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| DECISION-MAKER: | GOVERNANCE COMMITTEE | | |
| SUBJECT: | EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT | | |
| DATE OF DECISION: | 16 DECEMBER 2013 | | |
| REPORT OF: | CHIEF INTERNAL AUDITOR | | |
| <u>CONTACT DETAILS</u> | | | |
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STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

Under the Accounts and Audit (England) Regulations 2011 the Council is required, at least once a year, 'to conduct a review of the effectiveness of its internal audit'. The purpose of this paper is to provide the Governance Committee with an overview of the measures currently in place to monitor and maintain internal audit effectiveness.

RECOMMENDATIONS:

- (i) approve the review conducted in assessing the 'Effectiveness of the System of Internal Audit';
- (ii) endorse the action plan generated from the assessment against the Public Sector Internal Audit Standards and Local Government Application Note.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with the Accounts and Audit (England) Regulations 2011 and proper internal audit practices (Public Sector Internal Audit Standards & Local Government Application Note), the Governance Committee is required to receive a report on the effectiveness of the system of internal audit.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The Accounts and Audit (England) Regulations 2011 - S6 states:

'(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

'(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.'

4. With effect from 1 April 2013 the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code) as proper practices.
5. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows:
 - Definition of Internal Auditing;
 - Code of Ethics; and
 - International Standards for Professional Practice of Internal Auditing

2012/13 Review

6. Proper practices relevant to 2012/13 (the 2006 Code) recommended 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:

- *Meeting its aims and objectives;*
- *Compliant with the Code*
- *Meeting internal quality standards*
- *Effective, efficient, continuously improving; and*
- *Adding value and assisting the organisation in achieving its objectives.'*

7. Each of these attributes remain and are further expanded on under the PSIAS / LGAN. Compliance against *'the 2006 Code'* was confirmed as part of the 2012/13 annual report and opinion presented to the Governance Committee in July 2013. As such for the purposes of this review, it was considered opportune to assess compliance of the internal audit service against the significantly more comprehensive PSIAS / LGAN.

Meeting aims and objectives

8. Internal audits aims and objectives are defined within local and wider departmental business plans.
9. Objectives are continuously measured, monitored and formally reviewed as part of the Chief Internal Auditor's Individual Performance Plan (IPP) assessment and appraisal.

Compliance with proper practices (PSIAS / LGAN)

- 10. The 'Local Government Application Note for the United Kingdom - Public Sector Internal Audit Standards' provides a checklist that has been developed to enable periodic self-assessment as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Application Note in order to provide comprehensive coverage of both documents.
- 11. The LAGN states 'the foundation of an effective internal audit service is compliance with standards and proper practices'.
- 12. To maintain independence in the self assessment process, the Chief Internal Auditor provided an initial assessment against the checklist accompanied by documentary evidence to support relevant compliance. The Deputy Monitoring Officer (Hampshire County Council) then considered each of the Standards for compliance concluding '*I am satisfied that this is an accurate assessment of the internal audit function*'.
- 13. The summary of the assessment against the 341 Standards highlights:

| Compliant | | | |
|------------------|----------------|-----------|------------|
| Yes | Partial | No | N/A |
| 298 | 1 | 1 | 41 |

- 14. In areas of 'partial' or 'no' compliance an action plan has been put in place to stimulate improvement (Appendix 1).

Meeting internal quality standards

- 15. A comprehensive and up-to-date framework is in place and available to all staff to provide guidance on quality standards in carrying out day-to-day audit work in compliance with proper practices.
- 16. 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.
- 17. Audit Services operate a quality system (ISO 9001) which covers all our audit reviews including irregularity reviews.
- 18. The use of audit management software (MK Insight) enables performance management information to be more readily available, and provides a consistency to the audit process followed.

Effective, efficient and continuously improving

- 19. On 1 February 2012 Southampton City Council entered into a collaborative partnership with Hampshire County Council for the provision of internal audit

services to form the Southern Internal Audit Partnership.

20. The development of the Southern Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.
21. The Partnership has grown since its formation and currently includes five local authorities. The Partnership also provides services to a range of clients including Hampshire Police and Crime Commissioner / Hampshire Constabulary, Hampshire Fire & Rescue Service, Hampshire Pension Fund, the University of Winchester and 12 Further Education establishments.
22. Realised benefits since the introduction of the partnership include pooled expertise, economies of scale, flexibility and resilience.
23. The team operate a modern risk based audit approach, focusing on medium and high priority areas within the audit universe.
24. The risk-based Internal Audit Plan ensures it:
 - aligns with the Council's objectives;
 - is proportionate and focused; and
 - adds maximum value to the organisation
25. The annual audit plan remains fluid and responsive should the risk environment change during the year.
26. The internal audit team have adopted a matrix style approach, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine. This approach ensures an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.
27. The audit report format ensures a focused and value adding document, appropriate to its target audience.

Adding value and assisting the organisation in achieving its objectives

28. The Risk-based Audit Plan demonstrates intended audit coverage aligned to the Council's objectives.
29. One of the key deliverables for internal audit is to provide independent and objective assurance to management on the adequacy or otherwise of the effectiveness of the framework of risk management, control and governance designed to support the achievement of their objectives.
30. This in itself can be viewed as providing added value to the organisation, however there are a number of other dimensions to the work of internal audit that add value to the organisation:
 - Assess and report risk exposure;

- Improve opportunities to achieve organisational objectives;
 - Identify over control and opportunities for efficiencies; and
 - Identify operational improvements
31. The 'Progress Report' presented to each meeting of the Governance Committee demonstrates how management is responding to the issues and risks highlighted by internal audit's work and that management actions in response to audit observations are properly implemented on a timely basis.
32. Formal client feedback is sought in respect of each audit assignment conducted by means of a "client feedback survey". For the period 2012/13 the % of positive customer responses to the 'Quality Appraisal Questionnaire' was 94%.

Role of the Governance Committee

33. The Governance Committee plays an essential role in the effectiveness of the system of internal audit through its function to monitor, review and report on the way in which governance is exercised within the Council, particularly with regard to:
- receipt and consideration of reports on internal audit strategy, planning and delivery, including the Chief Internal Auditor's Annual Report and Opinion;
 - view on internal assurances of governance practice and to be satisfied that the Council's assurance statements properly reflect the risk environment and any actions required to improve it; and
 - consideration of the Council's compliance with its own and other published standards and controls.

RESOURCE IMPLICATIONS

Capital/Revenue

34. None

Property/Other

35. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

36. The Accounts and Audit (England) Regulations 2011 state 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

37. None

POLICY FRAMEWORK IMPLICATIONS

38. None

KEY DECISION? No

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| WARDS/COMMUNITIES AFFECTED: | |
|------------------------------------|--|

SUPPORTING DOCUMENTATION

Appendices

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| 1. | Public Sector Internal Auditing Standards Action Plan |
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Documents In Members' Rooms

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| 1. | None |
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Equality Impact Assessment

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| Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out. | No |
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Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

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

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| 1. | None | |
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