

Audit and Governance Committee

26 June 2008

Report of the Assistant Director (Audit and Risk Management)

Review of the Effectiveness of the System of Internal Audit

Summary

- 1 To advise Members of the outcome of the annual review into the effectiveness of the Council's system of internal audit.

Background

- 2 The Accounts and Audit Regulations 2003, as amended, now require each local authority to conduct an annual review of the effectiveness of its system of internal audit, and to report the findings of this review to an appropriate committee. The changes came into effect from 1 April 2006 onwards. The process is intended to form part of the wider review of the effectiveness of the system of internal control which is necessary to prepare the Annual Governance Statement (which is a later item on this agenda).
- 3 All local authorities have a statutory requirement to make provision for internal audit in accordance with proper standards of professional practice, as set out in the CIPFA Code of Practice for Internal Audit in Local Government. Internal Audit is defined as an assurance function that provides an independent and objective opinion to the organisation on the effectiveness of the control environment. As such Internal Audit forms an essential part of the Council's corporate governance arrangements.
- 4 The principal functions of Internal Audit are to:-
 - (a) provide assurance to Members, Chief Officers, other key stakeholders and the wider community on the effectiveness of the governance arrangements and internal controls at the Council;
 - (b) provide advice and make recommendations to improve controls and/or address the poor or inappropriate use of the Council's resources;
 - (c) examine and evaluate the probity, legality and value for money of the Council's activities;
 - (d) act as a visible deterrent against all fraudulent activity, corruption and other wrong doing;

- (e) respond to and investigate any instances of suspected fraud or corruption.
- 5 The CIPFA Code of Practice for Internal Audit in Local government sets out eleven standards (or principles) for the establishment of a professional service. Each principle is supported by detailed guidance. The principles cover the following areas:-
- (a) Scope of Internal Audit (Terms of Reference)
 - (b) Independence
 - (c) Ethics for Internal Auditors
 - (d) Audit Committees (including Internal Audit's relationship with the Audit Committee)
 - (e) Relationships (with management, elected Members and other auditors)
 - (f) Staffing, Training and Continuing Professional Development
 - (g) Audit Strategy and Planning
 - (h) Undertaking Audit Work
 - (i) Due Professional Care
 - (j) Reporting
 - (k) Performance, Quality and Effectiveness
- 6 To comply with International Auditing Standards, the external auditors are required to periodically review the Council's internal audit function. The Audit Commission last reviewed the work of Internal Audit and assessed compliance with the standards set out in the Code of Practice, in April and May 2007. To support the review, the Internal Audit Service completed a self assessment checklist to assess compliance against each of the eleven standards.
- 7 The Audit Commission concluded that the audit function met the requirements of all eleven standards. As a consequence, the Audit Commission also confirmed that it could continue to rely on the work carried out by Internal Audit. The results of the review were reported to this Committee on 24 September 1997. A small number of areas were identified where there was scope to enhance the existing working arrangements. Four recommendations for improvement were made.

Review of the Effectiveness of the System of Internal Audit

- 8 For the purposes of this review, the following work has been completed:-
- (a) A review has been undertaken to assess the progress which has been made to address the recommendations for improvement arising from the Audit Commission's report.
 - (b) the Code of Practice self assessment checklist has been refreshed so as to identify any significant changes in the degree of compliance against the Code, since the Audit Commission's review

- (c) a detailed customer survey has been undertaken to seek the views of chief officers and senior management within the Council.
- (d) The results of the latest benchmarking data compiled by CIPFA, have been reviewed, so to establish how cost effective the service is compared to other unitary councils.

Review of Internal Audit – Follow Up

- 9 The actions taken to address the four recommendations for improvement made by the Audit Commission are detailed below:-

Agreed Recommendation	Action Taken to Date
Incorporate formal reminders of auditors' ethical responsibilities into performance appraisals as planned.	Auditors have been reminded of their ethical responsibilities at team meetings during the year, and as part of the going performance appraisals.
Deliver plans to require all auditors to sign confidentiality agreements.	A statement of standards and values has been prepared and discussed with staff. The statement incorporates a commitment to safeguard confidential information.
Ensure that the working protocols are kept up to date.	All the protocols with external agencies are being reviewed and updated. This work will be complete by 30 September 2008. The protocols will then be subject to an annual review.
Enhance the existing strategy by including narrative information to set out Internal Audit's strategic purpose, direction and approach.	Work is ongoing to review and update the Internal Audit Strategy, so that it includes the required information. This work will be complete by 30 September 2008.

Code of Practice Self Assessment Checklist

- 10 The self assessment checklist has been updated. Since the date of the Audit Commission's review, the Council has entered into a shared service arrangement with North Yorkshire County Council for the delivery of audit and fraud services. Work is ongoing to integrate working practices and systems. This work also includes the preparation of consolidated audit and fraud procedure manuals, and the development of standard audit programmes. Whilst there has therefore been some changes in operational arrangements, adherence with the professional standards set out in the Code has been maintained.

Customer satisfaction Survey

- 11 The recipients of the survey were asked to judge the relative importance (low to high) and the current performance of the service (poor to excellent) in the following main areas:-
 - (a) The scope of audit work undertaken
 - (b) The objectivity and professionalism of the audit staff
 - (c) The conduct of individual audits
 - (d) Audit reporting
 - (e) Customer service
- 12 The recipients of the survey were also asked to provide an overall score for internal audit and identify any specific service improvements. The results of the survey are summarised in Annex 1. 9 surveys were returned from a total of 59 issued. Whilst the response rate was low, the exercise has identified a number of areas where further improvements to the service are considered necessary. The Audit and Fraud Manager will be preparing an action plan to address these areas. In the future, a similar survey will be conducted on an annual basis, to enable trends in service delivery to be assessed.

Benchmarking

- 13 The latest benchmarking data available from CIPFA relates to the exercise undertaken in May 2007. This exercise included a comparison between unitary authorities of the 2007/08 budget estimates for internal audit. The results of the latest benchmarking exercise (which includes the actual outturn figures for 2007/08) are expected to be received shortly. A summary of the results is given in annex 2. This shows that compared to other unitary councils, the internal audit function at York remains cost effective.

Conclusion

- 14 Based on the results of this review, the Council's system of internal audit is considered to be operating in accordance with accepted professional best practice, and it remains effective. The Council can therefore continue to place reliance on its internal audit arrangements when preparing the Annual Governance Statement.

Consultation

- 15 Not relevant for the purpose of the report.

Options

- 16 Not relevant for the purpose of the report.

Analysis

17 Not relevant for the purpose of the report.

Corporate Priorities

18 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

Implications

19 The implications are;

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

Risk Management Assessment

20 The Council will fail to comply with the Accounts and Audit Regulations if it does not undertake an annual review of the effectiveness of internal audit, as part of the wider review of the effectiveness of the system of internal control. The Council could be criticised by the external auditor, and this in turn would adversely impact on the Council's CPA score for the Use of Resources.

Recommendation

21 Members are asked to;

- note the results of the review of the effectiveness of the Council's system of internal audit.

Reason

To enable Members to consider the adequacy and effectiveness of the Council's control environment.

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Report Approved



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Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- Accounts and Audit Regulations 2003 (as amended)
- CIPFA – Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Annexes

Annex 1 – Results of Internal Audit Customer Satisfaction Survey

Annex 2 – Summary of CIPFA benchmarking information