



## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Resources & Community Safety

Report to:	<b>Audit Committee</b>
Date:	<b>23 September 2013</b>
Subject:	<b>Review of the Effectiveness of Internal Audit</b>

#### Summary:

There exists a statutory requirement for bodies such as the County Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by an appropriate committee of the Council. This paper discharges that responsibility by reporting the findings of work undertaken by a joint officer / councillor working group. The conclusion drawn is that the County Council does maintain an effective system of internal audit.

#### Recommendation(s):

The Committee endorse the opinion of the Review Group that the County Council maintains an effective system of internal audit.

#### Background

- 1.1 Regulation 6(3) of the Accounts and Audit (England) Regulations 2011 requires this Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by a Committee of the Council. The Audit Committee is the most appropriate one in the case of this Council. It is sensible to consider this aspect in advance of finalisation of the Annual Governance Statement of the Council as the effectiveness of the system of internal audit is a key aspect of the governance framework. The Annual Governance Statement will be considered in draft at this meeting of this Committee and will be finalised by September in time to be incorporated into the audited financial statements of the Council.
- 1.2 In this context 'internal audit' is not just restricted to the role, activity and effectiveness of the internal audit team; it also applies to the role, activity and effectiveness of this Committee itself. Guidance makes it clear that it is not the role of the external auditor to undertake this work. It is for the authority itself to complete a review.
- 1.3 A professional, independent and objective internal audit service is one of the key elements of good governance

## 2. The Review Group

- 2.1 Guidance from CIPFA on this issue suggests that this review is best undertaken by a group of officers and / or members. In terms of the officer input this should not directly involve the Head of the Internal Audit service or any audit team member. The Head of Internal Audit can, however, provide material to be considered by the Review Group. This has been done through a self-assessment against the Public Sector Internal Audit Standards – which came into effect from the 1<sup>st</sup> April 2013.
- 2.2 The following Review Group has been established to undertake this role:

Councillor Mrs S Rawlins– Chairman of the Audit Committee  
Councillor Mrs E Sneath – Vice Chairman of Audit Committee\*  
David O'Connor – Executive Director – Governance & Performance\*  
David C Forbes – Assistant Director – Finance and Resources

\* These individuals did not directly participate in this years review

## 3. The Review Activity

- 3.1 Public Sector Internal Audit Standards (applying the Institute of Internal Auditors Internationals Standards to UK Public Sector) came into effect from the 1<sup>st</sup> April 2013. In tandem with the development of these Standards, CIPFA have also published a local government application note which includes a self-assessment questionnaire to help assess compliance with the Standards and thereby the effectiveness of the internal audit service. This self assessment has been completed by the Head of Audit and Risk Management – Lucy Pledge and has helped inform the review process.

## 4. Actions taken in 2012/13

- 4.1 Last year there was a number of actions proposed as a result of the review. These were:

- The Executive Director – Performance & Governance will remind the Corporate Management Board of the need for clients of the internal audit service to respond in a timely and positive manner to requests for meetings and responses to draft conclusions and recommendations.

### **Current status – implemented**

- The continued expansion of the client base of Audit Lincolnshire presents a risk that there may, in theory at least, be a detriment to the

service delivered to the County Council. Consequently the Audit Committee will need to keep this potential risk in mind when monitoring the performance of the service over the coming year.

**Current Status – Annual Report 2014 showed performance targets achieved with 87% of the revised plan delivered. The internal audit plan for 2013/14 also provided information on external work undertaken by Audit Lincolnshire and confirmed that resources available to deliver.**

**The delivery model for the service is a co-production model (a combination of in-house resource and bought in resources). This helps ensure any shortfall resources can be commissioned within existing budgets.**

**Delivery is monitored through the year by the Audit Committee.**

- The Audit Committee should undertake a self-assessment of its role and performance during early 2013 in light of the likely change in membership of the Committee that will emerge following the May 2013 County Council elections. This will be useful for the post May 2013 Committee as it will identify both the strengths of the current arrangements and areas for potential improvement.

**Current Status - In light of the new membership of the Committee a self assessment on the Committees effectiveness will be undertaken in January 2014.**

## 5. Review Findings

- 5.1 The Review Group considered the findings from the self-assessment of the internal audit service as prepared by the Head of Internal Audit. The Review Group concluded this is a fair and reasonable assessment of the internal audit service provided to the County Council.
- 5.2 The outcome of this self-assessment identified that the Internal Audit Service operates in accordance with the Standards, however there were a number of minor actions identified, namely:

### **Definition of 'Board' (Public Sector Requirement)**

The Standards requires specific definition of the Board to be included in the Internal Audit Charter.

In a local authority, the role of the 'Board' may be satisfied by the audit committee, the Executive or full Council.

Responsibility for the review and oversight of audit activity and the Councils arrangements for maintaining good governance, effective risk management and internal control rests with the Audit Committee.

We therefore recommend that the Audit Committee discharges 'Board' role as defined in the standards.

### **Definition of 'Senior Management' (Public Sector Requirement)**

The Standards requires specific definition of Senior Management for the purposes of Internal Audit Activity to be included in the Internal Audit Charter.

For the purpose of Internal audit activity we suggest senior management be defined as – Executive Directors, Assistant Directors and Heads of Service.

### **Audit Charter (Terms of Reference)**

The new standards have made some specific requirements for certain information to be included in the Audit Charter.

We have requested that the Head of Internal Audit update Charter for approval by the Committee at it's November 2013 meeting. Once approved the Charter should be circulated to Senior Management.

### **Financial Procedures**

The existing financial procedures for Risk Management and Audit & Inspection are updated to reflect the requirements specified in the Standards and are approved by the Audit Committee. Target Date is December 2013.

### **External Assessments on the Effectiveness of the Internal Audit Function**

The Standard requires external assessments on the effectiveness of the Internal Audit Service to be conducted at least once every 5 years. These assessments must be undertaken by a qualified, independent assessor or an assessor team from outside of the Council.

We are recommended that an external assessment is conducted in 2015. A paper on the process will be brought to a future meeting of the Committee.

### **Outcome of Quality Assurance**

The Head of Internal Audit and Risk Management has developed and maintains a quality assurance and improvement programme for the service including performance measures, supervision and review process and quality assurance to ensure compliance with practice standards.

Currently the outcome of the quality assurance and improvement programme is incorporated in normal operational management activity eg assignment de-brief records, performance appraisals, team briefings and training and development programmes. It is also included in the Internal Audit Annual Report.

The new Standards requires this information to be provided more explicitly to the Audit Committee.

We are recommended that an annual report on the outcome of the Quality Assurance and Improvement Programme is provided to the review group when the effectiveness of the Internal Audit function is assessed.

**Other actions:**

During the self assessment there were a number of questions posed that whilst didn't result in an improvement as such did identify an action – these are:

- ~ Update audit practice notes to reflect standards as above
- ~ Present the Internal Audit Annual Report to CMT rather than individual Directors
- ~ Review how the Combined Assurance Status Reports are presented to CMT
- ~ Consider if feedback from other stakeholders is required to help inform the appraisal of the Head of Internal Audit and Risk Management ie from the Chairman of the Audit Committee and Chief Executive.
- ~ Awareness session for the team on Counter Fraud, whistleblowing and outcome of the Councils fraud risk assessment
- ~ Review the Internal Audit Strategy in light of the new Standards
- ~ Ensure that the Annual Report 2014 includes information requirements as specified by the Standards
- ~ Undertake archiving exercise in accordance with documentation retention policy
- ~ review audit reports to include a statement that the audit was conducted in accordance with Standards etc

**Conclusion**

The Review Group are of the opinion that the County Council has an effective system of internal audit.

**Consultation**

**a) Policy Proofing Actions Required**

n/a

## Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Public Sector Internal Audit Standards	CIPFA web site.

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