

## **WIRRAL COUNCIL**

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

**29 NOVEMBER 2011**

<b>SUBJECT:</b>	<b>REVIEW OF SYSTEMS OF INTERNAL AUDIT</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b>COUNCILLOR ADRIAN JONES</b>
<b>KEY DECISION ?</b>	<b>NO</b>

#### **1.0 EXECUTIVE SUMMARY**

- 1.1. The Accounts and Audit Regulations 2006 specify that there should be a review of "the System of Internal Audit" conducted annually, and its results reviewed by a committee, as part of the Statement on Internal Control (SIC).
- 1.2. The review of the system is more than a review of the Internal Audit Service.
- 1.3. A review of the system of internal audit has been conducted on the basis of a self-assessment of compliance with the CIPFA Code of Practice for Internal Audit in Local Government, a Customer Satisfaction Survey, in accordance with the current advice available, the results of work undertaken to prepare the Annual Governance Statement and the findings of Audit Commission reviews.
- 1.4. The conclusion is that the 'system of internal audit' is performing effectively and that the Internal Audit Service is making a good contribution to the control environment of the Council.
- 1.5. The need for this report was identified as an action in the Council's Annual Governance Statement. It was delayed following the receipt of the external report of the Council's Corporate Governance. Cabinet on 22 September 2011 requested initial proposals from the Director of Finance to the Corporate Governance Cabinet Committee "on ways to strengthen the Council's Internal Audit team in order to ensure any warnings they issue are clearly heard and responded to". The Committee subsequently agreed on 26 October 2011 to a Review of Internal Audit.

## **2.0 RECOMMENDATION**

- 2.1. That the report be noted.

## **3.0 REASON FOR RECOMMENDATION**

- 3.1 To comply with Section's 4 and 6 of the Accounts and Audit Regulations 2006.

## **4.0 BACKGROUND**

- 4.1 The Department for Communities and Local Government (DCLG) issued amended regulations in 2006, to the 2003 Accounts and Audit Regulations – 'The Accounts and Audit (Amendment) (England) Regulations 2006.
- 4.2. Two of the regulations impact on the process for preparing the Statement of Internal Control (SIC) which is now subsumed within the Annual Governance Statement (AGS). These are:-

- a. Regulation 4 requires that the findings of the review of the system of internal control be considered by a committee of the relevant body (i.e. the Council), or by members of the body meeting as a whole.

- b. Regulation 6 requires bodies to review their "System of Internal Audit" once a year, and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in Regulation 4.

These amendments came into force on 1 April 2006.

- 4.3. Guidance issued by the Department for Communities and Local Government, to assist organisations in implementing the 2006 amendments, provides little explanation of a procedure to review the effectiveness of the "System of Internal Audit.
- 4.4. The absence of prescription in both the Regulations and the Guidance Circular, means that organisations have to find their own solutions to meet the requirements of the Regulations. Consequently, guidance and advice has been obtained from CIPFA and the issue discussed with internal auditors from other authorities.
- 4.5. Advice from CIPFA includes the assertion that the major consideration is to understand what comprises the "System of Internal Audit". It can be considered to include:
  - a. Internal Audit – the annual plan and work of the Internal Audit Service. but also
  - b. management processes of checking, reconciliation, supervision and controls.

- c. corporate control functions – legal, financial, health & safety and human resources.
  - d. the role and effectiveness of the Audit Committee.
- 4.6. CIPFA suggests that the Audit Committee reviews information on the effectiveness of the areas shown above, as performed by self-assessment, “customer” feedback and from any existing external performance or assurance reviews, internal or external peer reviews and external third party reviews and inspections.
- 4.7. The CIPFA advice states that the review of the ‘System of Internal Audit’ is related to more than just the Internal Audit Service. Good internal audit is an integral part of the organisation, and will interact throughout the risk management, governance and supervision structure. A measure of the effectiveness of the ‘system’ would encompass a consideration of both the effectiveness of these relationships and the wider effectiveness of the organisation.

## **5.0 CONCLUSIONS**

- 5.1 As there is still no established good practice, prescribed action or even recommendations, the following option which follows the CIPFA Audit Panel guidance has been adopted. This has involved:
- a. Self-assessment based on reviewing adherence to the CIPFA Code of Practice for Internal Audit in Local Government.
  - i. The Code specifies standards on:
    - the scope of the internal audit service
    - independence
    - ethics for internal auditors
    - audit committees
    - relationships
    - staffing, training and continuing professional development
    - audit strategy and planning
    - undertaking audit work
    - due professional care
    - reporting
    - performance, quality and effectiveness
  - ii. Compliance with the CIPFA Code of Practice for Internal Audit in Local Government was re-assessed in 2011/12 and full compliance confirmed (Appendix 1).
- b. “Customer” feedback has been addressed by submitting questionnaires to Clients, Chief Officers and Heads of Service to seek their views on the Internal Audit Service, under several topic headings. This will be further developed in the future in line with developing best practice.

- c. The most recent review of Internal Audit by the Audit Commission has been considered. The opinion on the Service was that it was “generally meeting the Code of Practice” and provided a good contribution” to the Council. An action plan identifying areas for improvement produced by the Audit Commission has been fully implemented and was reported to this Committee in January 2010.
  - d. The findings of extensive work undertaken annually by the Internal Audit Service to compile the Annual Governance Statement, evaluating the effectiveness of governance arrangements in operation throughout all areas of the Council including the management processes and corporate control functions identified in 4.5.b and c.
- 5.2. A self assessment checklist recommended for use by CIPFA in its publication ‘A Toolkit for Local Authority Audit Committees’ to annually evaluate the role and effectiveness of the Audit and Risk Management Committee has been fully implemented.

## **6.0 RELEVANT RISKS**

- 6.1 Potential failure of the Council to comply with the Accounts and Regulations and best professional practice and thereby not function in an efficient and effective manner.

## **7.0 OTHER OPTIONS CONSIDERED**

- 7.1 No other options considered.

## **8.0 CONSULTATION**

- 8.1 Officers, Members of this Committee and relevant external inspection bodies have been consulted throughout the process of undertaking this work.

## **9.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 9.1 There are none arising from this report.

## **10.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 10.1 There are none arising from this report.

## **11.0 LEGAL IMPLICATIONS**

- 11.1 There are none arising from this report.

## **12.0 EQUALITIES IMPLICATIONS**

- 12.1 There are none arising from this report.

## **13.0 CARBON REDUCTION IMPLICATIONS**

- 13.1 There are none arising from this report.

## **14.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

14.1 There are none arising from this report.

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## **APPENDICES**

Code of Practice Assessment – Internal Audit

FNCE/268/11

## **REFERENCE MATERIAL**

Accounts and Audit Regulations 2006  
CIPFA Publication 'A Toolkit for Local Authority Audit Committees' 2006  
CIPFA Code of Practice for Internal Audit in Local Government 2007

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Audit and Risk Management Committee	March 2009
	June 2009
	November 2009
	November 2010
	January 2011