

AUDIT COMMITTEE – 20 JANUARY 2010

REVIEW OF THE PROCESS FOR REPORTING ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. Following the 2006 amendment to the Accounts and Audit Regulations 2003, the Council is required to review the effectiveness of its system of internal audit once a year, and for the findings of the review to be considered by a committee of the Council, or by the Council as a whole, as part of the consideration of the system of internal control.
2. To meet this requirement in 2006/07, the Audit Committee took responsibility for reviewing the effectiveness of the system of internal audit, and determined the process that should be followed was that outlined in the guidance produced by the Institute of Public Finance (IPF). It was recognised the Audit Committee was already applying much of the guidance as part of its business as usual. The Committee instructed the Monitoring Officer to undertake the review and report back to the Audit Committee.
3. In January 2009, the CIPFA Audit Panel published further guidance on both the definition of the “System of Internal Audit”, and a process for reviewing the effectiveness of that system. The Audit Committee reviewed the guidance on 21 January 2009, concluding that no changes were required to existing process of review previously adopted.
4. The purpose of this report is for the Audit Committee to consider whether any changes should be made to the review process and to confirm the reporting arrangements for 2009/10.

Process for 2009/10

5. The guidance from the CIPFA Audit Panel published in January 2009 confirmed the approach currently adopted by the Council is appropriate. Through the Annual Governance Statement and Statement of Internal Control process, and the annual review of the System of Internal Audit, all the good practice guidance has been followed.
6. There has been a change in External Auditors in 2009/10 with the Audit Commission now performing this role. As a result there is an additional source of evidence available for this review. The Audit Commission undertake a triennial review of the Internal Audit service which is currently being

undertaken; their conclusion should be available for inclusion in the Monitoring Officers report back to Committee in April.

7. The existing process for reviewing the effectiveness of the System of Internal Audit is as follows:

Sources of evidence

- The Audit Committee receives for approval the annual Internal Audit Strategy and Plan. The Committee can ensure that the plan has been properly compiled to provide a reasonable assurance from the Assistant Head of Finance (Audit) on the system of internal control. (April)
- The Audit Committee agrees the performance indicators and targets for Internal Audit. The set of performance indicators used includes both output measures, (e.g. % of the plan completed) and outcome measures, (e.g. % of recommendations implemented) that enable the Audit Working Group and the Audit Committee to measure and evaluate the effectiveness of Internal Audit.(April)
- The Audit Committee receives the annual report from the Assistant Head of Finance (Audit) including his opinion on the adequacy and effectiveness of the system of internal control.(June)
- The Audit Working Group receives a quarterly report from the Assistant Head of Finance (Audit), detailing performance of the Internal Audit Team, and also receives progress reports at their other meetings. (All meetings)
- The Assistant Head of Finance completes an annual review of compliance against the CIPFA Code of Practice for Internal Audit, presenting evidence to the Monitoring Officer for independent scrutiny. The results are reported to the Audit Working Group (April).
- Annual review by External Audit of Internal Audit reports and files as part of the managed audit arrangement to support their annual audit of the Statement of Accounts. The External Auditors, state whether they can place reliance on the work of Internal Audit in their presentation on their audit of the Accounts, and in their annual report.(September and December)
- Annual Survey, managed by the Monitoring Officer, to canvas the opinions of Directors, Heads of Service and Business Managers on the Internal Audit Service. (March)

Reporting

- In April the Monitoring Officer collates the evidence, and presents a draft report for the consideration of the Corporate Governance Working Group, and the Audit Working Group, before submitting it to the Audit Committee for approval. (April)
8. A suggested format for the annual survey questionnaire is attached as appendix 1 to this report.

RECOMMENDATIONS

9. The Committee is **RECOMMENDED** to:
- (a) approve the existing process for reviewing the effectiveness of the System of Internal Audit, with the addition of incorporating the conclusions arising from the Audit Commissions triennial review of Internal Audit, or instruct officers on changes required to the process for 2009/10;
 - (b) approve the circulation list, content and format of the Annual Survey Questionnaire;
 - (c) authorise the Monitoring Officer to undertake the review and report back to the Audit Committee.

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Assistant Chief Executive & Chief Finance Officer

Background Papers: The Accounts and Audit (Amendment)(England) Regulations 2006.
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006
CIPFA Audit Panel – Guidance of Review of the Effectiveness of the System of Internal Audit - January 2009

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January 2010

Annual Survey - Review of the effectiveness of Internal Audit

To.....

Question	Strongly agree	Tend to agree	Tend to disagree	Strongly disagree
I have been given adequate information on the role and purpose of Internal Audit				
I am consulted by Internal Audit on the key risks and critical systems in my area				
I am satisfied that Internal Audit is independent				
I am given an opportunity to comment on Internal Audit's annual work plans				
On individual audit assignments, where appropriate, I have an opportunity to provide input to the planning of Internal Audit work				
Internal Audit reports are timely, practical and support managers in the management their key risks				
Internal Audit is effective in delivering improvements to the control environment				
Other Comments				

Date.....