

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

1. INTRODUCTION

- 1.1 This report details the changes that have been made to the Accounts & Audit Regulations (A&AR) , the affect those changes have had upon the Council's system of internal audit and the review of the effectiveness of the system of internal audit.

2. ACCOUNTS & AUDIT REGULATIONS

- 2.1 The A&AR 2011 came into force on 31 March 2011 and apply to the 2010/11 financial year. The requirement has changed from "conduct a review of the effectiveness of its **system of internal audit**" to "conduct an annual review of the effectiveness of its **internal audit**".
- 2.2 The only guidance available was from references made in the consultation document that the reference "applies to all aspects of the internal audit function and not just the systems used by internal audit". It is therefore concluded that there is no effective change.

3 SYSTEM OF INTERNAL AUDIT

- 3.1 The system of internal audit is defined as

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.

- 3.2 The framework of assurance considers four key elements and the paragraphs below each item describe how the Council has addressed each one:

a. The process by which the control environment and key controls have been identified - the Council's risk management system.

Since 2007 the Council has maintained an electronic risk register via '4risk' software hosted by RSMTenon. The register is accessible to all managers who have the ability to add, amend and delete risk and supporting control and assurance entries across all service areas.

The Council has a risk management strategy. In summary, Managers are required to identify those risks that will hinder their achievement of

the Council's Aims and Objectives. This is done in a structured way against the key activities within the Council's objectives and its service delivery operations. Once a risk has been identified, it is recorded on the risk register and evaluated in terms of likelihood and severity. Controls (if available) to reduce the likelihood or severity of adverse events are identified and recorded and the risk re-evaluated. The evidence available to support the controls is also identified and evaluated.

b. The process by which assurance has been gained over controls – its coverage of the key controls and key assurance providers.

Every six months Managers are required to review the controls entered on the register and give a view (the level of assurance) as to how effective those controls are in managing the risk. The manager's view can be either self-assurance or obtained from a third party (internal/external audit or similar review body).

Risks recorded in the register are reviewed by the Internal Audit & Risk Manager and, where applicable, included in the internal audit strategic plan. The inherent/residual risk, controls and level of assurance are considered by internal audit when the risk area is reviewed. The annual audit plan refers to specific risk register entries. At the conclusion of an internal audit review, any changes to entries on the risk register are discussed with the appropriate Manager and if necessary, changes made to the risk register.

c. The adequacy and effectiveness of the remedial action taken where there are deficits in controls, which will be led by the Corporate Governance Panel and implemented by management.

This Panel considers all external audit reports. It has access via the intranet to all internal audit reports. Reports are submitted twice a year to the Panel by the Internal Audit & Risk Manager that highlight any significant concerns and, where appropriate, management responses. Managers' progress in implementing agreed audit actions is also reported. Performance in this area has fluctuated over the year and is currently below target. The Panel seek assurance, as part of their consideration of the annual governance statement, that controls are operating effectively. This assurance is obtained primarily from the work of internal and external audit.

With the exception of the area of business continuity, no significant control weaknesses have been identified.

d. The operation of the Corporate Governance Panel and the internal audit function to current codes and standards.

The Council established the Corporate Governance Panel in 2004. Its terms of reference were reviewed in 2009. The Panel undertook a self assessment review exercise in September 2011 the results of which are

discussed elsewhere on the agenda. A number of actions to improve effectiveness have been recommended.

The internal audit strategy and its terms of reference were approved by the Panel in June 2010. The Internal Audit & Risk Manager undertook a self-assessment review against the CIPFA Code of Practice for Internal Audit in 2011. The outcome of that review is discussed elsewhere on the agenda. A number of issues were identified for improvement. Panel noted the general effectiveness of the service in meeting the requirements of the Code.

3. RISK REGISTER UPDATE

3.1 In support of paragraphs 2.2 a & b above, Annex A provides details of the Council's current risk assessment matrix together with information in respect of:

- the reduction in risk achieved through the controls managers have in place for both Corporate and Operational risks (*section 1 & 2*);
- the changes made to the risk register since the last report to Panel in March 2011 (*section 3*);
- the assurance levels, as at 31 August, for all "very high" inherent risks (*section 4*); and
- those risks that have not yet had any controls identified against them and the actions being considered to mitigate them (*section 5*).

3.2 The risk management strategy requires the Cabinet to consider each of the very high residual risks to identify whether they should be further mitigated by cost-effective and affordable actions. Cabinet considered four very high residual risks in July 2010 and agreed at that time to accept the current level of residual risk. One additional very high residual risk has been identified and will be reported to Cabinet shortly.

3.3 437 significant controls are recorded in the register as at 31 August, in respect of 151 individual risk entries, covering both corporate and operational risks. The levels of assurance are as follows.

Total No of Controls	Assurance Level			
	Substantial	Adequate	Limited	None
437	278	132	25	2
	63%	30%	6%	1%

Over 98% of the assurances associated with these controls have been updated in the last nine months and 84% within the last six months.

4. ANNUAL INTERNAL AUDIT REPORT

- 4.1 In support of paragraphs 2.2 c & d above, Annex B provides details of the work of the internal audit service in the period ending 31 August, including:
- the delivery of the annual audit plan, audit reports issued and issues of concern (*section 6*);
 - implementation of agreed actions (*section 7*);
 - internal audit's performance (*section 8*).
- 4.2 In accordance with the CIPFA Code of Audit Practice for Internal Audit in the United Kingdom, the Internal Audit & Risk Manager is required to provide an annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes. This opinion is based upon the work carried out by Internal Audit during the relevant period (Annex B) and the assurances made available by external assessors and similar providers (Annex C).

Audit Opinion

It is my opinion, that Huntingdonshire District Council's internal control environment and systems of internal control, provide **adequate** assurance over the effective exercise of its functions.

In respect of those systems that refer to, or are substantially related to, internal financial control, it is my opinion that the controls operated by management are **adequate**.

Any system of internal control can only provide reasonable, rather than absolute assurance that assets are safeguarded, transactions are authorised and properly recorded and material errors or irregularities are either prevented or would be detected within a reasonable period of time.

David Harwood
Audit & Risk Manager

September 2011

Definition of Adequate : *There are minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems valuation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives.*

5. CONCLUSION

- 5.1 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 will continue to operate.
- 5.2 The Panel should be satisfied that the system of internal audit process is working as expected and 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. Where weaknesses have been identified they have been reported to management and in the majority of cases action has already been taken to address the shortfalls.

6. RECOMMENDATION

That the Panel take the information and the Audit and Risk Manager's opinion contained in this report into account when considering the Corporate Governance statement later on the Agenda.

BACKGROUND INFORMATION

The Risk Management Strategy and Register
The Accounts & Audit Regulations 2011
Internal Audit Reports
Internal Audit Performance Management Information

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