

## **WIRRAL COUNCIL**

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

**31 MARCH 2009**

### **REPORT OF THE DIRECTOR OF FINANCE**

### **REVIEW OF THE SYSTEM OF INTERNAL AUDIT**

#### **1. 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, including the triennial review of the Internal Audit Service.
- 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.

#### **2. BACKGROUND**

- 2.1. 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.
- 2.2. Two of the amended 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.

- 2.3. 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” other than “...an Audit Committee would provide an appropriate means through which to carry out the review of internal audit as it has a role in monitoring internal audit but is independent from it.”
- 2.4. 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.
- 2.5. 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.
- 2.6. 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.
- 2.7. The CIPFA advice states that:
  - a. 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.
  - b. self-assessment alone, is probably not enough. It is considered a “good starting point” and a valuable source of evidence, but reviews based solely upon self-assessment, are unlikely to be adequate in the long-term. Similarly, simply placing reliance solely upon external audit reviews is likely to be limited in its perspective.

### 3. CONCLUSIONS

3.1. As this is still a relatively new requirement and there is still no established good practice, prescribed action or even recommendations, the following option which follows the CIPFA Audit Panel guidance and was accepted by the Audit Commission for 2007/08 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 2008/09 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 triennial review of Internal Audit by the Audit Commission completed in 2007 has been considered. The opinion on the Section is that it is "effective" and "provides a good contribution" to the Council. The Audit Commission is currently undertaking a triennial review of the Internal Audit Service and the findings and opinion are expected later this year.

An action plan developed to address the twelve recommendations identified in the report has been fully implemented and a report relating to this was presented to this Committee on 7 April 2008.
- 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 2.5.b and c.

- 3.2. CIPFA in its publication 'A Toolkit for Local Authority Audit Committees' recommends the use of a self assessment checklist to evaluate the role and effectiveness of the Audit Committee as identified in 2.5.d (see Appendix 2).

#### **4. FINANCIAL AND STAFFING IMPLICATIONS**

- 4.1. There are none arising from this report.

#### **5. EQUAL OPPORTUNITY IMPLICATIONS**

- 5.1. There are none arising from this report.

#### **6. LOCAL AGENDA 21 IMPLICATIONS**

- 6.1. There are none arising from this report.

#### **7. PLANNING IMPLICATIONS**

- 7.1. There are none arising from this report.

#### **8. COMMUNITY SAFETY IMPLICATIONS**

- 8.1. There are none arising from this report.

#### **9. HUMAN RIGHTS IMPLICATIONS**

- 9.1. There are none arising from this report.

#### **10. LOCAL MEMBER SUPPORT IMPLICATIONS**

- 10.1. There are none arising from this report.

#### **11. BACKGROUND PAPERS**

- 11.1. Accounts and Audit Regulations 2006 – DCLG.
- 11.2. CIPFA Code of Practice for Internal Audit in Local Government 2007.
- 11.3. CIPFA Toolkit for Local Authority Audit Committees 2006.
- 11.4. Review of Internal Audit Service – Audit Commission – May 2007.

#### **12. RECOMMENDATION**

- 12.1. That the report be noted.

IAN COLEMAN  
DIRECTOR OF FINANCE