

**ANNUAL REVIEW OF THE INTERNAL AUDIT SERVICE
(Report by the Director of Commerce & Technology)**

1. Introduction

- 1.1 The Accounts & Audit Regulations 2006 require the Council to conduct an annual review of the effectiveness of its system of internal audit. The results of the review need to be reported to the Panel prior to its approval of the Statement of Assurance on Corporate Governance.
- 1.2 At the last meeting of the Panel, Members' adopted an Assurance Framework, to assist with the preparation of the Annual Governance Statement. It recognised that the systems of internal audit within the Council are wider than the Internal Audit Service and link to a number of areas already covered by the Assurance Framework (e.g. corporate governance, financial, risk and performance management, data quality, policies and procedures, third party assurances).
- 1.3 This report provides details of the outcome of the second annual review of the system of internal audit.

2. Internal Audit Service Review

- 2.1 Guidance accompanying the Accounts & Audit Regulations 2003 suggests that a review of the Internal Audit Service should be undertaken in accordance with 'proper practice'. This is acknowledged to be the 2006 Code of Practice for Internal Audit in Local Government issued by The Chartered Institute of Public Finance and Accountancy (CIPFA). The Code contains 11 Standards (see Annex A) that describe the processes that a professional internal audit service should follow and comply with.
- 2.2 Compliance with these Standards provides assurance to the Panel that the Audit & Risk Manager's annual report and opinion is based upon sound audit practices and supported by sufficient, evidenced work to allow supportable conclusions and opinions to be formed on individual audit reviews. The Audit & Risk Manager's annual report is an important source of evidence to the Panel.
- 2.3 The Code of Practice contains a checklist which has been used as the basis for a self-assessment review of the internal audit service. The review was completed by a member of the internal audit team and reviewed by the Audit & Risk Manager. The review was undertaken in early May.

3. Peer Review of the system of Internal Audit

- 3.1 In addition to the self-assessment, a peer review was conducted by the Head of Audit, Scrutiny and Information Governance of Cambridgeshire County Council. This consisted of:
- A review of the self assessment process and of supporting evidence;
 - Reviewing staffing, training and development for the service;
 - Consideration of the adequacy of resources of the function;

- Assessing performance against key performance indicators for the function and client feedback;
- Review of plans for continuous improvement of the service;

3.2 The peer review concluded that “the system of internal audit at Huntingdonshire District Council is generally effective”. It identified just two areas of concern which related to the effectiveness of the Panel and the introduction of agreed audit actions. Relevant extracts from the report are shown below

- “The effectiveness of internal audit is affected by the effectiveness of the Council’s “audit committee”, which at Huntingdonshire, is the Council’s Corporate Governance Panel. Guidance issued by CIPFA on Audit Committees recommends that the Panel should measure its own effectiveness. This task has not yet been completed. Such a review would assist the Panel in coming to its own view about its effectiveness and how it may further develop its governance role.

I recommend that the Panel undertake a review of its effectiveness against CIPFA’s best practice guidance for Audit Committees and that the Head of Internal Audit be asked to feed in views as a contributor to the assessment”.

- “The performance monitoring scorecard shows an implementation rate [for agreed audit actions] for 2007/08 of 30 percent. I consider this rate to be unacceptably low.

I recommend that Chief Officers’ Management Team consider ways in which this rate can be increased and inform Corporate Governance Panel of their proposed actions”.

3.3 It is proposed that a review of the effectiveness of the Corporate Governance Panel should be undertaken as recommended by the peer review. The review will require the participation of all the Members of the Panel. The review will be facilitated by the Internal Audit & Risk Manager and the outcome of the review be considered by the Panel at its September meeting, prior to the Panel’s approval of the annual governance statement.

3.4 Members will be aware from previous reports that the percentage of agreed audits introduced on time has hovered around the 30% mark for a number of months. It is accepted that this figure is too low and steps have been taken to improve it. Each Head of Service must make reference to the percentage they have achieved in their quarterly report to the Chief Officer’s Management Team and performance information is published on a monthly basis to all Heads of Service and Directors. These initiatives have had an immediate impact and, at 31 May, 36% of agreed audits had been introduced on time with a further 33% being introduced subsequently, giving an overall figure of 69%.

4. External Audit Opinion

- 4.1 The Council's external auditors who have conducted their own independent review of the internal audit service against the Code of Practice. They conclude that the internal audit service meets the requirements of the Code and have made no recommendations for further action.

5. Conclusion

- 5.1 Two areas where the CIPFA Code is not fully complied with were reported to the Panel in September 2007 (i.e. that line management is by the Head of Financial Services rather than the Director of Commerce & Technology and that the non-audit responsibilities of delivering risk management and insurance services are carried out by the Audit and Risk Management Section). These were not considered to be significant by the Peer Review or External Audit.
- 5.2 Based on the three elements – the self assessment, the Peer Review and External Audit's opinion the Panel should be able to assume a good degree of reliance on the internal audit system when they consider the Annual Governance Statement.
- 5.3 Two issues were highlighted in the Peer Review (paragraph 3.2 above) and the Panel need to consider what action they wish to take on these items.

6. Recommendations

- 6.1 It is recommended that the Panel:
- note that the internal audit system is generally effective;
 - note the action plan that has been prepared to address the areas for improvement identified in the self assessment (Annex B);
 - undertake a review of its own effectiveness against CIPFA's best practice guidance for Audit Committees.

ACCESS TO INFORMATION ACT 1985

CIPFA Code of Practice for Internal Audit in Local Government 2006

Internal audit self-assessment

Email correspondence with the external auditor

Report from Cambridgeshire County Council

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2006 Code of Practice for Internal Audit in Local Government: Standards

Standard

- 1 **The Scope of Internal Audit** – deals with formal terms of reference, coverage of the internal control environment and the audit's role in relation to preventing fraud and corruption.
- 2 **Independence** – deals with overall operational independence as well as auditors own independence and impartiality.
- 3 **Ethics** – sets minimum standards for the performance and conduct of all internal auditors under the four main principles of integrity, objectivity, competence and confidentiality.
- 4 **Audit Committees** – deals with the relationship between the Audit & Risk Manager and the Audit Committee (i.e. this Panel).
- 5 **Relationships** – sets out the principles of good relationships with management, other internal auditors, external auditors, other regulators and inspectors and elected members.
- 6 **Staffing, Training and Continuous Professional Development** – deals with staff resources, qualifications and training.
- 7 **Audit Strategy and Planning** – deals with the requirement to produce a strategy document and annual audit plan.
- 8 **Undertaking Audit Work** – deals with risk based auditing, the processes to be carried out in individual audit assignments, incl. planning, fieldwork and quality control.
- 9 **Due Professional Care** – deals with auditor competence and diligence, respecting and understanding confidentiality.
- 10 **Reporting** – sets out the principles of reporting on audit assignments, follow-up arrangements and providing an annual opinion on the control environment.
- 11 **Performance, Quality and Effectiveness** – sets out the need for an audit manual and establishing quality and performance measures.

Internal Audit Self Assessment – Action Plan

Standard	Self assessment question	Response	Date to be introduced by
3.3.4	Are audits of particular parts of the Council rotated between audit staff to ensure independence of approach?	<p>It is necessary to balance rotation with the benefits of existing experience in the allocation of audits when the audit team is few in number.</p> <p>The audit manager rotates audits where it is beneficial and personally reviews the audit brief and quality during the course of each audit. This would highlight any over-familiarity or complacency.</p>	Under constant review.
10.2.7	Does the Audit & Risk Manager have mechanisms in place to ensure that risk registers are updated following internal audit reviews?	<p>Managers are responsible for their own risk register entries, including assessing the effectiveness of internal controls.</p> <p>The process for agreeing changes to the risk register is being developed.</p>	31 August 2008
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	<p>The audit manual contains detailed procedures explaining the whole auditing process and is regularly updated.</p> <p>The recent introduction of electronic working papers and changes to the storage of audit records needs to be reflected in the manual.</p>	30 September 2008
11.3.3	Does the Audit & Risk Manager compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	<p>Internal audit were members of the CIPFA Audit Benchmarking Group from 2001. It was decided not to join the Group in 2007/08 as the output was becoming less useful due to the fall in District Council members. The decision to re-join will be reviewed each year.</p> <p>Annual and end of audit survey forms are issued to auditee's to allow them to comment upon the service they receive.</p>	Decision on joining will be taken annually.