

Bolsover District Council

Audit Committee

23rd June 2014

Annual Review of the Effectiveness of Internal Audit

Report of the Executive Director - Operations

Purpose of the Report

- To provide to the Audit Committee the annual review by the Chief Financial Officer of the effectiveness of the Council's Internal Audit arrangements.
- 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.

1 Report Details

Background

- 1.1 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.
- 1.2 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.

Review of the Effectiveness of Internal Audit

- 1.3 The Chief Financial Officer in reviewing the effectiveness of the Council's Internal Audit Service during 2013/14 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.

- 1.4 Firstly, the Internal Audit Consortium has achieved 100% of the revised Internal Audit Plan for 2013/14 that was approved by this committee in December 2013. 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 revised Plan has been 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 both at the start of the financial year and concerning the Revised version in December 2013. . As Chief Financial Officer 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 meetings of the 12th March 2013 and that of 10th December 2013, where it was given appropriate consideration. Progress against the Audit Plan was reported on by the Interim Head of the Internal Audit Consortium at the previous meeting of this Committee on the 17th April 2014, and I am satisfied that this review gives Members a true and fair view as to progress during the 2013/14 financial year. It should be noted that the Plan in respect of 2014/15 was agreed at this Committee on 17th April 2014.
- 1.5. 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 are effectively quality checked by the Executive Director Operations and the Assistant Director – Finance and Revenues and Benefits 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.
- 1.6 Thirdly, the audit team operate to recognised good practice as set out by the Chartered Institute of Public Finance and Accountancy (CIPFA), in its Public Sector Internal Audit Standards (2013). In the September of 2013 a report was brought to this Committee setting out a comparison between the requirements of the Standards with an outline as to how Bolsover complied with these requirements. That assessment concluded that the Council complied with all main areas of the Standards. An Improvement Plan was developed to address the minor areas of non compliance. Progress against the Improvement Plan will be reported in the Internal Audit Consortium's annual report. On the basis of the evidence available the Chief Financial Officer is satisfied that the Consortium is operating in line with the

requirements of the Public Sector Internal Audit Standards. In addition 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).

- 1.7 It should be noted that under the Public Sector Internal Audit Standards (2013) which have applied since April 2013 that the Council is required once every five years to commission an independent review of its Internal Audit function by a suitably qualified external organisation. Officers have considered the position and have come to the view that such a review would probably be better undertaken at a later stage. The prime factor in forming this view is that 2013/14 is the first year in which the new system has operated and it was considered to be appropriate that we allow the market for external review to settle before committing to an external review of the work. Officers are of the view that 2015 or 2016 would be a more suitable date.
- 1.8 It should also be noted that the Council's External Auditors the Audit Commission 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. That work is quality assessed by the Audit Commission to ensure that it can place reliance on the work of the Internal Audit team. While there is no formal assurance work undertaken by the Audit Commission 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.
- 1.9. One of the issues that has been raised by External Audit concerns the capacity of the team given that the former Head of the Internal Audit Team resigned from the host authority (Chesterfield Borough Council) over a year ago. Since that time the Interim Head of the Internal Audit Consortium has been managing the service. The staff resource concerned has not been replaced by additional resources at any level within internal audit and the Team now has only one fully qualified Member. On the basis of the evidence provided within this report the internal team is continuing to operate at a high standard. During the course of 2013/14 the Council's senior officers have undertaken two pieces of work looking at the coverage of the Audit Plan. On the basis of a comparison with other authorities in Derbyshire we have come to the conclusion that our level of audit coverage remains above average and that operating at the current level of capacity should not compromise the robustness of our internal control system.
- 1.10. The Audit Committee may wish to note that officers are currently working as part of a wider consortium across Derbyshire in order to consider the advisability of operating internal audit across a wider area. An external consultant is in the process of being commissioned to produce a Business Plan and once this will be available the option will be given appropriate consideration. This move is in no way a reflection on current arrangements but reflects the drive to look at the wider issue of whether shared services on a wider basis could generate financial savings together with improved resilience across the Derbyshire area.
- 1.11 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 Interim Head of Internal Audit does give consideration to the overall cost of the Internal Audit Consortium in conjunction with colleagues that are part of the Midlands Audit Group.

2 Conclusions and Reasons for Recommendation

2.1 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. 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.

2.2 To establish whether the Audit Committee is in support of the view of the Chief Financial Officer 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."

3 Consultation and Equality Impact

3.1 Given that the purpose of this report is to consider the effectiveness of an existing service it is not considered that there is a requirement for consultation on this matter, or that there is any direct impact upon equality issues.

4 Alternative Options and Reasons for Rejection

4.1 The Chief Financial Officer is required by good practice to consider at the end of each financial year whether or not the Internal Audit team provide a service on which he can place reliance. There is therefore no option other than to bring this report to the Audit Committee which is the Committee charged with ensuring the sound financial governance of the Council.

4.2 In arriving at the conclusion of the report there is an option to conclude that the Internal Audit team does not provide a service on which the Chief Financial Officer can place reliance. Section 1 of the report sets out the grounds on which the Chief Financial Officer has decided to take the view that the Internal Audit Team does provide a service on which he can place reliance.

5 **Implications**

5.1 **Finance and Risk Implications**

- There are no additional financial implications arising out of this report.
- The fact that the Chief Financial Officer has concluded that the service is one on which he can place reliance does help reduce the risk of the failure of the Council's Internal Control arrangements.

5.2 **Legal Implications including Data Protection**

There are no Legal or Data Protection issues arising directly from this report.

5.3 **Human Resources Implications**

There are no additional HR implications arising out of this report.

6 **Recommendations**

- 6.1 That the Audit Committee consider the views of the Chief Financial Officer in his assessment of the Internal Audit Service during the 2013/14 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."

- 6.2 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.

7 **Decision Information**

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
District Wards Affected	None Directly.
Links to Corporate Plan priorities or Policy Framework	Customer Focused Services – Providing Excellent customer focussed services. Strategic Organisational Development – Continually improving our organisation

8 **Document Information**

Appendix No	Title
N/A	
<p>Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
Report Author	Contact Number
Executive Director – Operations (Chief Financial Officer)	2431