

Report

Report subject: Review of the effectiveness of Internal Audit

Report to: Audit Committee

Date: 13th June 2006

Author: Diana Melville, Chief Internal Auditor

1 Background

- 1.1 From April 2006 a new statutory instrument, the Accounts and Audit Regulations 2006, came into effect. This introduces a new requirement that the council conducts a review of the effectiveness of its system of internal audit, at least annually. It is also a requirement that the findings of this review shall be considered as part of the review of the system of internal control by the responsible committee. This is an addition to the long-standing requirement in previous Accounts and Audit Regulations for the council to maintain an adequate and effective system of internal audit.
- 1.2 The new regulations were announced in March 2006 and it is expected that a guidance note will be issued by government in due course. For consideration of this year's review of the system of internal control, the advice from professional bodies such as CIPFA is that a self-assessment is undertaken and reported to the Audit Committee.

2 Self-assessment

- 2.1 The standard against which the self-assessment has been carried out is the CIPFA Code of Practice for Internal Audit in Local Government, which is the basis for Internal Audit's terms of reference. The Code is due to be updated later in 2006 and the consultation draft states that Internal Audit should be judged not just by its adherence to the code but also by its contribution to the organisation.
- 2.2 The attached appendix shows a self-assessment against the current Code of Practice and also lists the characteristics of an effective internal audit section. Evidence in support of each is identified together with areas for development.
- 2.3 Overall the assessment of the effectiveness of internal audit is very positive. There are some areas for development nevertheless. The key areas are:
 - Continuing to build constructive relationships with managers and developing a positive attitude to audit.
 - Review of the effectiveness of follow up reviews and appropriate escalation procedures.
 - Continue to improve the delivery of the audit plan.
 - Develop the contribution of audit to the efficiency agenda.



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3 Conclusions

- 3.1 The internal audit team does meet the CIPFA Code of Practice and this has been the conclusion of the Audit Commission as the council's external auditors. The team's approach to internal audit is in tune with the characteristics of an effective internal audit section, however there areas for improvement and development.

4 Recommendation

- 4.1 The Audit Committee is asked to endorse the self-assessment and the planned actions arising from it.

Implications:

- **Financial:** None
- **Legal:** The council has a duty to maintain an adequate and effective system of internal audit having due regard for the CIPFA code of practice.
- **Human Rights:** None
- **Personnel:** None
- **Community Safety:** None
- **Environmental Impact:** None
- **Council's Core Values:** Excellent service, open learning council and a willing partner.

Self Assessment of Internal Audit

Code of Practice		
Standard	Evidence of achievement	Areas for development
Ethics: <ul style="list-style-type: none"> • Integrity • Objectivity • Competence • Confidentiality 	Individual performance is assessed through the council's appraisal system and there are no concerns.	
Scope of internal audit <ul style="list-style-type: none"> • Terms of reference • Scope • Responsibilities in respect of other organisations • Fraud and corruption 	Terms of reference reflect the latest Code of Practice. Scope of audit work takes into account risk management processes and resource levels were examined in 2005/6. The terms of reference identify responsibilities in respect of other organisations. Terms of reference define audit responsibilities in relation to fraud.	Limited work is undertaken in relation to other organisations. Fraud investigation has limited provision within the audit plan.
Independence <ul style="list-style-type: none"> • Organisational independence • Status of head of internal audit • Independence of individual auditors and contractors 	Direct access to those charged with governance through the Audit Committee. Reports are made in own name to management. No conflict of interest between operational responsibilities and audit. Rotation of audit work within the team. Contractors (IT audit) do not have any other roles within the council.	Line management is provided by Head of Financial Services rather than a member of the corporate management team. Under the council's Constitution the Chief Auditor is considered to be a Deputy Chief Officer.
Audit Committee <ul style="list-style-type: none"> • Reporting to the Audit Committee • Relationship with the Audit Committee 	All areas identified in the Code of Practice are reported to the Audit Committee. All Audit Committee meetings attended by Chief Auditor and annual meeting held with Chair.	
Relationships	Managers are consulted on the audit plan and on	Satisfaction survey of managers to be

<ul style="list-style-type: none"> • Management, • Other auditors and • Other review bodies 	<p>the scope of each audit. Responsibilities for managers and internal audit are defined in relation to fraud and corruption matters. Good working relations established with external audit, including consultation on plan and opportunities for joint working. Sharing of information is undertaken with other internal review agencies, principally Scrutiny reviews and business process re-engineering.</p>	<p>carried out in 2006/7.</p>
<p>Staffing, training and development</p>	<p>This is a strength of the team with a high level of qualifications, experience amongst the team. Continuing professional development is supported with training and other development activity.</p>	
<p>Audit Strategy</p>	<p>The Audit Strategy was approved by Audit Committee in January 2006. The Audit Plan was approved by audit Committee in April 2006. Both were prepared in accordance with the CIPFA Code of Practice.</p>	
<p>Management of Audit Assignments</p> <ul style="list-style-type: none"> • Approach • Recording • Follow up 	<p>A risk-based approach is used to the audit and an audit opinion is given. Standards of working papers evidence are determined by the Chief Auditor. Record retention is set by the Chief Auditor A follow up process is used to identify management action arising from the audit.</p>	<p>Internal audit procedures are based on the CIPFA manual. Some customisation could be formalised in a specific manual. The follow up process is weakened by the delay in receiving responses from managers. Escalation procedures need to be reviewed to address this.</p>
<p>Due professional care</p> <ul style="list-style-type: none"> • Conduct • Organisational arrangements 	<p>All internal auditors are aware of their individual responsibilities for due professional care. Arrangements are in place to monitor this:</p> <ul style="list-style-type: none"> • Chief Auditor reviews all audit work and 	

	<p>reports.</p> <ul style="list-style-type: none"> • Appraisal and training. • Whistleblowing arrangements 	
<p>Reporting</p> <ul style="list-style-type: none"> • Assignment reporting • Annual reporting 	<p>Audit reports follow the Code of Practice requirements for assignment reporting, except that recommendations are not explicitly made. An annual report to support the Statement on Internal Control is provided to the Audit Committee in accordance with the Code.</p>	
<p>Quality Assurance</p> <ul style="list-style-type: none"> • Management of internal audit • Internal quality review • External quality review 	<p>Use is made of the CIPFA manual for internal audit. Performance measures are identified and reported to Audit Committee through the annual report. Appraisal of staff is undertaken. Internal quality reviews are undertaken by the Chief Auditor for all audit work. An annual assessment of the work of internal audit is undertaken by external audit. The Audit Commission has reported that internal audit meet the CIPFA Code of Practice.</p>	<p>There has been no external review commissioned internally.</p> <p>Improve the achievement against the audit plan, whilst maintaining the need to respond to key risks and problems during the year.</p>
Characteristics of Effectiveness		
<p>Understand its position in respect to the organisation's other sources of assurance and plan its work accordingly.</p>	<p>Internal audit identifies other sources of assurance and takes this into account when preparing the Internal Audit Plan.</p>	
<p>Understand the whole organisation, its needs and objectives.</p>	<p>The Audit Plan demonstrates how audit work will provide assurance in relation to the council's objectives. Individual audit assignments will identify risks to the achievement of those objectives.</p>	<p>Develop the scope of audit work to include greater emphasis on efficiency improvements.</p>
<p>Be seen as a catalyst for change at the heart of the organisation.</p>	<p>Supportive role of audit for corporate developments such as corporate governance review, risk management and ethics.</p>	<p>Attitudes to change within the council will impact on Internal Audit's success in this area.</p>

	Individual assignments may be catalyst for change.	
Add value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work.	
Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.	Internal Audit provide help and advice on request and support specific projects.	
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.	Individual audit assignments will use examples of best practice. When identifying risks changes on the national agenda are reflected. The audit section is in touch with new developments in the field of audit, risk management and corporate governance and this is disseminated to other parts of the council.	
Be innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.	Internal Audit has taken an innovative approach to its reporting arrangements by focusing on risks and encouraging managers to develop their own responses to the risks, rather than audit recommendations. The aim of this is to encourage greater ownership of the control environment amongst managers.	
Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.	This was explicitly addressed by a paper on resources to the Audit Committee during 2005/6. Arrangements are in place to obtain specialist input on IT audit.	