

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

24 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

AUDIT COMMISSION: REVIEW OF INTERNAL AUDIT AND THE AUDIT FEE

1. EXECUTIVE SUMMARY

- 1.1. The Audit Commission's triennial review of Internal Audit was reported to this Committee on 18 January 2010.
- 1.2. Significant progress has been made on implementing the twelve recommendations. The Audit Commission has agreed to work with Internal Audit, the Council's Finance Team, and other directorates to reduce the external audit fee.

2. BACKGROUND

2.1. Review of Internal Audit

- 2.1.1 At the meeting of this Committee on 18 January 2010, the three-yearly review of Internal Audit conducted by the Audit Commission, was presented, together with an Action Plan to address the recommendations made. (Item 65) Committee resolved that a report upon the progress in the implementation of the recommendations be presented to this Committee.
- 2.2. Meetings have subsequently been held with the Audit Commission to discuss the report findings and to ensure that actions to implement the recommendations were agreed. The current position with respect to implementation is described in the attached table at Appendix 1.

2.3. The Audit Fee

- 2.3.1 Additionally, the committee considered the Audit Commission's Annual Audit Letter, and resolved that a report be presented to this Committee upon action required to be taken by the authority to reduce the audit fee further.
- 2.3.2 Discussions were also held with the Audit Commission with regard to determining how they could rely on the work of Internal Audit, with a view to the possibility of reducing the Audit Commission fees. The Audit Commission's national audit approach aligned with the implementation of International Standards on Auditing (ISA's) have meant external auditors have in recent years sought to place less reliance on the work of internal audit than was historically the case. There are pressures for this to change and whilst there remains a requirement that external audit cannot direct the work of internal audit, there are opportunities for both functions to work more closely together

for the overall benefit of the Authority. The Audit Commission has agreed to work together with Internal Audit, the Council's Finance team and other directorates to reduce the external audit fee. We have agreed to explore the following in respect of the fees for 2009/10 and 2010/11.

- Agree a mutually beneficial approach to flow-charting and documenting the Council's significant financial systems.
- Agree the approach to, timing and, amount of controls testing required to maximise the assurance that the Audit Commission can place on the work undertaken by Internal Audit in respect of the Council's fundamental financial systems;
- Share with Internal audit, the tests on grants that the Commission conducts and work together to identify and eradicate any duplication or highlight areas for further collaboration;
- Complete a written protocol which clarifies the relationship between the Audit Commission and Internal Audit and indicates potential areas of work where the Commission can rely on the work carried out by Internal Audit.
- Look at ways of improving the Quality assurance arrangements relating to the financial statements focussing on compliance to changes with the Statement of Recommended Practice (SORP) and other technical accounting matters;
- Improve the quality of working papers presented for external audit (this relates to all areas of work such as evidence and working papers provided to support use of resources and performance reviews as well as for the opinion);
- To agree work on the financial statements that can be undertaken early so as to minimise the impact at peak times;
- To share and agree a project plan that enables delivery of the key outputs by the deadline of 30 September 2010.
- Agree a protocol on agreement of draft Audit Commission reports with the Council.

2.4. The Commission has met with Internal Audit at regular quarterly intervals to discuss material issues and it is envisaged these will continue and the details of how fees will be potentially reduced will be finalised in these discussions and in agreement with the Audit and Risk Management Committee.

3. FINANCIAL AND STAFFING IMPLICATIONS

3.1. There is the potential to reduce the fee.

4. LOCAL MEMBER SUPPORT IMPLICATIONS

4.1. There are no local member support implications.

5. LOCAL AGENDA 21 STATEMENT

5.1. There are no local agenda 21 implications

6. PLANNING IMPLICATIONS

6.1. There are no planning implications.

7. EQUAL OPPORTUNITIES IMPLICATIONS

7.1. There are no equal opportunities implications.

8. COMMUNITY SAFETY IMPLICATIONS

8.1. There are no community safety implications.

9. HUMAN RIGHTS IMPLICATIONS

9.1. There are no human rights implications.

10. RECOMMENDATION

10.1. That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE.

FNCE/52/10