

# ITEM NO:11

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT		
<b>DATE OF DECISION:</b>	24 <sup>TH</sup> JUNE 2009		
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR (Acting)		
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## 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.

## 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 future reviews 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 Chartered Institute of Public Finance and Accountancy (CIPFA) have provided technical guidance suggesting a number of options available to authorities for carrying out the review which include:

- The Head of Internal Audit
- A Sub-group of the Audit Committee
- A review group of officers
- Peer review
- External assessment
- A group of members and officers

Whoever carries out the review, it is vital that all participants are appropriately skilled and have relevant technical support available to them.

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 2008/09 were as follows and have been delivered:

- Deliver the Internal Audit Strategy to demonstrably comply with the CIPFA Code of Practice
- Further refine and consolidate the assurance process to support the production of a robust Annual Governance Statement in line with CIPFA guidelines.
- Further develop and embed risk management principles across the Council’s business processes.
- Ensure the adequate resourcing of the service to support the proper delivery of functions.
- Review the effectiveness of corporate arrangements to identify and/or reduce the risk of fraud and corruption,

7. Compliance with the Code

Guidance cites the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as proper practice in relation to internal audit in local authorities. The system of internal audit was compliant with the

Code throughout 2008/09. This has been confirmed through the updating in 2008/09 of the triennial review of internal audit by the Council's external auditors (appendix). The triennial review forms a comprehensive review of all aspects of the Code

8. Meeting internal quality standards

Review of compliance against the Code has highlighted that internal audit is 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. The implementation of the new audit management software solution during the year will enable performance management information to be more readily provided.

9. Effective, efficient, continuously improving

The Audit Commission's *'Use of Resources' assessment 2007/08 and based on the key lines of enquiry for 2008* seen the overall theme score for Internal Control progress from a '2' to a '3'.

10. 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 2008/09 demonstrates intended audit coverage of the Council's objectives. The 2008/09 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).

11. 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.

12. Formal client feedback has been sought in respect of specific audit assignments conducted in 2008/09 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.

13. Role of the Audit Committee

The Audit Committee plays an essential role in the effectiveness of the system of internal audit. 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**

None

### **Revenue**

None

### **Property**

None

### **Other**

None

## **LEGAL IMPLICATIONS**

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

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:**

## **POLICY FRAMEWORK IMPLICATIONS**

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Summary of Audit Commission Assessment of Internal Audit Against the CIPFA Standards
2.	

**Documents In Members' Rooms**

1.	
2.	

**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.		
2.		

**Background documents available for inspection at:**

**FORWARD PLAN No:**

**KEY DECISION?**

**WARDS/COMMUNITIES AFFECTED:**