

**REPORT TO THE Final Accounts and Audit Committee**

Report No. 9

<b>Date of Meeting</b>	<b>28/06/2007</b>
<b>Title of Report</b>	<b>Effectiveness of Internal Audit</b>
Link to Corporate Priorities	No links to corporate priorities, however links to corporate aims: 2. To ensure high quality, cost effective services. 4. To safeguard and enhance the assets and resources of North Wiltshire and the wider community.
Public Report	Yes

<p><b>Summary of Report</b></p> <p>To present to the Committee work undertaken to determine the effectiveness of the Internal Audit service.</p>
<p><b>Officer Recommendations</b></p> <p>That the Officer findings set out in the report are endorsed.</p>

Other than those implications agreed with the relevant Officers and referred to below, there are no other implications associated with this report.				
Financial Implications	Legal Implications	Community & Environmental Implications	Human Resources Implications	Equality & Diversity Implications
NONE	YES	NONE	NONE	NONE

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## **1. Introduction**

- 1.1 This report details progress made by the Internal Audit section against the approved 2006/2007 internal audit plan

## **2. Options and Options Appraisal**

- 2.1 Option 1: The findings of the report are endorsed by the Committee.
- 2.2 Option 2: Amendments to the report be suggested.

## **3. Background Information**

- 3.1 In March 2006 SI no 564 was laid before Parliament, to come into force from 1<sup>st</sup> April 2006. This added additional responsibilities to the existing Accounts and Audit Regulations and requires Local Government organisations to undertake a review of the effectiveness of Internal Audit.
- 3.2 The Regulations Section 6, Para 3 now state that "The relevant body shall, at least once a year, conduct a review of the effectiveness of its system of internal audit."
- 3.3 Section 6 Para 4 also state that "The findings of the review referred to in (3) shall be considered, as part of the consideration of the system of internal control referred to in paragraph (3) or regulation 4, by the committee or meeting referred to in that paragraph."

## **4. Review of effectiveness**

- 4.1 No guidance has been issued on how the review should be conducted, by whom it should be conducted or how the review should be documented. The consensus opinion amongst internal auditors is that results of any work undertaken by External Audit should be combined with any performance information on the productivity of the service and feedback received during the year. This should then form the basis of any assessment.

## **5. External Audit Assessment**

- 5.1 Audit Commission practice is to perform an annual review of Internal Audit, with a more detailed review every third year. Due to the Council's decision bring the Internal Audit service back in house, the detailed review was carried out by the Audit Commission in July 2006. The comments of the External Auditors are set out below:

*"Our overall conclusion is that the Authority and specifically the new Audit Manager have made significant progress in establishing comprehensive IA arrangements capable of providing management and members with an independent assessment of the adequacy and effectiveness of the internal controls operating within the authority. We are confident that these new arrangements and the recent appointment of the second member of the audit team will enable IA to become fully effective."*

- 5.2 A full assessment against the CIPFA Code of Practice for Internal Auditors in Local Government was carried out, and a number of recommendations were made to improve controls. These recommendations were built into the Council's Annual Governance report, and reports on progress against the recommendations has been

reported to the Final Accounts and Audit Committee on a quarterly basis. These are attached as Appendix A, with notes of progress made during the financial year.

## **6. Internal Assessment**

- 6.1 Progress against the performance indicators set for the section, including customer satisfaction surveys, were reported to the Committee at the April meeting. A summary of the performance indicators have been repeated here at Appendix B for reference.
- 6.2 Completion of the audit plan stood at 82% against a target of 90%, and at year end two managed audits were still work in progress rather than being finished in year as anticipated. Significant delays were also experienced in finalising audit reports, with only 53% of audits finalised within 15 days of the draft report being issued against a target of 90%.
- 6.3 However, the target for completing audits within budget was exceeded as was the target for recommendations accepted by auditees. The most pleasing of the performance indicators relates to customer satisfaction surveys being returned as good or excellent, which saw performance of 100% against a target of 90%.
- 6.4 At the suggestion of the Audit Commission an additional performance indicator on cost per productive audit day has been introduced. As no target was set at year end, the Local Government average of £271 per productive day has been used. Against this average the Internal Audit service achieved £289 per productive day, largely because accurate records of time spent on unplanned audit work, consultancy and other productive but unplanned time was not recorded. This time has therefore not been included in the calculation and so our costs are slightly overstated. The Council has now joined the Daventry benchmarking Internal audit for Success (BIA4S) group and will therefore be able to produce accurate figures with accurate District Council comparators for 2007/2008.

## **7. Effectiveness**

- 7.1 The effectiveness of the Internal Audit service is also reflected in its position and value to the Authority.
- 7.2 A leading district council has produced a self-assessment checklist to measure the effectiveness of Internal Audit, using a number of headings. NWDC has completed this exercise against similar headings and this is presented as Appendix C.

## **8. Officer Conclusion**

- 8.1 In the opinion of Officers the Internal audit service improved significantly in 2006/2007. A risk based audit plan was implemented and 82% of it was delivered by year end. The full framework of key documentation, including strategies, policies and procedures, were produced and shared with the organisation and a number of other key documents were reviewed and updated to improve the Council's governance arrangements.
- 8.2 Work has been produced to a standard considered acceptable by External Audit, and customer feedback to date indicates that the auditors are performing their job to a satisfactory standard.
- 8.3 It is therefore the opinion of Officers that the Internal Audit service was effective in 2006/2007.

8.4 However, there are a number of areas in which improvements need to be made in order for the service to remain effective through 2007/2008, and additional reports outlining these areas of weakness and proposed improvements will be brought to CMB and Final Accounts and Audit Committee in due course.

**9. Implications**

9.1 The requirement to form an opinion on effectiveness is required by statute, and failure to form an opinion could lead to criticism of the Council.

**10. Risk Analysis**

10. An ineffective Internal Audit service would undermine the entire Governance framework at the Council, which would in turn have serious implications for the External Audit assessment of our Internal Controls as part of Use of Resources and their review of the Council's Statement on Internal Control.

<b>Appendices:</b>	<b>Appendix A – External Audit assessment Appendix B – Performance Information Appendix C – Effectiveness Review</b>
<b>Background Documents Used in the Preparation of this Report:</b>	<ul style="list-style-type: none"> <li>• None</li> </ul>

**Previous Decisions Connected with this Report**

<b>Report</b>	<b>Committee &amp; Date</b>	<b>Minute Reference</b>
None	N/A	N/A