

**ANNUAL REVIEW OF THE EFFECTIVENESS
OF THE SYSTEM OF INTERNAL AUDIT****(Report by the Audit & Risk Manager)****1. INTRODUCTION**

- 1.1 The Accounts & Audit Regulations 2003 (A&AR) require the Council:
- to undertake an annual review of the effectiveness of its system of internal audit;
 - to consider the findings of that review when undertaking the annual review of the effectiveness of its system of internal control; and
 - consider the findings of the review of its systems of internal control and then approve a statement on internal control
- 1.2 The purpose of this report is to inform the Panel of the outcome of the review of the effectiveness of its system of internal audit.

2. SYSTEM OF INTERNAL AUDIT

- 2.1 The Panel at its March 2009 meeting accepted the CIPFA definition of the system of internal audit that was published in January 2009.

The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation.

- 2.2 CIPFA are also of the view that the review of the effectiveness of the system of internal audit should examine, as a minimum, the following key elements:
- The process by which the control environment and key controls have been identified - the organisation's risk management system;
 - The process by which assurance has been gained over controls – its coverage of the key controls and key assurance providers;
 - The adequacy and effectiveness of the remedial action taken where there are deficits in controls, which will be led by the audit committee or its equivalent and implemented by management; and
 - The operation of the audit committee and the internal audit function to current codes and standards.
- 2.3 The Council's Assurance Framework, which was adopted by the Panel in March 2008, explained how the risks recorded in the risk register were being mapped to the Council's strategic objectives and that details of the sources of assurance were being identified and recorded in the register. As the risk management process is considered by CIPFA to be key to the review of effectiveness, the work that has already been completed in this area has been used as a prime source to support the review.
- 2.4 Responses to the four elements of the system of internal audit, listed in paragraph 2.2 above, are contained in Annex A.

3. CONCLUSION

- 3.1 The Audit & Risk Manager has reviewed the assurance entries. Like all systems, these only provide a snap-shot in time and do not guarantee that the controls are continuing to operate. A number of gaps in assurance have been identified and these areas will be reviewed. These are not considered to be sufficient to affect the validity of the overall process.
- 3.2 The Panel should be satisfied that the risk management process is working as described within the risk management strategy; that the process by which assurance has been gained over controls is effective and that evidence is readily available to show that the controls are operating as intended.
- 3.3 The Panel when considering the overall effectiveness of its system of internal audit also need to take into account the Audit & Risk Manager's annual opinion. This is dealt with in the agenda report "Internal Audit Service Annual Audit Report".

4. FUTURE YEARS

- 4.1 The risk register and the assurance provided by managers are one of the key drivers in the development of the strategic and annual audit plans. Undertaking the review of the effectiveness of the system of internal audit in the manner outlined above and supported within Annex A has raised a number of issues about the links between the Audit & Risk Manager's annual report and opinion, this report and the wider review of the system of governance.
- 4.2 A review is to be undertaken to see if these separate pieces of work can be amalgamated for overall assurance providing and reporting purposes, whilst still satisfying the requirements of the A&AR. Any changes to the current systems will be reported to a future meeting of the Panel.

5. RECOMMENDATION

The Panel is recommended to note the report and the overall conclusion on the effectiveness of its system of internal audit.

BACKGROUND INFORMATION

Accounts & Audit Regulations 2003
The Risk Management Strategy and Register

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