

Audit Committee: Effectiveness of the system of Internal Audit

AUDIT COMMITTEE

Date: 22nd June 2010

Author: Group Director, Business Transformation

Wards Affected: None

Purpose

In order to comply with The Accounts and Audit (Amendment) (England) Regulations 2006 the Council must, at least once a year, conduct a review of the effectiveness of its system of internal audit.

Recommendation

- It is recommended that the Audit Committee agree that they should carry out this review of effectiveness.
- It is recommended that Members review the effectiveness of internal audit using the sources of assurance detailed in this report and against the checklist provided in the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (see Appendix A attached) and the CIPFA Audit Committee Toolkit self-assessment checklist.
- It is recommended that where Members note any non-compliance with best practice they request the Head of Internal Audit to bring back a future meeting of the Committee details of changes to procedures or amendments to documents for approval.

1 Reasons

- 1.1 The Accounts and Audit Regulations 2006 state that 'the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit'. The regulations go on to state that the findings of this review be considered by a committee of the relevant body, or by members of the relevant body as a whole, as part of the wider consideration of an organisation's system of internal control.
- 1.2 Internal Audit is one of the key areas of assurance for the Audit Committee and therefore has a significant impact on the Council's Annual Governance Statement. It is important that the Committee can be assured that the system for Internal Audit itself is effective.
- 1.3 The regulations and guidance relating to the assessment of the system of internal audit allow for different methods of review but it is accepted

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that where an Audit Committee exists that this would be an appropriate body to conduct the review. The regulations also do not define the extent of the 'system of internal audit' i.e. should it also include the arrangements for risk management, the Audit Committee itself and how the monitoring of the implementation of audit recommendations is carried out by senior management?

2 Detail

Introduction

- 2.1 The Audit Committee is considered to be an appropriate body to review the effectiveness of the system of internal control, although other methods of review can be considered.
- 2.2 This report sets out various areas of assurance that the Audit Committee can look to rely on when reviewing whether the system of internal audit is effective.

The Accounts and Audit (Amendment) (England) Regulations 2006

- 2.3 The Accounts and Audit regulations 2003 and subsequent amendments have put greater emphasis on internal audit's role beyond looking at just financial controls.
- 2.4 Internal Audit is therefore a key source of assurance to the Audit Committee when it considers the Council's Annual Governance Statement (a requirement of the regulations).

CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.

- 2.5 This publication updates the 2003 Code. It reflects the changes arising from the amendments to the Accounts and Audit Regulations in 2006 and practice relating to corporate governance that further emphasise the importance of internal audit to the proper management of organisations. It more closely aligns practice with current approaches for auditors, particularly in respect of developments in risk management and the impact on planning internal audit activity.
- 2.6 All principal local authorities' internal audit sections should comply with the requirements set out in this Code.
- 2.7 The Code of Practice contains eleven standards as follows:
 - Scope of Internal Audit

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- Independence
- Ethics for Internal Auditors
- Audit Committees
- Relationships
- Staffing, Training and Continuing Professional Development
- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness

2.8 These standards are summarised in a checklist that is attached as Appendix 1. The Head of Internal Audit has completed answers to the checklist that members of the Audit Committee are asked to consider as part of their review of the effectiveness of Internal Audit.

External Audit

2.9 As mentioned above, this is the second year that a formal review of the effectiveness of internal audit has been required (under the amended Accounts and Audit Regulations 2006). However, the Council's External Auditors carry out a review of Internal Audit's work on an annual basis.

2.10 Their review informs them as to whether they can place reliance on the work of internal audit particularly in relation to the Council's main financial systems. If they are happy to do so then their work in these areas can be reduced as the opinion of the internal auditor can be relied upon. Recent comments from the External Auditor with regard to Internal Audit include:

- *Internal Audit is an effective control mechanism and supports the Audit Committee with robust reporting and challenge concerning potential weaknesses in internal control'. Source: External Audit Annual Letter – Use of Resources.*
- *'the Council has a well-performing internal audit function that operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government' Source: External Audit Performance report – January 2008.*
- *'effective relationships are in place between internal and external audit to ensure that there is an integrated approach to delivering the managed audit requirements'. Source: External Audit Performance report – January 2008.*

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- 2.11 Members can gain assurance from the Council's External Auditor that during their last review (April – May 2009) of Internal Audit as part of their final accounts work, and in September 2009 as part of their work on the CAA Use of Resources (UoR) assessment that they were happy to place reliance on the work of Internal Audit.
- 2.12 Arrangements regarding Internal Control (CAA UoR section 4.2) were rated as a level 3 i.e. performing well – consistently above minimum requirements at the latest CAA UoR.

Client Feedback

- 2.13 After each audit is completed and the report finalised a customer feedback form is sent to the client manager asking them to rate the service they received as either excellent (4); good (3); average (2); poor (1) under a number of headings i.e.
- Value of the audit to you as a manager: pre-audit arrangements; coverage of audit; timeliness of report; accuracy and clarity of report; practicality of recommendations.
 - Conduct of auditor: professionalism of approach; communication skills; timeliness, competency and manner of auditor; friendliness, helpfulness and approachability.
 - Additional comments regarding improvement to services.
 - Whether the manager considers audit to be a supportive process.
- 2.14 Our target is to achieve an overall rating of at least 3 (good). From those feedback forms returned for 2009/10 our average score was 3.22. This shows that clients are happy with the service provided to them by Internal Audit.

Coverage

- 2.15 Corporate Board and the Audit Committee approve the annual audit plan. A significant part of the plan for 2009/10 was based on the Council's Corporate risk register and the Group Directorate plans that supported this thereby demonstrating that the plan was risk-based i.e. concentrating on risks to the Council achieving its main objectives.
- 2.16 88% of the planned number of audits from the 2009/10 audit plan were completed.

Audit Committee

- 2.17 When looking at the system of internal audit it incorporates more than just the internal audit section. The Audit Committee is a key element of

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this process. The Audit Committee has been established as a full committee and has adopted terms of reference that reflect current guidance and best practice.

- 2.18 Members of the Committee are able to call Group Directors/Directors and indeed the Chief Executive to account when considering individual audit reports.
- 2.19 Members also monitor the performance of internal audit by reviewing the Head of Internal Audit's monthly update report to Committee.
- 2.20 Members reviewed the Audit Committee against the checklist provided by the CIPFA Better Governance Forum at the June 2010 meeting.
- 2.21 The Audit Committee also carries out a self-assessment exercise regarding its effectiveness on an annual basis.

Alternative Options

Not Applicable

Risk Management

Financial and Procurement Implications

There are no direct financial implications arising from this report however individual audit reports address the suitability of internal controls within the systems examined.

Legal/Human Rights Implications

Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2003. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972. The Accounts and Audit (Amendment) (England) Regulations 2006 the Council must, at least once a year, conduct a review of the effectiveness of its system of internal audit.

Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)

Internal Control, Audit Committee and the Statement on Internal Control all feature significantly in the CPA Use of Resources Assessment.

Effective systems of internal control within the Council will help to ensure that the objectives set out in the Corporate Plan and Swindon 2010 are achieved.

Consultees

The Director of Finance (Section 151 Officer) and the Director of Law and Democratic Services (Monitoring Officer) are consulted on all reports.

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Head of Internal Audit.

Appendices / Background papers

Appendix 1: Internal Audit Compliance with Code of Practice

Appendix 2: Audit Committee Self-Assessment Checklist

Key Decision/Decision in Forward Plan

Not Applicable