

Review of the effectiveness of the system of internal audit

Audit Committee

Date: 15th July 2104

Author: Head of Internal Audit
Wards: None
Locality Affected: None
Parishes Affected: None

1. Purpose and Reasons

- 1.1 In order to comply with The Accounts and Audit (Amendment) (England) Regulations 2011 the Council must, at least once a year, conduct a review of the effectiveness of its system of internal audit.
- 1.2 The Accounts and Audit Regulations 2011 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.
- 1.3 The system of 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.
- 1.4 The regulations and guidance relating to the assessment of the system of internal audit allow for different methods of review but it is accepted that where an Audit Committee exists that this would be an appropriate body to conduct the review.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that the Audit Committee agree that they should carry out this review of effectiveness.
 - 2.2 It is recommended that Members review the effectiveness of the system of internal audit using the sources of assurance detailed in this report and against the Public Sector Internal Audit Standards (which has replaced the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006) and the updated CIPFA Audit Committee Toolkit self-assessment checklist.
 - 2.3 It is recommended that where Members note any non-compliance with best practice they request the Head of Internal Audit to bring back to a future meeting of the Committee details of changes to procedures or amendments to documents for approval.
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3. Detail

Introduction

- 3.1 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.
- 3.2 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 2011

- 3.3 The Accounts and Audit Regulations have put greater emphasis on internal audit's role beyond looking at just financial controls.
- 3.4 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).
- 3.5 The final Annual Governance Statement will be presented to Audit Committee in September before being signed off by the Leader and Chief Executive. The draft Statement is an agenda item at this meeting of the Committee.

Public Sector Internal Audit Standards (Applying the IIA International Standards to the UK Public Sector)

- 3.6 The Public Sector Internal Audit Standards came in to effect from 1st April 2013. These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.
- 3.7 The standards cover the following key areas:
- Definition of Internal Auditing
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing

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- 3.8 These standards are summarised in a comprehensive checklist. The Head of Internal Audit has completed a self-assessment against the checklist and concluded that the Internal Audit section generally complies with the requirements of the standard. The full self-assessment is available to Members if required.
- 3.9 An action plan is being prepared to address the areas where additional work is required to ensure compliance with the standard. This will be brought to a subsequent meeting of the Committee.
- 3.10 Internal Audit's compliance with the standard helps to ensure the effectiveness of the system of internal audit.

Board Director: Resources

- 3.11 The Board Director: Resources has stated that: 'as Board Director: Resources I am satisfied that the current system for internal audit provides me with the necessary assurance regarding the Council's internal control arrangements'.

External Audit

- 3.12 External Audit is no longer required to carry out a full review of Internal Audit every three years, or to refer specifically to Internal Audit, except by exception, in any of their external reporting e.g. their Annual Governance Report.
- 3.13 However, Swindon Borough Council's External Auditor (Grant Thornton) have stated that *'from a comparison of internal audit against relevant auditing standards, a review of the Internal Audit's Annual Plan and progress against it, regular attendance at SBC's Audit Committee and our review of individual pieces of audit work, we can confirm that there are no matters we wish to raise concerning the operation of SBC's internal audit team as part of the internal control systems at the Council and that the work of internal audit (e.g. their work on financial systems) contributes to our risk assessment of the Council's overall control environment.'*
- 3.14 The standards are those set out in the Public Sector internal Audit Standards (PSIAS) these are set out in paragraph 3.6 above.
- 3.15 The Internal Audit section works closely with the Council's External Auditor, Grant Thornton, to ensure that they can provide the required assurance both as far as coverage and quality of our work.
- 3.16 Members can gain assurance from the Council's External Auditor that they have no issues with the Council's Internal Audit service.

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Client Feedback

- 3.17 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.
- 3.18 Our target is to achieve an overall rating of at least 3 (good) in over 85% of the customer feedback forms we receive. From those feedback forms returned for 2013/14 our average score was 3.38. 94.44% rated the service as either 'GOOD' or 'EXCELLENT' (compared to 90.48% last year). The remaining 5.56% rated the service as above average. Detailed results are as follows

| Area of assessment | Score [excellent (4); good (3); average (2); poor (1)] |
|--------------------------------------------|--------------------------------------------------------------|
| Pre-audit arrangements | 3.19 |
| Scope of audit | 3.33 |
| Timeliness of report | 3.05 |
| Accuracy of report | 3.24 |
| Practicality of recommendations | 3.05 |
| Professionalism of audit staff | 3.81 |
| Communication skills | 3.48 |
| Competence, manner, timeliness of auditor | 3.52 |
| Friendliness, helpfulness, approachability | 3.71 |
| Average score: | 3.38 |

- 3.19 This shows that clients are happy with the service provided to them by Internal Audit.

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Coverage

- 3.20 Corporate Board and the Audit Committee approve the annual audit plan. The client makes a significant contribution to the audit plan. A significant part of the plan for 2013/14 was based on the Council's Corporate risk register and risks identified by Heads of Service thereby demonstrating that the plan was risk-based i.e. concentrating on risks to the Council achieving its main objectives.
- 3.21 95% of the planned number of audits from the 2013/14 audit plan was completed, compared to 89% in 2012/13.

Audit Committee

- 3.22 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 this process. The Audit Committee has been established as a full committee of the Council and has adopted terms of reference that reflect current guidance and best practice.
- 3.23 Members of the Committee are able to call Board Directors/Heads of Service and indeed the Chief Executive to account when considering individual audit reports.
- 3.24 Members also monitor the performance of internal audit by reviewing the Head of Internal Audit's monthly update report to Committee and their Annual report.
- 3.25 Updated formal guidance on the expected role of an Audit Committee was published by CIPFA in 2013 entitled 'Audit Committees – Practical Guidance for Local Authorities'. Members have assessed the Committee against the previous guidance annually since its publication in 2005 and the new guidance at this Committee meeting.

4. Alternative Options

- 4.1 Not Applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2011. The Internal Audit service also provides assurance to the Director of

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Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 None

Links to One Swindon, Strategic Objectives, Plans and Policies

5.4 Effective systems of governance and internal control within the Council will help to ensure that the objectives set out in One Swindon and the Council's Corporate Strategy is achieved.

Diversity Impact Assessment

5.5 None

Risk Management

5.6 Not applicable

6. Consultees

6.1 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

7.1 None

8. Appendices

Appendix 1: Audit Committee Self-Assessment Checklist

Appendix 2: Updated CIPFA Audit Committee guidance checklist

9. Key Decision/Decision in Forward Plan

Not Applicable