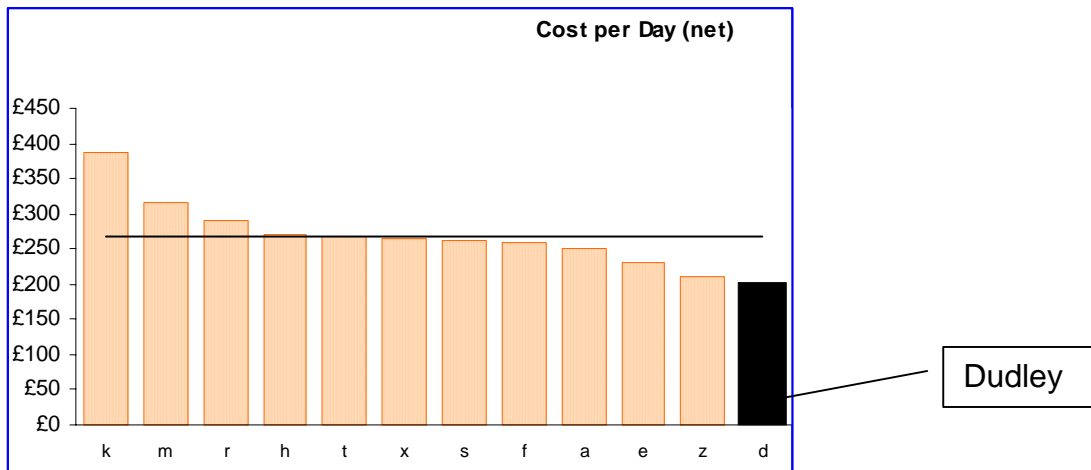
7. The internal audit service is currently provided by 16 directly employed staff (14.5 full time equivalents) and, for specialist ICT audits, through a partnership with Deloitte - an external firm of accountants and auditors. The total budget for the service in the current financial year, including the cost of the work undertaken by the external partners, is approximately £550,000.

8. Judgements about value for money include assessments of both costs and inputs (economy and efficiency) and outputs (effectiveness).

9. The Audit Services Division is a member of the CIPFA Benchmarking Club for internal audit and the following charts compare our costs with ten similar unitary authorities (i.e. similar financial turnover and a large housing stock), using two key measures (based on 2004/05 Actuals).



Dudley's cost is £1,019 compared to an average of £1,133 (10% lower)



Dudley's cost is £202 compared to an average of £268 (24.6% lower).

10. The lower than average cost base results from a range of measures, including:-
 - (a) regular review of the staffing mix (ratio of qualified staff to others);
 - (b) prudent staffing redirections (whilst maintaining planned audit coverage);
 - (c) the innovative use of new technology.

11. Costs, or inputs, are, of course, only one side of the value for money/best value equation. Outputs in Internal Audit are, however, much more difficult to measure. There are some quantitative outputs, viz:-
 - (a) in 2004/05 achieving 94% of the plan, despite the effects of vacancies and sickness that arose during the year;
 - (b) making about 2,400 recommendations in each of the last two years, with only about 10% having been made previously – indicating that management are, in the main, actioning the recommendations made;
 - (c) producing reports in accordance with service plan targets – approximately 200 per annum (191 for 2005/2006).

12. It is the quality of Internal Audit's work and contribution that is the key issue and that is much more difficult to measure and assess on a comparative basis. We can however look to the Council's External Auditor, who relies on the work of Internal Audit to cover the main Financial Systems, for his views. In his last report, the External Auditor said "Once again our review of Audit Services confirmed that CIPFA standards are being met and good quality work is being produced". In addition, as part of the Audit Commissions Annual "Use of Resources" Assessment the work of Internal Audit has been assessed as 4 star.

13. Following each audit, as the Committee is aware, auditees are asked to complete an assessment questionnaire, the results of which indicate that 100% of responses scored the Audits as satisfactory, good or very good.

14. As paragraph 11b says, the vast majority of Internal Audit recommendations are implemented by Management and this is a fair indication of the effectiveness of Audit recommendations.
15. Members, and particularly those who serve on the Audit Committee, have consistently expressed complimentary views about the work of Internal Audit and as the Councils Statutory Chief Finance Officer, I am entirely satisfied that we are providing an adequate and effective system of Internal Audit.
16. Overall, therefore, I do not believe it would be unreasonable to conclude that the current Internal Audit arrangements are providing an adequate and effective system of internal control and are delivering effective outputs, and by comparison with similar Authorities, offering extremely good value for money.

Finance

17. The costs of the Council's internal audit service are included within the base budget for the Directorate of Finance, ICT & Procurement.

Law

18. The Accounts and Audit Regulations 2003 that require the Council to have an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices.

Equality Impact

19. The Audit Services Division complies with the Council's equality agenda and there is no direct equality impact considerations arising from their work

Recommendation

20. It is recommended that:-
 - The contents of this report are noted.



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List of Background Papers

Audit Commission Audit Letter 2004
CIPFA Benchmarking Report for internal audit services 2005