

**REVIEW OF THE EFFECTIVENESS OF
THE INTERNAL AUDIT SERVICE**

(Report by the Internal Audit & Risk Manager)

1. INTRODUCTION

- 1.1 This report details the outcome of the annual review of the effectiveness of the internal audit service as required by the Accounts & Audit Regulations 2011.
- 1.2 The review is conducted against 'proper practice', namely the Cipfa Code of Audit Practice for Internal Audit in the United Kingdom. The Code contains 11 Standards (Annex A) that describe the processes that a professional internal audit service should follow and comply with. Compliance with the 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 conclusions and opinions to be formed on individual reviews.

2. PREVIOUS REVIEWS

- 2.1 The last review was reported to the Panel In September 2011. That review noted the effectiveness of the Internal Audit Service and endorsed an action plan to further improve the plan. The outcomes against the action plan are shown in Annex B.

3. PEER REVIEW

- 3.1 One of the actions from 2011 was for an external peer review of the Service to be conducted. External consultants, endorsed by the Institute of Internal Auditors as being qualified to undertake such reviews were contacted, but the costs were considered prohibitive.
- 3.2 In April, the Audit & Risk Manager enquired of colleagues, whether they would be interested in undertaking the external review. Whilst a number showed some initial interest, the Audit & Risk Manager wished the review to consider a number of areas that fell outside of the Code 'checklist', e.g. whether the service meets the expectations of the Panel and management; perception of the value the service adds; relationships with other risk management related functions. Taking the review into these areas dissuaded many of his colleagues from continuing their interest.
- 3.3 The Head of Welland Internal Audit Consortium who initially responded to the enquiries, has agreed to undertake the peer review along the lines outlined above. Unfortunately due to other commitments, which include undertaking a similar review at Nuneaton & Bedworth BC, the review will not be able to be commenced until October. The results of the review will be reported to Panel.

4. 2012 REVIEW

4.1 The Cipfa Code of Practice contains a 100 point checklist which has been used as the basis for the self assessment. This review has been completed by the Internal Audit Manager.

4.2 As per the 2011 review the service was assessed as being compliant in the majority of areas. The areas of non compliance have remained the same

Checklist	Response
Obtaining assurance from partnerships (1.2.3)	Discussions took place with the Corporate Team in May. No significant partnerships were identified at that time. This area will be kept under review.
Internal audit free of non-audit duties (2.1.1)	As per the three previous reviews, the non-audit responsibilities of delivering risk management and insurance services are carried out by the Audit and Risk Management Section. There are no plans to change this. Audit reviews of these areas are commissioned from the computer audit partner.
Internal Audit Manager managed by a member of the COMT (2.3.1)	Line management is via the Head of Financial Services. The Internal Audit Manager has unfettered access across the authority, including to both Managing Directors.
Protocol between internal and external audit (5.6.1)	PWC do not require a protocol. A good working relationship has been formed with PWC. Unless PWC request a protocol this aspect of non compliance will not be reported again.

4.3 Whilst the internal audit service does not fully comply with all aspects of the Code, the areas of non compliance are not considered to be significant enough to suggest that the internal audit service is not effective.

4.4 Panel will also note that within the Internal Audit Service annual report, that a review of the 'Role of the Head of Internal Audit' is to be conducted in the next year against the Cipfa statement of the same

name. It is hoped that this may be completed before the peer review is undertaken.

- 4.5 The review has identified a small number of areas where improvements could be made to current working practices. These are listed in Annex C.

5. EXTERNAL AUDIT OPINION

- 5.1 PWC have requested sight of only one internal audit report and associated working papers during the year. No concerns have been raised about this piece of work. They have made no comment to either the Managing Director (Resources) or the Head of Financial Services about the performance or capabilities of the internal audit service..

6. RECOMMENDATIONS

- 6.1 It is recommended that the Panel:
- note that the internal audit service is generally effective; and
 - note the action plan that has been prepared to address the areas for improvement identified in the self assessment

Background Information

Self assessment against the Cipfa Code of Audit Practice

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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 Corporate Governance 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.

Cipfa Code of Audit Practice
Areas for Improvement from 2011 effectiveness review

Code Ref.	Requirement	2011 Review : Areas for Improvement	Date proposed to introduced	Action Taken
1.1.1 1.3.2	Do terms of reference (ToR) define the role of Internal Audit in any fraud-related or consultancy work Do the terms of reference define Internal Audit's role in fraud and corruption and consultancy work?	The ToR do not refer to consultancy work although reference is included in the audit manual, para 2.8. Whilst current audit resources are such that 'true' consultancy is unlikely to be provided, as against 'systems advice', changes will be made to the ToR.	March 2012	As agreed by the Panel in June 2012, terms of reference are not going to be revised until the national Public Sector Internal Audit Standards have been published, expected early in 2013.
1.4.2	Has the Internal Audit Manager made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	Proposal that changes are made to the Employees Code of Conduct and the Code of Financial Management to make explicit the notification requirement.	December 2011	Change to Code of Financial Management made in March 2012, para 1.12. The change to the Employees Code of Conduct has been overlooked. Due to the Code being included within the Constitution that next opportunity to make the change will be in May 2013.
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	It is proposed that the Internal Audit Manager confirms to the Panel annually, the no constraints have been placed upon the work of internal audit.	September 2011, in annual report and onwards.	A paragraph along the lines proposed has been included in the 2011 & 2012 annual reports.

Cipfa Code of Audit Practice
Areas for Improvement from 2011 effectiveness review

Code Ref.	Requirement	2011 Review : Areas for Improvement	Date proposed to introduced	Action Taken
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	The Internal Audit Manager is unaware of any manager being of the opinion that internal auditors are not objective or conflicts of interest have arisen. The end of audit survey will be amended for a 12 month period to see if there is a problem.	October 2011	Changes to the survey form were introduced on 3 November 2011. Of the 11 forms returned since that date, none have raised any concerns over auditor objectivity or conflicts of interest. The questions are to remain on the form.
5.6.1	Does the Internal Audit Manager maintain good working relationships with members?	To be discussed further with Members of the Panel.	March 2012	The Internal Audit Manager has to date attended all CGP meetings. He meets with the Chairman of the Panel as and when required to discuss Panel business. He has assisted the Panel review its own effectiveness and terms of reference.
6.2.1	Has the Internal Audit Manager defined the skills and competencies for each level of auditor?	A competency framework is in use but needs to be updated to reflect the Cipfa document : 'Excellent Internal Auditor'.	April 2012	The Excellent Internal Auditor document was used to assess competencies and associated training/development needs as part of the 2012 appraisal process.
10.3.1	Has the Internal Audit Manager defined the need for and the form of any follow-up action?	With the introduction of the SharePoint audit actions system in June 2011, there is the need to amend the follow-up action process within the audit manual, although clarification of the process to be followed has already been issued.	January 2012	The audit manual has not been amended. Auditors requested that a number of changes be introduced to the information captured by SharePoint to allow for the easier monitoring of follow-up reviews completed. This was completed in July 2012. The audit manual will be amended to take account of the new process by December 2012.

Cipfa Code of Audit Practice
Areas for Improvement from 2011 effectiveness review

Code Ref.	Requirement	2011 Review : Areas for Improvement	Date proposed to introduced	Action Taken
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	Internal Audit Manager informs COMT of performance monthly. Quarterly performance is also reported to COMT by HoS. CGP have also referred to this matter on a number of occasions. Internal Audit Manager will include more detail in annual and interim reports to CGP.	September 2011 Incl. in Sept 2011 report	Completed. Additional information included in the Sept 2011 report.
11.1.1	Is there an audit manual?	Electronic version. It needs to be reviewed and updated to take account of current procedures and recent initiatives.	March 2012	Due to other pressures on the service, some sections only, rather than a full review has been completed. The Internal Audit Manager maintains a high level of oversight and quality review on individual audits.
11.3.5	Does the Internal Audit Manager provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	It is proposed that the external quality assurance review be undertaken so that its results can be considered by the Panel in their consideration of the 2012 Corporate Governance Statement.	August 2012	Difficulties in sourcing a peer reviewer are explained in the main section of the report. The review is expected to commence in October 2012.

Code Ref.	Requirement	2012 Review : Areas for Improvement	Date
1.1.1	<p>Terms of reference.</p> <p>The Code asks a number of questions in relation to the terms of reference. The current terms of reference are considered to meet the Code, with the exception of defining consultancy work.</p>	<p>As agreed by the Panel in June 2012, terms of reference are not going to be revised until the national Public Sector Internal Audit Standards have been published, expected early in 2013.</p>	<p>March 2013</p>
1.4.2	<p>Has the Internal Audit Manager made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?</p>	<p>Changes to be made to the Employees Code of Conduct to make explicit the notification requirement.</p>	<p>May 2013</p>
10.3.1	<p>Has the Internal Audit Manager defined the need for and the form of any follow-up action?</p>	<p>The audit manual needs to be amended to reflect the changes that have come about through the SharePoint audit actions system. Auditors are aware of the process to be followed.</p>	<p>December 2012</p>
11.1.1	<p>Is there an audit manual?</p>	<p>Electronic version in place. It needs to be reviewed and updated to take account of current procedures and recent initiatives.</p>	<p>March 2013</p>