

AUDIT COMMITTEE

30th June 2011



Review of the Effectiveness of Internal Audit

Don McLure, Corporate Director of Resources

Purpose of the Report

1. The purpose of this report is to advise members of the outcome of the annual review of the effectiveness of Internal Audit.

Background

2. The Authority has a requirement under the Accounts and Audit (England) Regulations 2011 to review the effectiveness of internal audit each year. Internal Audit is an important element of the system of internal control and consideration of its effectiveness contributes to the annual review of the Authority's corporate governance arrangements, and is required to inform the Annual Governance Statement (AGS).

Approach adopted

3. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 sets the Standard for Internal Audit across 11 key areas of activity. In order to inform this review a desktop assessment against the criteria and standards set out in the Code has been carried out in consultation with the Manager of Internal Audit and Risk, as the Council's Head of Internal Audit. The outcome of this assessment together with details of actions being taken or planned to improve compliance are detailed in Appendix 2.
4. In addition consideration has also been given to CIPFA's Statement on the role of the Head of Internal Audit (HIA) in public section organisations recently published. Two self-assessment checklists have been developed:
 - one covering core responsibilities, personal skills and professional standards
 - the other covering governance requirements.

These are attached at Appendices 3 and 4.

5. One to one meetings have also been held with each Corporate Director and the Head of Internal Audit to provide an opportunity to obtain feedback on how the service was being delivered and how it could improve.

Conclusions

6. The service is substantially compliant with the requirements of the Code.
7. The areas of non compliance relate primarily to the need to improve relationships with other regulatory and inspection agencies (excluding external audit). Work in progress to develop an assurance mapping framework, including internal and external sources of assurance, will help improve the co-ordination and understanding of other assurance sources which will provide a foundation for establishing effective relationships. Consideration of data quality sharing and partnership governance arrangements as part of audit work will also help identify the potential for placing reliance on the work of other organisations internal audit services.
8. Areas where partial compliance has been indicated reflect the need to improve and embed a 'risk based' approach to auditing. The need for improvement in this area had been acknowledged by the Head of Internal Audit. This led to a review of the audit strategy which was reflected in an updated Internal Audit Charter approved by the Audit Committee in October 2010.
9. Training on embedding risk based auditing, for all audit staff, has now been provided by the Institute of Internal Auditors. In addition, the Head of Internal Audit has advised that audit processes and procedures are being systematically reviewed in line with the approach and are to be formally documented and incorporated into a comprehensive Internal Audit Manual.
10. The assessment against the principles of the CIPFA Statement on the Role of Head of Internal Audit also illustrates a high degree of compliance. Areas for improvement primarily relate to improving assurance on programme and project risks. Early consideration of risks and control issues as new systems and processes are being developed adds more value than reviewing controls after processes and procedures have been developed and implemented.
11. Achieving effective independent assurance on programmes and project assurance is not always easy to achieve when you are not regularly involved in a programme or project. The role and responsibilities of audit in any involvement on current developments needs to be clearly understood to ensure that any support is timely, effective and adds value otherwise there could be a problem where audit involvement may be perceived as more of a hindrance rather than a help to better management and internal control.

12. However, given the extent of change across the Council, it is acknowledged that the risks associated with programme and projects may exceed those associated with some business as usual activities. Consequently, additional resources have been allocated in annual plans to provide assurance on programmes and projects, either as part of planned assurance reviews or in a specific advice and consultancy role at the request of the service. In addition, to ensure adequate flexibility to respond to new and emerging risks, a larger provision has been included in the 2011/12 plan to response to new of emerging risks to help improve the effectiveness of the service in this area.
13. Another area for improvement, recognised by the Head of Internal Audit, was to improve assurance provided on the pension fund. In recognition that the in house team may not have all the necessary skills and experience to provide reliable assurance in this specialist area, an internal audit partner was appointed to develop and deliver pension fund audit in 2011/12. This arrangement will allow for skills transfer to the in house team wherever possible and the general nature of the partnership will allow for the sharing of best audit practice.
14. A key improvement implemented during the year was a change in the reporting line for the Manager of Internal Audit & Risk who with effect from 1 April 2011 now reports direct to the Corporate Director Resources rather than the head of finance. This change will help raise the profile of the audit service and improve its independence. This in turn should improve the extent to which the service is engaged and or/consulted on emerging issues. It is also proposed to change the job title of the Manager of Internal Audit and Risk, to that of Chief Internal Auditor, to provide clarify within the Council that the post holder is the head of internal Audit. This will require a revised job description/personal specification which will be amended to reflect the requirements of CIFPA's Statement on the Role of the Head of Internal Audit.

Recommendations

15. Members are asked to consider this report together with the supporting evidence provided and confirm whether they are satisfied with the effectiveness of internal audit and can place reliance on its work.

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Appendix 1: Implications

Finance

There are no direct financial implications arising for the Council as a result of this report.

Staffing

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability

None

Legal Implications

Compliance with Accounts and Audit Regulations 2011