

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

22 NOVEMBER 2010

REPORT OF THE CHIEF INTERNAL AUDITOR

INTERNAL AUDIT ORGANISATION

1. EXECUTIVE SUMMARY

1.1. At the meeting of this Committee on 28th September, I was asked to present a short report to this meeting to clarify the organisation of Internal Audit.

1.2. This report identifies the reporting lines and supervision, establishment, staff qualifications, costs, planning and work.

2. INTERNAL AUDIT – PURPOSE & FUNCTION

2.1. All local authorities are required by the Accounts and Audit Regulations, 2009 to make provision for internal audit as they state that a local authority “must maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control”. The definition of internal audit and standards for professional practice are contained in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006.

2.2. The Chartered Institute of Internal Auditors specifies that the role of internal audit is “to provide independent assurance that an organisation’s risk management, governance and internal control processes are operating effectively. Internal audit address issues that are fundamentally important to the survival and prosperity of the organisation. Unlike external auditors, they look beyond financial risk and statements to consider wider issues such as the organisation’s reputation, growth, impact on the environment and the way it treats its employees. It is valuable as it provides an independent, objective and constructive opinion, but in order to do this, it is essential that Internal Audit is staffed with people who are independently-minded and have a remarkably varied mix of skills and knowledge as they can be required to advise project teams managing an immensely difficult change programme or investigate complex allegations, which will require different skills.”

3. INTERNAL AUDIT: BEST PRACTICE

3.1 The fundamental function of Internal Audit is to be able to conduct sufficient and adequate audits on the whole of the Council’s control environment to enable the Chief Internal Audit to deliver an adequately evidenced annual

audit opinion which is an essential part of the Annual Governance Statement.

It is also desirable that Internal Audit, where resources and skills exist, provide additional services including fraud-related enquiries and consultancy work, as these services apply the professional skills of Internal Audit through a systematic and disciplined approach and the issues addressed may contribute to the Chief Internal Auditor's opinion on the control environment.

4. INTERNAL AUDIT IN WIRRAL COUNCIL

4.1. Internal Audit in Wirral Council is a "section" in the Finance Department. It is unique in that it is not part of a "division" as are other sections and is managed by the Chief Internal Auditor, as section head, and Deputy Chief Internal Auditor who also has responsibility as a Group Auditor. The Chief Internal Auditor reports to the Deputy Director of Finance, as the direct supervisor of the Section, on behalf of the Director of Finance who is responsible for the Authority "maintaining an effective internal audit" in accordance with the Accounts and Audit Regulations, 2009.

4.2. The Section's establishment is 23, of which 21 posts are currently filled by full-time staff, 2 by staff working half-time and there is also a supernumerary Modern Apprentice currently working in the Section. (Appendix 1)

The range of qualifications held by staff, and those for which staff are studying, is included in Appendix 2. Those studying are subject to the Department policy to rotate such staff to other sections to gain a wide experience of work.

The time lost due to sickness is minimal; the average currently for this year is 0.22 days per staff member which compares well with statistics of all other employees.

4.3. The total staff cost of the Section is £ 640,000 plus on-cost in 2010/11 budget.

4.4. In accordance with best professional practice, the Section, though part of the Department of Finance and staffed by mostly accountancy-qualified people or those training for accountancy qualifications, as well as some members of the Chartered Institute of Internal Auditors, is a "corporate resource". This means that audits are planned and conducted to review all aspects of risk to the Council rather than purely auditing financial matters. Internal Audit provides a service to management at all levels by giving independent evidence-based opinions on the effectiveness of controls in systems but does not replace management or operate as a control in any system.

4.5. The annual Internal Audit Plan is prepared by considering:
i) The corporate and relevant Departmental risk registers.
ii) The views of the Audit Commission.

- iii) The views of the Director of Finance.
- iv) The views of the Chief Executive.
- v) The views of the Directors and managers of the Departments.
- vi) Issues that Internal Audit is aware of from professional contacts and other sources such as inspections (OFSTED, CQC).

The draft is submitted to the Deputy and Director of Finance, and Chief Executive for comment and subsequently presented to Audit and Risk Management Committee for comment, suggestions and approval.

The purpose of the Plan is to identify the areas of risk in the Authority that must be audited so that the Chief Internal Auditor can present an annual report on the control environment of the whole authority that will be presented to the Audit and Risk Management Committee and used as part of the evidence for compiling the Annual Governance Statement.

To comply with best practice and professional standards, it is essential that the annual internal audit report provides a “safe” opinion to enable “reasonable assurance” on the effectiveness of the control environment of the Council to be given. “Safe” is the term used to indicate that all significant areas of risk as identified in the Annual Plan have been audited effectively. This is the essential purpose of Internal Audit and deviation of resources away from this, endangers the ability of the Section to fulfil this role.

- 4.6. As the Audit Plan is based on “risk”, it is subject to change during the year as new high priority risks emerge. There is a process to authorise and record changes to the Plan which includes the reporting of significant change to Audit and Risk Management Committee. As new risks are added to the Plan, low priority risks must be removed to enable the staff resource available to complete the total audits identified to be able to provide a “safe” annual opinion.

Other items that affect the Audit Plan include:

- i) Requirements to conduct audits to investigate areas of concern to managers because Internal Audit is seen as independent.
- ii) Requirements for auditors qualified as “Investigating Officers” in accordance with the Council’s disciplinary procedure, to conduct investigations of alleged cases of serious and gross misconduct.
- iii) Responding to requests for advice to managers on the appropriate ways to implement procedures and policies, and resolve queries. These can consume significant amounts of resources and require planned work to be re-prioritised and the Plan amended.

Internal Audit work is based on full co-operation and openness from “clients” whom are relied upon to help identify possible risks through knowledge of their own procedures and “business”, whereas “investigating” generally occurs when there is a suspicion of “wrong-doing” or deception and an

absence of co-operation. "Inspection" is conducted by people qualified and experienced in the professional details of the work under inspection.

Internal Audit staff in the Council are trained in the accountancy and audit professions so have knowledge and skills in auditing controls but are not qualified as "inspectors" of professional skills or investigating in a "detective role", though they are frequently asked to perform such work as being the best option available.

4.7. The reporting framework for Internal Audit is:

- i) The Chief Internal Auditor and Deputy CIA meet the Chief Executive every three months to brief him on issues identified, and work conducted, planned and receive subjects he identifies as appropriate for audit.
- ii) The Chief Internal Auditor and Deputy CIA meet the Deputy Director of Finance every month to brief him and discuss new areas for audit.
- iii) Audit reports on areas perceived as of corporate significance are brought to the attention of the Deputy Director of Finance.
- iv) The Chief Internal Auditor presents to Audit and Risk Management Committee in his own name, uniquely for an officer not a Department Director. The draft report is presented to the Deputy Director of Finance before final submission to the Committee.

5. **INTERNAL AUDIT: FUTURE DEVELOPMENTS**

5.1 Internal Audit at Wirral aspires to achieve the best possible standards as described in Paragraph 3, above, which is a higher level than required. It generally succeeds in this aim but difficulties are regularly encountered because the requirement to provide consultancy and investigation services draws significantly on the resources and skills available in the Section, and the requirement to be able to provide an effective annual opinion on the control environment can be jeopardised. The Annual Plan is frequently revised to accommodate requests for Internal Audit to fulfil the wider role desired, as well as to address newly emerging risks, as described in the report to this Committee on the "Internal Audit Annual Plan Review".

6. **FINANCIAL AND STAFFING IMPLICATIONS**

6.1. There are none arising from this report.

7. **LOCAL MEMBER SUPPORT IMPLICATIONS**

7.1. There are no local member support implications.

8. **LOCAL AGENDA 21 STATEMENT**

8.1. There are no local agenda 21 implications.

9. **PLANNING IMPLICATIONS**

9.1. There are no planning implications.

10. **EQUAL OPPORTUNITIES IMPLICATIONS**

10.1. There are no equal opportunities implications.

11. **COMMUNITY SAFETY IMPLICATIONS**

11.1. There are no community safety implications.

12. **HUMAN RIGHTS IMPLICATIONS**

12.1. There are no human rights implications.

13. **BACKGROUND PAPERS**

13.1. Internal Audit Strategy.

13.2. Internal Audit Charter.

13.3 Internal Audit Annual Report

14. **RECOMMENDATION**

14.1. That the report be noted.

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