

 <b>Finance &amp; Audit Scrutiny Committee</b> <b>- 7 June 2011</b>		<b>Agenda Item No.</b>  <div style="text-align: right; font-size: 2em;"><b>6</b></div>
<b>Title</b>	<b>Review of Effectiveness of Internal Audit 2010/11</b>	
<b>For further information about this report please contact</b>	Mike Snow, Head of Finance	
<b>Service Area</b>	Finance	
<b>Wards of the District directly affected</b>	None	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	Standards Committee 16 <sup>th</sup> June 2010	
<b>Background Papers</b>	Code of Practice for Local Govt. Internal Audit in the United Kingdom 2006 (CIPFA) Service Delivery Plan 2010/11 (Finance) Audit Strategy 2010/11 to 2012/13 Internal Audit Manual Minutes of Internal Audit Team Meetings Monthly and Quarterly Progress Reports Performance appraisal documents Post-audit user questionnaires and satisfaction surveys Comprehensive Area Assessment – Use of Resources Assessments.	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	No
<b>Included within the Forward Plan? (If yes include reference number)</b>	No
<b>Officer/Councillor Approval</b>	
With regard to officer approval all reports <i>must</i> be approved by the report authors' relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).	
<b>Officer Approval</b>	<b>Date</b> <b>Name</b>
Relevant Director	22 May 2011      Andy Jones
Chief Executive	
CMT	
Section 151 Officer	22 May 2011      Mike Snow
Legal	
Finance	22 May 2011      Mike Snow
Portfolio Holder(s)	23 May 2011      Councillor Mobbs
<b>Consultation Undertaken</b>	
Please insert details of any consultation undertaken with regard to this report	
<b>Final Decision?</b>	Yes
<b>Suggested next steps (if not final decision please set out below)</b>	

## 1. **SUMMARY**

- 1.1 This report presents the outcomes from the review of the effectiveness of the Council's system of internal audit for the year ended 31<sup>st</sup> March 2011 undertaken in accordance with the Accounts and Audit (Amendment)(England) Regulations 2006. The regulations require such a review at least once a year and presentation of the results to the committee designated to consider or approve the Annual Governance Statement. Accordingly, this report will be presented to Standards Committee later this month and the Finance and Audit Scrutiny Committee is invited to address its views to that meeting.

## 2. **RECOMMENDATION**

- 2.1 That this Committee considers the scope, method and outcomes of the review of the effectiveness of the Council's system of internal audit for the year ended 31<sup>st</sup> March 2011, and addresses its views to Standards Committee for its meeting later this month.

## 3. **REASONS FOR THE RECOMMENDATION**

- 3.1 Regulation 6 of the Accounts and Audit (Amendment)(England) Regulations 2006 requires that:
- "the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit."
  - "The findings of the review ....shall be considered, as part of the consideration of the system of internal control, ....., by the committee (*designated to approve the Annual Governance Statement*)".
- 3.2 As its terms of reference include issues of an audit nature, this Committee should have reasonable opportunity to consider reports on the effectiveness of internal audit and direct its views to the Committee designated under the Regulation 6.

## 4. **ALTERNATIVE OPTION CONSIDERED**

- 4.1 The only alternative option was not to undertake or report on the review of the effectiveness of the system of internal audit, which would almost certainly result in the Council being held in breach of its statutory obligations.

## 5. **BUDGETARY FRAMEWORK**

- 5.1 Resources for maintaining and improving the effectiveness of the system of internal audit are covered under the existing approved budget and Internal Audit Plan for 2011/12.

## 6. **POLICY FRAMEWORK**

- 6.1 The work of Internal Audit constitutes a key element in the Council's control environment which helps ensure that the Council manages its resources to achieve its objectives economically, efficiently and effectively.

## 7. **BACKGROUND**

- 7.1 Previously, the review was conducted as an evidence-based assessment of compliance with that part of the Code of Practice for Internal Audit in the United Kingdom 2006 (CIPFA) that relates to the performance and effectiveness of the internal audit service.
- 7.2 Specifically, the assessment used Section 11 of the checklist contained in the Appendix to the Code. Compliance was rated against each of the criteria as full, partial or none with reference to evidence that could be produced to support the ratings.
- 7.3 After several years of adopting this cost-effective approach to the review of internal audit, members decided last year that they wanted a more impartial exercise, ideally conducted by someone outside of the organisation.
- 7.4 Internal Audit has also been subject to a triennial review by the Audit Commission, the Council's external auditors. The last such review was in early 2008, with the next due early this year. With the scope of the Audit Commission reducing, this review has not taken place.
- 7.5 Consequently, the Audit and Risk Manager, mindful of the costs of employing a consultancy firm or similar body, commissioned the head of internal audit at Derby City Council to undertake a peer review. This person is well-respected in local government audit, being used on a couple of occasions to assist other councils in the region when governance problems have arisen.
- 7.6 The costs of this review are very small. In fact, it may be that no costs arise at all if Derby City Council's head of internal audit accepts the reciprocal offer of a review of its risk management arrangements by the Audit and Risk Manager.
- 7.7 The review was based on the framework guide developed by the CIPFA Better Governance Forum which aims to provide practical support to help make internal audit more effective.
- 7.8 This was achieved by assessing the internal audit function against the 'building blocks' for effective internal audit identified in the guidance. The building blocks are:
- Leadership
  - Governance and relationships
  - Customer focus
  - People
  - Systems and processes
  - Professional Standards
- 7.9 The report arising from the review is set out as an appendix. The report has only just been produced, however, and Internal Audit has not had an opportunity yet to consider the report properly and compile an action plan to address the issues raised. This will be completed very shortly and presented to this Committee for review and approval.
- 7.10 The main, broad issue identified within the draft report is around the contribution that internal audit makes to corporate governance and its

relationship to other functions in the Authority that have similar responsibilities. This theme has a number of strands including the extent to which members are equipped for their audit committee role.

- 7.11 When the action plan is completed, Committee may wish to apply a more detailed analysis of the findings and recommendations.
- 7.12 The review is deemed to be very useful to the internal audit service in its continuous quest to improve. Indeed, Internal Audit welcomes such an external challenge and has sought out the type of robust scrutiny that this review provides. It would clearly be wrong for it to have a different view, being as its main role is to review other services.