

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

18 JANUARY 2010

REPORT OF THE DIRECTOR OF FINANCE

AUDIT COMMISSION REVIEW OF INTERNAL AUDIT, 2008/9 AUDIT

1. EXECUTIVE SUMMARY

- 1.1. The Audit Commission is required to review the effectiveness of Internal Audit in all Local Authorities.
- 1.2. A significant part of the review process is a three-yearly comparison of Internal Audit with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit. This has recently been completed and the report is included on this agenda.
- 1.3. The overall conclusion of the Audit Commission is "Internal Audit generally meets the CIPFA Standards but they are not fully met in some areas".

2. BACKGROUND

- 2.1. The Audit Commission Code of Audit Practice requires external auditors to review the arrangements for ensuring adequate and effective systems of internal control. They are also required under the International Standards for Auditing (ISA 610) to consider the activities of Internal Audit and its effect on external audit. This is reinforced by the principle that there should be efficient and effective relationships between internal and external auditors.
- 2.2. The arrangements for reviewing Internal Audit are:-
 - A three-yearly review, assessing the Section against the requirements set out in the CIPFA Code of Practice for Internal Audit.
 - An annual assessment to assess the overall control environment
 - Review of specific items of work by Internal Audit.
- 2.3. The Audit Commission report summarises the outcome of the three-yearly review undertaken during 2009.
- 2.4. All local authorities are required to have an Internal Audit function. Responsibility for this in Wirral rests with the Director of Finance as "Section 151" Officer, who exercises the responsibility through the Deputy Director of Finance. The Chief Internal Auditor (CIA) is the Head of Internal Audit and presents a summary of the programme of work for the year to Members in the Annual Audit Plan which was agreed by this Committee on 7 April 2008 for

2008/9. The Internal Audit Annual Report for 2008/9 was presented to this Committee on 29 June 2009.

3. AUDIT COMMISSION ASSESSMENT

3.1. The Audit Commission states its current assessment was based on:-

- Review of documentation provided by the Council, including the self-assessment completed by Internal Audit to assess compliance with the CIPFA Code standards.
- Review of six individual audit assignment files and five follow-up assignment files.
- Monitoring and review of Internal Audit work carried out on Adult Social Services Charging and the Highways and Engineering Services Procurement Exercise.
- Completion of an online survey for Internal Audit staff to explore aspects of the self-assessment.
- Discussions with the Director of Finance, Deputy Director of Finance, Chief Internal Auditor, Deputy Chief Internal Auditor and Internal Audit Team Leaders.

3.2 Observations

3.2.1 The previous triennial assessment, as reported to this Committee on 28 June 2007 was based on:-

- Cumulative knowledge of the Council possessed by the Audit Commission
- Review of Internal Audit documentation
- Interviews with the Director, Deputy Director, CIA, Deputy CIA, Group and Principal Auditors, other auditors and officers.
- Reports to the Audit and Risk Management Committee
- Review of published comparative information from other Councils.

3.2.2 The Audit Commission had experienced difficulties in completing the 2008/2009 review and I had to remove the anticipated report from the draft agenda for previous meetings of this Committee on several occasions. Consequently I suggested that an "interim" report based on their present knowledge and evidence which they had verified, should be produced so that a report could be presented.

3.2.3 Consequently, the approach adopted by the Audit Commission required Internal Audit to present evidence to challenge conclusions they (the Audit Commission) had drawn from the results of the above sources and included in their draft report. The alternative approach would have been to examine Internal Audit procedures directly and target interviews specifically on the assessment of Internal Audit with appropriate managers.

- 3.2.4 The first draft report was shared with the CIA, Deputy CIA and Deputy Director of Finance who identified forty-three issues and queries. The Audit Commission agreed to make amendments in response to ten of these in the limited timescale. Consequently, there remain several areas where agreement has not been reached.
- 3.2.5 Key areas where there needs to be better mutual understanding are around audit strategy and planning and staffing. The current audit planning process identifies and categorises all identified risks. As is reported to each A&RMC, "it is the deliberate policy of the Internal Audit Section to ensure that all high and intermediate risk audits are completed during the year". This facilitates an appropriate opinion on the control environment. Staffing resources are currently adequate to achieve this; however, there are issues around recruitment of appropriately qualified and experienced staff. Additionally, IA seeks to add value to the Council's beyond the assurance framework; this is a further call on resources, and the risks are managed accordingly.
- 3.2.6 As part of a response to queries on the draft report, the Audit Commission clarified that the discussions upon which the report was based, were mostly the regular liaison meetings with IA staff, management and senior management of the Authority during 2008/9.
- 3.2.7 The Action Plan associated with the previous triennial review was reported to this Committee on 28 June 2007 together with the report. All twelve recommendations were agreed and the actions implemented. There was no formal specific follow-up of the implementation of the action plan during the current review but many of the issues considered related to the recommendations and subsequent actions taken to implement them.

4. MAIN CONCLUSIONS

- 4.1. The Audit Commission's overall conclusion is that Internal Audit generally meets the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, but does not fully meet some requirements in some areas.
- 4.2. There are twelve recommendations, of which two are assigned a high priority by the Audit Commission. All recommendations are listed in the Action Plan together with responses. Meetings will continue with the Audit Commission to ensure that actions to implement the recommendations are agreed.

5. FINANCIAL AND STAFFING IMPLICATIONS

- 5.1. There are none arising from this report.

6. LOCAL MEMBER SUPPORT IMPLICATIONS

- 6.1. There are no local member support implications.

7. LOCAL AGENDA 21 STATEMENT

7.1. There are no local agenda 21 implications.

8. PLANNING IMPLICATIONS

8.1. There are no planning implications.

9. EQUAL OPPORTUNITIES IMPLICATIONS

9.1. There are no equal opportunities implications.

10. COMMUNITY SAFETY IMPLICATIONS

10.1. There are no community safety implications.

11. HUMAN RIGHTS IMPLICATIONS

11.1. There are no human rights implications.

12. BACKGROUND PAPERS

12.1. Previous reports to this committee.

13. RECOMMENDATION

13.1. That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE