

Committee:	Audit Committee	Agenda Item No.:	10.
Date:	26 th June 2013	Status	Open
Subject:	Annual Review of the Effectiveness of Internal Audit		
Report by:	Director of Corporate Resources		
Other Officers Involved	Acting Head of Internal Audit Consortium		
Director	Director of Corporate Resources		
Relevant Portfolio Holder	Councillor E. Watts, Leader of the Council.		

RELEVANT CORPORATE AIMS

STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources.

TARGETS

Strategic Organisational Development.

VALUE FOR MONEY

An effective Internal Audit service is a key element of the processes necessary to ensure VFM.

1 Purpose of Report

- 1.1 To provide to the Audit Committee the annual review by the Chief Financial Officer of the effectiveness of the Council's Internal Audit arrangements.
- 12 For the Audit Committee to consider whether the conclusion set out within this report represents a reasonable evaluation of the position in respect of the Internal Audit service and its effectiveness as part of the Council's Governance arrangements.

2 Background Information

- 2.1 The Accounts and Audit Regulations require local authorities to follow proper accounting practices and to maintain an appropriate regime of internal control. These Regulations require that the council will on at least an annual basis conduct a review of the effectiveness of its internal audit service, and that this review will be considered by a

committee of the Council as part of the wider consideration of the system of internal control.

- 2.2 Given the role of the Audit Committee in relation to financial governance and internal control issues it is appropriate that this report is brought before that Committee for consideration. These reviews have been undertaken for each year of operation since the current consortium arrangements with Chesterfield and North East Derbyshire became operational in 1 April 2007.

4 Review of the Effectiveness of Internal Audit

- 4.1 The Chief Financial Officer in reviewing the effectiveness of the Council's Internal Audit Service during 2012/13 is satisfied that an effective service has been provided, and his overall conclusion regarding the service is as follows:

"It is my opinion that the Council's Internal Audit section which is provided as a Joint Service between Chesterfield, Bolsover and North East Derbyshire carries out this function competently and to a high standard. The Consortium provides an effective service upon which I can place reliance."

The sections below outlines the evidence which support that judgement, and this Committee are asked to consider and comment upon the reasonableness of the judgement that has been reached.

- 4.2 Firstly, the Internal Audit Consortium has achieved almost all of its Audit Plan in respect of 2012/13, with some 97% of planned audits completed during the course of the year. The Audit Plan is based on a risk assessment process in respect of the Council's systems and internal controls, and the fact that the Plan has been largely completed by the year end does support the view that a systematic review of the Council's activities has been undertaken during the course of the year. The Chief Financial Officer was consulted about the Audit Plan at the start of the financial year, and I am satisfied that it was a robust plan which covered all of our main systems of internal control and areas of identified risk. Likewise the Plan was reported to this Audit Committee at its meeting on the 12th March 2012, where it was given appropriate consideration. Progress against the Audit Plan was reported on by the Acting Head of the Internal Audit Consortium at the previous meeting of this Committee on the 21st May 2013, and I am satisfied that this review gives Members a true and fair view as to progress during the 2012/13 financial year. It should be noted that the Plan in respect of 2013/14 was agreed at this Committee on 12 March 2013.
- 4.3 Secondly, the most direct outcome which arises from the work of Internal Audit is its formal reports, which cover the areas as agreed within the Audit Plan. These reports provide important evidence which enable other stakeholders to evaluate the quality of the work of internal audit. There are a number of quality checks built into the process of

producing and agreeing these audit reports. These include the right of the responsible service manager and Director to comment on the conclusion of the audit and the fact that all of the audit reports which are produced are effectively quality checked by the Director of Corporate Resources who exercises the Council's client function. Reports are also considered where appropriate by both the Council's Corporate Management Team (Senior Alliance Management Team) and by this Committee. This comprehensive range of quality control has not raised any issues which would conflict with my own views that the reports are prepared to an appropriate professional standard. As Chief Financial Officer no issues have been brought to my attention which would suggest that the Internal Audit service is failing to operate to appropriate professional standards.

- 4.4 Thirdly, the audit team operate to recognised good practice as set out by the Chartered Institute of Public Finance and Accountancy (CIPFA), in its Code of Practice for Internal Audit in Local Government issued in 2003 (amended 2006). **Appendix 1** summarises the key requirements of the Code of Practice, and comments on the level of compliance by the Council's internal audit service as delivered by the Internal Audit Consortium. There are no significant areas of non-compliance with the Code. Having considered the evidence set out within Appendix 1 the Chief Financial Officer is satisfied that the Consortium is operating in line with the requirements of the CIPFA code. The Council operates its internal audit function in line with best practice as set out in the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2010).
- 4.4 It should be noted that the evidence regarding the service which has been considered thus far is essentially the view of the Chief Financial Officer which I have developed in conjunction with other senior officers within the Council. Given that a consideration of the information available to me does not give any grounds for concern I have taken the view that an external validation of the service would not be an appropriate course of action at this point in time. It should be noted that the majority of District Council's continue to rely on an internal assessment of the adequacy of the Internal Audit service rather than commissioning external review.
- 4.5 It should also be noted that the Council's External Auditors for 2012/13 the Audit Commission / KPMG place an on going reliance in its annual audit on the background work of the Internal Audit team in relation to system and other key controls. The work in respect of the 2012/13 financial year was quality assessed by External Audit to ensure that it could place reliance on the work of the Internal Audit team. While there is no formal assurance work undertaken by External Audit they have not raised any issues regarding the quality of the Internal Audit work that is undertaken on the Council's behalf. This does provide some further assurance regarding the appropriateness of the work that is undertaken on the Council's behalf.

- 4.6 Finally, in terms of the judgement regarding the effectiveness of Internal Audit it should be noted that the service has operated within the approved financial budget since its inception in April 2007. Given that these budgets were based upon the Business Case which was developed concerning the Internal Audit consortium as part of the process of setting up the Consortium arrangements, and that the Business Plan explicitly considered best value issues I am satisfied that the service is providing good Value for Money for the Council. Over the period since its inception the audit resource available to Bolsover District Council has been reduced reflecting the requirement within local authorities to secure on going efficiencies. I am also aware that the Head of Internal Audit does give consideration to the overall cost of the Internal Audit Consortium in conjunction with colleagues as part of the meetings of the Derbyshire Chief Internal Auditors Group.
- 4.7 Having considered the evidence above and consulted with my colleagues on CMT (SAMT) and my senior finance officers I am satisfied that the Internal Audit Service is operating at an appropriate standard. I am also of the view that the Consortium has continued to improve the quality of the service that is provided to Bolsover District Council. I am particularly pleased that the Consortium has successfully developed and maintained an appropriately qualified staff team. Given my discussions with the senior staff within the Consortium I am satisfied that the Consortium is in a good position to continue to provide a high quality, cost effective service to the Council. It should, however, be noted that the former Head of the Internal Audit Consortium has retired and that the Council is working with Chesterfield Borough Council (the host authority) to ensure appropriate arrangements are maintained in respect of internal audit.

5 Recommendations

- 5.1 That the Audit Committee consider the views of the Chief Financial Officer in his assessment of the Internal Audit Service during the 2012/13 financial year which is that:
- "It is my opinion that the Council's Internal Audit function which is provided as a Joint Service between Chesterfield, Bolsover and North East Derbyshire carries out this function competently and to a high standard. The Consortium provides an effective service which I can place reliance on."
- 5.2 That the Audit Committee make any comments which they consider to be appropriate either on the contents of this report, or on the opinion of the Chief Financial Officer regarding the effectiveness of the Internal Audit service.

Appendix 1

Code of Practice for Internal Audit in Local Government

The 2006 Code of Practice consists of 11 Standards. These define the way in which the internal audit should be established and undertake its functions.

Against each Standard there is an outline of what is required by that Standard and comments on the current level of compliance achieved.

	Standard	Comment
1.	Scope of Internal Audit <ul style="list-style-type: none"> • Terms of Reference • Scope of Work • Other work • Fraud and Corruption 	The Audit Plan in relation to 2012/13 was considered and approved by this Committee at its meeting of 12 th March 2012. Terms of Reference and Policy were reviewed and agreed at the 26 September 2011 meeting of the Audit Committee. These reports effectively established the scope of the work to be undertaken. The Council's Constitution establishes the powers and role of Internal Audit within the authority itself. The Constitution reflects CIPFA guidelines. The Internal Audit team makes a positive contribution to the prevention of fraud and corruption, and to addressing any areas where this may arise.
2.	Independence <ul style="list-style-type: none"> • Principles of Independence • Organisational Independence • Status of the Head of Audit • Independence of individual auditors • Independence of internal audit contractors • Declaration of Interest 	The Internal Audit Consortium is independent in terms of its organisational position and does not undertake any significant non-audit duties. The Head of the Internal Audit Consortium reports to the Chief Financial Officer. There is the right of access to the Chief Executive, other senior managers, Members and the Audit Committee. Individual auditors are aware of the need to maintain independence and report any potential conflicts of interest. A system of declaration of interest forms operates for all internal audit staff and any contractor.
3.	Ethics for Internal Auditors <ul style="list-style-type: none"> • Purpose • Integrity • Objectivity • Competence • Confidentiality 	Appropriate staff have been appointed to all posts, and this is supported by a structured process of training. Issues are covered at Internal Audit Consortium Team Meetings to ensure that all staff are aware of the ethical requirements which underpin their role.
4.	Audit Committee <ul style="list-style-type: none"> • Purpose of the audit committee 	The Council has an active Audit Committee which met 6 times during the 2012/13 financial year, and which operates in line with CIPFA guidelines. The Internal Audit Consortium reports on a regular basis to that Committee

	Standard	Comment
	<ul style="list-style-type: none"> • Internal Audit's Relationship with the Audit Committee 	<p>and covers the following issues:</p> <ul style="list-style-type: none"> - Annual report including opinion on the system of internal control (28 May 2012) - Terms of Reference and Policy (26 September 2011) - Internal Audit Plan (12th March 2012) - Regular formal updates concerning Internal Audit Reports have been brought to all meetings of this Committee. - Reports on Statement on Internal Control Governance / Assurance, (21 May 2013).
5.	<p>Relationship with management, other auditors and other review bodies</p> <ul style="list-style-type: none"> • Principles of good relationships • Relationships with management • Relationships with other internal auditors • Relationships with external auditors • Relationships with other review bodies • Relationships with elected members 	<p>The Head of the Internal Audit Consortium seeks to maintain professional relationships with all the groups listed. The Head of the Internal Audit Consortium is regularly invited to meetings or to take part in discussions to provide advice on control issues. Regular discussions are held with Directors and Core Managers on the outcomes of audits and to inform the audit planning process. The internal audit Consortium operates the Managed Audit approach with the Council's external auditor. Regular reports are submitted to Members of the Audit Committee.</p>
6.	<p>Staffing, training and continuing professional development</p> <ul style="list-style-type: none"> • Staffing internal audit • Training and Continuing professional development 	<p>Audit training needs assessments are undertaken to identify training needs and these are addressed via in house training or sourced from external organisations. The staffing resources of the internal audit Consortium were reviewed as part of the preparation of the Business Case for the establishment of the Consortium, with staffing efficiencies secured on an on going basis. The Head / Deputy Head of the Internal Audit Consortium are participating in the CIPFA continuing professional development scheme and encourage other staff to participate in the CPD scheme. The Head of Internal Audit is an active participant in the Derbyshire Chief Internal Auditor's Group.</p>
7.	<p>Audit Strategy and Planning</p> <ul style="list-style-type: none"> • Audit Strategy 	<p>The Audit Committee approved the 2012/13 Audit Plan on the 12 March 2012, with the underlying Terms of Reference and Policy</p>

	Standard	Comment
	<ul style="list-style-type: none"> • Audit Planning 	<p>having been agreed updated in September 2011. This reflects the fact that an annual plan is reported to both senior management and to the Audit and Corporate Governance Committee each year and at an operational level monthly work plans are produced. These plans are based on a comprehensive risk assessment.</p>
8.	<p>Undertaking Audit Work</p> <ul style="list-style-type: none"> • Planning • Approach • Recording audit assignments 	<p>A Strategic three-year audit plan is compiled following an internal audit risk assessment exercise. The risk assessment and plan is updated each year and the updated plan reported to the Audit Committee.</p> <p>Each audit has an agreed test schedule that identified the controls to be tested and samples to be used. These schedules are drawn up in the light of recognised good practice, and in the light of previous audit experience.</p> <p>Working papers are maintained to record work and conclusions reached / recommendations arising.</p> <p>Follow up work is undertaken, particularly where there are significant issues arising.</p>
9.	<p>Due professional care</p> <ul style="list-style-type: none"> • Principles of due professional care • Responsibilities of the Individual Auditor • Responsibilities of the Head of Internal Audit 	<p>Due professional care is achieved through the supervision and review of the work of less experienced auditors and by the general review of audit working papers and reports.</p> <p>Audit Team Meetings and Staff Reviews reinforce roles and responsibilities which are established in Job Descriptions and Structure Charts.</p> <p>Both the Head of Internal Audit and his Deputy are qualified accountants, with significant experience of working within an Internal Audit environment.</p>
10.	<p>Reporting</p> <ul style="list-style-type: none"> • Principles of reporting • Reporting on Audit Work • Follow-up Audits and Reporting • Annual reporting and presentation of audit opinion 	<p>Reports are issued at the conclusion of each audit. The report is issued to the Director and Service Manager concerned. Each report contains an Implementation Schedule containing all recommendations that requests management to complete and return.</p> <p>An annual report is compiled by the Head of the Internal Audit Consortium and reported to the Audit Committee detailing the comparison of planned to actual days, main matters arising and opinion on the system of internal control.</p>

Standard		Comment
11.	Performance, Quality and Effectiveness <ul style="list-style-type: none"> • Principles of Performance, Quality and Effectiveness • Quality Assurance of Audit Work • Performance and Effectiveness of the Internal Audit Service 	Quality control procedures are maintained by the review of completed audit assignments by the Head / Deputy Head of the Internal Audit Consortium or Senior Auditors. The external auditor reviews various audits each year as part of the process of undertaking its own audit of the Council. The Chief Financial Officer provides an opinion on the effectiveness of Internal Audit on an annual basis. Reports on the performance of the Internal Audit Consortium are taken to the Joint Board established to co-ordinate joint working projects (20 th May 2013).

The above table is based on a self assessment which has been undertaken by the Acting Head of Internal Audit, and agreed with the Chief Financial Officer. It should be noted that following the retirement of the Chief Internal Auditor that the Council is currently working with Chesterfield Borough Council (as the host authority) in order to ensure that the Internal Audit function is adequately resourced going forward. Given that the retirement took place at the end of the 2012/13 financial year any impact on the service during 2012/13 is considered to be minimal.