

## **REASONS FOR REPORT**

The Accounts and Audit Regulations 2011 require a review of the systems of Internal Audit.

This report summarised the outcome of the review and provides an action plan for improvement.

## **OPTIONS OPEN TO THE COMMITTEE**

Review the actions and summary of the outcomes and confirm that this reflects their understanding of the outcome.

### **1. INFORMATION**

1.1. The Accounts and Audit Regulations 2011 require a review of the effectiveness of Internal Audit. The findings of the review must be considered as part of the consideration of the systems of internal control. In local government this means they must be taken into consideration when constructing the Annual Governance Statement.

1.2. Our approach to the review has varied over the years from self assessment by the Head of audit, review by a Committee Member and a Peer Review by another Head of Audit. Following discussions with the committee the approach adopted this year was a review by the whole committee. A special (non public) meeting of the Committee was held on 3 May 2011. All members of the committee attended, as did The Head of Audit and Enforcement, two Audit Managers and representatives of the external auditors, Deloitte.

1.3. The review followed the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Head of Audit and Enforcement had completed the assessment and confirmed compliance under the various headings. The Committee was presented with evidence to support that opinion and was invited to discuss and evaluate it as they felt necessary.

1.4. Example files and work programmes were available at the meeting. During discussions, the committee commented that rather than present files they should have been able to determine which file they wanted to see. An offer to send for any other files was acknowledged but the feeling was that if the committee followed this format for review in the future then it would determine which files it wished to examine.

1.5. The live electronic audit management system was available for review and interrogation. The team uses the system for recording risk in all areas of the audit universe, setting timetables and budgets for audits, as well as recording their own time against individual jobs. It provides a variety of management information on individual audits

the plan as a whole, outstanding recommendations, as well as performance information on individuals.

1.6. The Committee questioned the Head of Audit on how she went about ensuring that all risks had been taken into account and that no serious issues were missed. The Head of Audit and the Audit Managers provided information on the links they maintained with the Directorates and how the business partner model helped to inform them of the major issues affecting the council. The Head of Audit commented that there were no 100% guarantees in looking at risk but felt that the processes in place should pick up most major issues.

1.7. The review confirmed that Internal Audit was compliant with the standard. This report has been prepared on an exceptions basis and only those issues that merited comment have been included in the table below.

1.8. There were some instances where the committee did not think the standard was relevant or useful and these are commented on below, as are instance where the committee thought improvements could be made in internal audit. A note has also been made of these.

REF	STANDARD		FILE REF	EVIDENCE / COMMENT	ACTION REQUIRED	DATE
<b>1</b>	<b>SCOPE OF INTERNAL AUDIT</b>					
<b>1.1</b>	<b>Terms of Reference</b>					
1.1.1	Do terms of reference:  a) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	P		Does not cover partnerships. Would rather addresses through working with partners rather than in a TOR of this type as partnerships vary in type.	Agreed no action required	
<b>1.2</b>	<b>Scope of Work</b>					
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: a) how assurance will be sought? b) agreed access rights where appropriate?	P		We have previously worked with the Mental Health service on one audit to obtain assurance. Where we have contracted out services such as Council Tax administration we have access rights and have visited remote sites to confirm processes.	As the local government delivery mechanisms changes, Audit will need to continually scan the horizon for changes.	
<b>2</b>	<b>INDEPENDENCE</b>					
<b>2.1</b>	<b>Principles of Independence</b>					
2.1.1	Is Internal Audit: c) free from any non-audit (operational) duties?	P		a) The Head of Audit is responsible for the management of Corporate Fraud Team and the Planning Enforcement Team. Any audits in this area have a TOR agreed with the Deputy Chief Executive and Corporate Director, Central Services and results will be reported directly to her without interference from the Head of Audit & Enforcement.	The Committee will confirm this understanding with the Deputy Chief Executive when she attends the Committee in June 2011.	
<b>2.5</b>	<b>Independence of Internal Audit Contractors</b>					
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also	Y		We only have one contractor now, RSM Tenon for IT audit. As far as I am aware they don not	The committee would like to seek assurance from RSM	

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	provide non-internal audit services?			work in other areas of the council. Any future contracting out would exclude Deloitte as they are now our external auditors.	Tenon that there are no conflicts of interest for them, e.g. if they are giving us assurance on systems supplied by their clients	
<b>5.1</b>	<b>Principles of Good Relationships</b>					
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with: a) management? b) other internal auditors? c) external auditors? d) other regulators and inspectors? e) elected members?	P		a) yes approved by CMT in 2011. b) Governed by the contract we have with RSM Tenon c) No formal protocols with Deloitte but good working relationships are maintained. d) Have not managed to identify any IA team that has this. e) There is an officer member protocol	c) Deloitte were present at the meeting and confirmed good working relationship.  d) Committee accepted that the nature of regulation and inspection made this an unrealistic aim.	
<b>5.4</b>	<b>Relationships with External Auditors</b>					
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	Y			Deloitte attended the training session and gave no adverse opinion.	
<b>5.5</b>	<b>Relationships with Other Regulators and Inspectors</b>					
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	P		We meet with the external auditors But have not really found any synergies between other inspection agencies.	Committee accepted that such dialogue was not practical in view of the short notice and speed of some inspections.	
<b>8.3</b>	<b>Recording Audit Assignments</b>					
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	Y		We amend this continually and there are standard templates on our shared areas. It is covered in the audit manual but the latter needs a complete overhaul to accommodate all the changes we	Completely update audit manual	Dec 2011

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				have introduced in risk based auditing.		
8.3.3	Is there an access policy for audit files and records?	N		Staff would not disclose anything without reference to an audit manager or the HIA because they are aware of confidentiality. Access would only be granted to those with a legitimate reason to see the information. Other requests would probably be dealt with under FOI.	Include in the revision of the Audit Manual.	Dec 2011
<b>11.3</b>	<b>Performance and Effectiveness of the Internal Audit Service</b>					
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	P		Yes to performance management No to quality assurance	Examine ways of reporting on quality assurance in the future.	

In the following areas the committee were satisfied, after discussion that there were no unresolved areas.

- 1.3 Other Work
- 1.4 Fraud and Corruption
- 2.2 Organisational Independence
- 2.3 Status of the Head of Internal Audit
- 2.6 Declaration of Interest
- 3. ETHICS FOR INTERNAL AUDITORS
- 4. AUDIT COMMITTEES
- 5.2 Relationships with Management
- 5.3 Relationships with Other Internal Auditors
- 5.6 Relationships with Elected Members
- 6. STAFFING, TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT
- 7. AUDIT STRATEGY AND PLANNING
- 8.1 Planning
- 9. DUE PROFESSIONAL CARE

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10. REPORTING

11 PERFORMANCE, QUALITY AND EFFECTIVENESS

11.1 Principles of Performance, Quality and Effectiveness

11.2 Quality Assurance of Audit Work