

## ITEM NO: 12

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT		
<b>DATE OF DECISION:</b>	25 <sup>TH</sup> JUNE 2008		
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR		
<b>AUTHOR:</b>	Name:	Sarah Dennis	Tel: 023 80 834255
	E-mail:	sarah.l.dennis@southampton.gov.uk	

### STATEMENT OF CONFIDENTIALITY

Not applicable

### SUMMARY

Under the Accounts and Audit (Amendment) (England) Regulations 2006 the Council is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit. To assist the Audit Committee in discharging this requirement on behalf of the Council, this paper summarises the measures currently in place to monitor internal audit effectiveness and proposes an approach for future reviews.

### RECOMMENDATIONS:

- (i) That the Audit Committee reviews the effectiveness of the system of internal audit using the sources of assurance detailed in this report.

### REASONS FOR REPORT RECOMMENDATIONS

1. The Accounts and Audit Regulations 2006 state that the Council 'shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit'. This review is part of the wider annual review of the effectiveness of the system of internal control which contributes to the Annual Governance Statement and as such should be referred to the Audit Committee.

### CONSULTATION

2. The Audit Committee was consulted in June 2007 to agree how the 2007/08 review should be conducted.

### ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. None

### DETAIL

4. The Accounts and Audit Regulations 2006 place a requirement on authorities to conduct an annual review of the effectiveness of the system of internal audit. The regulations do not specify how this should be achieved and technical guidance from the Chartered Institute of Public Finance and Accountancy [CIPFA] has been delayed. It is considered, however, that the annual review should be informed, both by any review of internal audit by the external auditors and the results of any measures of effectiveness of internal audit agreed with the Audit Committee.

5. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 [the Code] recommends that *“The Head of Internal Audit should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is:*
- a) Meeting its aims and objectives*
  - b) Compliant with the Code*
  - c) Meeting internal quality standards*
  - d) Effective, efficient, continuously improving*
  - e) Adding value and assisting the organisation in achieving its objectives.”*

6. Meeting aims and objectives

The aims and objectives of the system of internal audit are defined in the Internal Audit Strategy and the Internal Audit, Risk and Assurance Business Plan. The key business plan objectives for 2006/07 were as follows and have been delivered:

- Delivery of an Internal Audit Strategy that demonstrates compliance the Code;
- Further refine and consolidate the controls assurance process to support the production of a robust Statement on Internal Control (now an Annual Governance Statement) in line with CIPFA guidelines;
- Facilitate the ongoing development and training of the Audit Committee;
- Facilitate the ongoing review and updating of the Council’s Strategic Risk Register and confirm it alignment with the council’s key priorities;
- Facilitate the ongoing review and updating of Directorate Risk Registers on a consistent basis across the organisation;
- Adequate resourcing and effective operation of the new Internal Audit staffing structure;
- Develop a more structured approach to staff training and development across the service;
- Continue to promote and clarify the role, responsibilities and accountabilities of the service to our clients which includes the corporate body.

7. Compliance with the Code

The system of internal audit was substantially compliant with the Code throughout 2007/08. This has been confirmed through an internal self-assessment and a “peer review” undertaken by the Chief Internal Auditor, Isle of Wight Council (appendix).

8. The following requirements of the Code have been highlighted through these reviews as requiring further development:

- Establishment of audit rights within key partnership agreements and contracts – to be addressed at a corporate level on a rolling basis through future/ revised partnership agreements;
- Development of protocols for working with other internal auditors – the development of a Memorandum of Understanding with PCT auditors is currently on hold pending an evaluation of the impact of “sharing” an

external auditor. Work is in progress to formalise a framework for working with neighbouring unitary authorities;

- Monitoring and reporting internal audit performance against established performance indicators - following the procurement of a dedicated audit software solution (May 2008) accurate and timely audit management information will be more readily available.

9. The Audit Commission carries out an annual assessment of the performance of internal audit every year and every three years, conducts a comprehensive review that covers all aspects of the Code. The review for 2007/08 is substantially complete and broadly concurs with the conclusions of the internal audit self-assessment and peer assessment. The Audit Commission's full report will be made available to the September meeting of this Committee.

10. Meeting internal quality standards

Review of compliance against the Code has highlighted that internal audit is substantially compliant with the standards for performance, quality and effectiveness. A comprehensive and up-to-date internal audit manual is in place and available to all staff to provide guidance on quality standards in carrying out day-to-day audit work and compliance with the Code. A system of quality checks is in place to ensure all internal audit work is appropriately supervised and reviewed throughout all audits to monitor progress, assess quality and coach staff. As highlighted in paragraph 8 above, the implementation of the new audit management software solution will enable performance management information to be more readily provided.

11. Effective, efficient, continuously improving

The Audit Commission's 'Use of Resources Auditor Judgement 2007/08' (January 2008) noted that "Internal Audit has continued to strengthen its management and approach and an Audit Committee has been established." The overall theme score for Internal Control was '2'.

12. The main conclusion from the Audit Commission's Internal Audit Assessment report is that "*Since our initial review in 2005/06, the Council has made significant progress in improving its internal audit arrangements, and the recommendations we made at that time are now almost fully implemented. The most notable achievements at this stage are the raising of the status of internal audit within the organisation, the introduction of an audit manual, the establishment of clear terms of reference and a strategy for delivery of audit services, development of an appropriate staffing structure with a high proportion of qualified posts, and a fully risk-based approach to audit.*"

13. Adding value and assisting the organisation in achieving its objectives

The Internal Audit Strategy 2007-2011 is designed to demonstrate how the internal audit service seeks to add value to the Council and to assist the Council in achieving its objectives. The Annual Audit Plan for 2007/08 demonstrates intended audit coverage of the Council's objectives. The 2007/08 audit plan was substantially delivered, with any amendments approved by this Committee (please see Chief Internal Auditor's *Annual Report and Opinion*, also on this agenda).

14. The 'Status of work' reports provided to each meeting of the Audit Committee demonstrate how management is responding to the issues and risks highlighted by internal audit's work and on the whole demonstrate that management actions in response to audit observations are properly implemented on a timely basis.
15. Formal client feedback has been sought in respect of specific audit assignments conducted in 2007/08 by means of a "client feedback survey". In addition, feedback was sought from audit clients in March 2008 on the overall performance of the service within the context of the Code (as required under the standards). The results of these feedback mechanisms have demonstrated that management is largely satisfied with internal audit's ability to demonstrate compliance with the standards and the value delivered in assisting the Council in achieving its objectives.
16. Role of the Audit Committee  
The Audit Committee plays an essential role in the effectiveness of the system of internal audit. Good practice guidance set out by CIPFA in its "Toolkit for Local Authority Audit Committees", recommends that Audit Committees periodically review their own effectiveness in discharging their responsibilities. A review was undertaken in March 2008 and concluded that the Audit Committee complies with recommended good practice in the vast majority of areas and areas highlighted for improvement will be tracked through the Committee's monitoring system.
16. The Audit Committee Chair's formal annual report on the work and performance of the Committee during the year is available elsewhere on this agenda.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

17. None

### **Revenue**

18. None

### **Property**

19. None

### **Other**

20. None

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

21. Accounts and Audit (Amendment) (England) Regulations 2006 places a requirement on the Council to, at least once a year, conduct a review of the effectiveness of its system of internal audit. The above arrangements are intended to meet those responsibilities.

**Other Legal Implications:**

22. None.

**POLICY FRAMEWORK IMPLICATIONS**

23. None.

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Isle of Wight - re Peer Review
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**Documents in Members' Rooms**

1.	None
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**Background Documents**

Title of Background Paper(s)

Relevant Paragraph of the  
Access to Information  
Procedure Rules / Schedule  
12A allowing document to be  
Exempt/Confidential (if  
applicable)

1.	None	
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**Background documents available for inspection at:** N/A

**FORWARD PLAN No:** N/A

**KEY DECISION?** No

<b>WARDS/COMMUNITIES AFFECTED:</b>	N/A
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