

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

28 JUNE 2007

REPORT OF THE DIRECTOR OF FINANCE

REVIEW OF THE SYSTEM OF INTERNAL AUDIT

1. EXECUTIVE SUMMARY

- 1.1. The Department for Communities and Local Government (DCLG) has issued amended regulations in 2006 to the Accounts and Audit Regulations.
- 1.2. The amendments 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).
- 1.3. The review of the “system” is more than a review of “internal audit”.
- 1.4. A review 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 and the findings of the Audit Commission review of internal audit.
- 1.5. The conclusion is that the internal audit section is performing effectively and making a good contribution to the control environment of the Council. Action Plans have been developed to address areas for improvement.

2. BACKGROUND

- 2.1. The DCLG issued amended regulations in 2006, to their 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). 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 and need to be included in the 2006/07 Statement on Internal Control.

- 2.3. The Guidance Circular (DCLG Circular 03/2006) issued by the Department for Communities and Local Government, to assist organisations in implementing the 2006 amendments, as above, 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 sought 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 the Council’s “system of internal audit” is. It can be considered to include:
 - a. internal audit – the annual plan and work of internal audit.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:-
 - a. on the effectiveness of the areas shown above, as performed by self-assessment, “customer” feedback and from any existing external performance reviews.
 - b. from an internal peer review process.
 - c. from an external peer review undertaken by another local authority.
 - d. from a review undertaken by an external third party.

The review of advantages and disadvantages of each of this is tabled in Appendix I.

2.7. CIPFA's advice states that:

- a. the review of the 'system of internal audit' is related to more than just the internal audit section. 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 a review of the internal audit section based solely upon self-assessment, is unlikely to be adequate in the long-term. Similarly, simply placing reliance upon external audit reviews of internal audit in the CPA Use of Resource assessments, is likely to be limited in its perspective.

2.8. In this respect, the Audit Commission has stated that: "It is the responsibility of the local authority to conduct the annual review of internal audit. It is not a review that will be carried out by the external auditor as part of the annual audit."

3. **CONCLUSIONS**

3.1. As this is a new requirement and there is no established good practice, prescribed action or even recommendations, the option described in 2.6 a has been adopted. This 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 internal audit
- 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 standards have been assessed (see Appendix II) on the basis of compliant, partially compliant, not compliant are not applicable.

iii. The results for the Internal Audit Section are:

Compliant	79%
Partially Compliant	15%
Non-compliant	5%
Not applicable	2%

iv. An action plan (Appendix III) has been prepared and reviewed by the Deputy Director of Finance to undertake the areas of non-compliance and the actions are in the process of being implemented.

- b. "Customer" feedback has been addressed by submitting questionnaires to 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.
- c. The recent triennial review of Internal Audit by the Audit Commission (subject of a separate report to this Committee) has been considered. The opinion on the Section is that it is "effective" and "provides a good contribution" to the Council.

An action plan has been developed to address and implement the recommendations made in the report and is reported elsewhere on this Committee agenda.

3.2. Subsequently, it will be necessary to conduct reviews of the areas described in 2.6 b, c & d in order to comply with the requirement to review the "System of Internal Audit". This process will be developed in the future and reported to this Committee.

3.2.1. It is anticipated that more detailed prescriptive guidance will be furnished in due course by CIPFA, the Audit Commission and other bodies and their instructions will be followed.

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 – January 2007.

11.3. Review of Internal Audit – Audit Commission – May 2007.

12. RECOMMENDATION

12.1. That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/103/07