

 <b>Finance and Audit Scrutiny Committee</b> <b>29<sup>th</sup> May 2012</b>		<b>Agenda Item No.</b>
<b>Title</b>	Review of Effectiveness of Internal Audit 2011/12	
<b>For further information about this report please contact</b>	Richard Barr Tel: (01926) 456815 E Mail: richard.barr@warwickdc.gov.uk	
<b>Service Area</b>	Finance	
<b>Wards of the District directly affected</b>	Not applicable	
<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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006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 – 21 <sup>st</sup> June 2011	
<b>Background Papers</b>	Code of Practice for Local Govt. Internal Audit in the United Kingdom 2006 (CIPFA) Service Delivery Plan 2011/12 (Finance) Audit Strategy 2011/12 to 2013/14 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 author's relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	11 May 2012	Andrew Jones
Head of Service	11 May 2012	Mike Snow
CMT		
Section 151 Officer	11 May 2012	Mike Snow
Monitoring Officer		
Finance	11 May 2012	As S151 Officer
Portfolio Holder	11 May 2012	Councillor Mobbs
<b>Consultation Undertaken</b>		
Not applicable.		

<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 2012 undertaken in accordance with the Accounts and Audit (England) Regulations 2011. 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 2012, and addresses its views to Standards Committee for its meeting in June.

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

- 3.1 Regulation 6 of the Accounts and Audit (England) Regulations 2011 requires that:
- "A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit."
  - "The findings of the review...must be considered, as part of the consideration of the system of internal control...by a 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 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 2012/13.

## 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 scope of the Audit Commission reducing, the review, due in 2011, did not take place.
- 7.5 Consequently, the Head of Finance, mindful of the costs of employing a consultancy firm or similar body, investigated the possibility of a peer review from another local authority. A decision was made to commission the head of internal audit at Derby City Council to undertake the review. It was felt that a unitary council would provide a useful perspective.
- 7.6 The review was based on the framework guide developed by the CIPFA Better Governance Forum that aims to provide practical support to help make internal audit more effective.
- 7.7 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
- 7.8 A report was produced that detailed areas for improvement. This was reported to Finance and Audit Scrutiny Committee last June as the basis for the Review of the Effectiveness of Internal Audit for 2010/11. In response, an action plan was compiled and reported to Committee, setting out how the areas for improvement were to be addressed.
- 7.9 Whilst the areas for improvement from this report are being addressed there seems little point in commissioning a further review of the effectiveness of internal audit.
- 7.10 Progress in addressing the areas for improvement is summarised in the attached appendix.