

## REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2006/07

**LEAD OFFICER:** Sue Bamforth

**AUTHOR:** Sue Bamforth

**SUMMARY:** This report provides Members with an opinion on the effectiveness of Internal Audit in 2006/07.

<b>Recommendation:</b>	That Members note the report and consider its contribution to the Statement on Internal Control.
------------------------	--

### 1 INTRODUCTION

#### 1.1 LEGISLATIVE REQUIREMENT

The Accounts and Audit (Amendment) (England) Regulations 2006 came into force on 1 April 2006. Regulation 6 requires bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control.

#### 1.2 DCLG GUIDANCE

The Department for Communities and Local Government (DCLG) issued guidance on these Regulations, suggesting that an Audit Committee would be the appropriate body to consider the findings of the review, as an Audit Committee already has a role in monitoring internal audit but is independent from it. However, the DCLG guidance offers little practical guidance on how relevant bodies should go about carrying out the annual review of the effectiveness of the system of internal audit.

#### 1.3 CIPFA GUIDANCE

In response to the above, the Chartered Institute of Public Finance and Accountancy (CIPFA) published guidance in January 2007.

##### 1.3.1 Definition of Internal Audit

Includes:-

- the main internal audit service provider
- any outsourced internal audit work
- the internal audit of outsourced services
- the effectiveness of the Audit Committee itself

##### 1.3.2 Who should carry out the review?

It is the responsibility of the local authority to conduct the annual review; it is not a review that will be carried out by the external auditor as part of the annual audit. As with the Statement on Internal Control, the completion of the review of the system of internal audit will usually be carried out by a group of

officers and/or members. The results of the review are then reported to the Audit Committee, often after consideration by a senior officer team. The review group could be a task group of the Audit Committee or it could be entirely officer-based. Whilst the Head of Internal Audit could carry out a self assessment, this would then have to be reviewed by the review team before being submitted to the Audit Committee.

#### **1.3.3 What should the review cover?**

- Compliance with the CIPFA Code of Practice for Internal Audit in Local Government
- Key performance indicators. For example:-
  - % of approved audit plan completed
  - % of individual audits completed within budget
  - % of time delivered for non-assurance work (non-audit work)
  - % of time that is chargeable (direct audit time)
  - % of time spent on client support and advice
  - % of work that is specifically requested
- Response to Management Satisfaction Questionnaires
- Extent to which reliance is placed on internal audit by the external auditor in relation to the key financial system controls
- Assurances given by the auditors of outsourced functions (e.g. Leisure)
- The external auditor's Use of Resources assessment

#### **1.3.4 The outcome of the review**

The result of the review needs to be considered by the Audit Committee and included in the Statement on Internal Control (SIC). Any areas for development or change should be identified in the report and a separate action plan produced. [The SIC action plan should contain only significant weaknesses].

## **2 FINDINGS OF THE REVIEW**

2.1 The Audit and Fraud Prevention Manager carried out a self assessment, shown at Appendix A. This was reviewed, alongside supporting evidence, by Corporate Team. This report has also been circulated to the external auditor for comment. Note: A review of the effectiveness of the Audit Committee itself is to be considered by the OSC Management on 4 June and will be reported to the Audit Committee on 6 June.

#### **2.2 Opinion 2006/07**

Based on the review undertaken, Corporate Team concluded that the system of internal audit has operated satisfactorily in 2006/07 and there has been no fundamental breakdown of controls resulting in material error or discrepancies. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of the Council's financial affairs.

This statement is intended to provide reasonable assurance. It should be read in conjunction with the Statement on Internal Control, which reviews the wider system of internal control.

### 2.3 **Areas for Development**

Areas for development have been identified in the Compliance with the CIPFA Code of Practice action plan. Further actions are identified in Appendix A.

#### **List of Appendices:**

Appendix A – Self assessment of the effectiveness of internal audit 2006/07

#### **List of Background Documents:**

Compliance with CIPFA Code of Practice [Audit Committee 28 03 07]

Audit Services Annual Report on Internal Control [Audit Committee 31 05 07]

Strategic Audit Plan (Actual Days compared to Planned Days 2006/07) [Audit Committee 31 05 06]

Assurance Statement from the auditors of North Country Leisure

**Out to Consultation with:** Corporate Team, External Auditor

## SELF ASSESSMENT BY THE AUDIT &amp; FRAUD PREVENTION MANAGER 2006/07

<p><b>Compliance with the CIPFA Code of Practice for Internal Audit</b></p> <p>A self-assessment, copied to the external auditor, reviewed our compliance with the new Code of Practice issued in December 2006. Full details were reported to the Audit Committee, on 28 March 2007. The Internal Audit service at Copeland B.C. fully complied with 45% of the relevant standards and mostly complied with a further 55%. An action plan was drawn up to bring the service fully in line with the standards in 2007/08. Areas of non-compliance had arisen from changes to the Code of Practice when it was revised and issued in December 2006. The District Auditor commended Internal Audit on being proactive in addressing the new issues contained in the revised Code and confirmed to the Audit Committee that he had no concerns relating to the Internal Audit service.</p>	<p><b>Action</b></p> <p>Separate action plan reported to Audit Committee 28 03 07</p>
<p><b>Key Performance Indicators</b></p> <p>68% of the Audit Plan was achieved, compared to a target of 90%.</p> <p>50% of the audits were completed within planned days (i.e. within budget)</p> <p>0.4% time was non-audit work [secondment to accountancy section]</p> <p>69% was direct audit time [i.e. time spent on audit work rather than meetings, training etc] compared to a target of 68%</p> <p>4% of time was spent on client support and advice</p> <p>10.3% of audit days were spent on work that was specifically requested by managers.</p> <p>A detailed review of audit activities has been given in the quarterly monitoring reports submitted to the Audit Committee. Staff vacancies and long term sickness resulted in lost time equivalent to 1 full time post for 5 months. In addition, annual audits on the main financial systems exceeded the allocated time due to following the new CIPFA audit testing guidance. However, all the main financial systems audits were completed by 30 April 2007 to meet the requirements of the external auditor.</p> <p>Detailed performance indicators for 2006/07 are shown at Appendix C of the Audit Services Monitoring report for the Fourth Quarter, reported to Audit Committee 31 05 07. Actual days carried out against the approved plan are shown on the report presenting the Strategic Audit Plan to Audit Committee 31 05 07.</p>	<p><b>Action</b></p> <p>Additional time has been allowed for these audits in 2007/08.</p>

<p><b>Response to Management Satisfaction Questionnaire</b></p> <p>Only 10 questionnaires were returned, despite issuing a reminder. We assume that if managers had concerns about the internal audit service, they would have taken this opportunity to record this. A summary is given below:-</p> <ul style="list-style-type: none"> <li>• 40% felt they were sufficiently consulted on the Audit Plan [50% no response]</li> <li>• 10% felt they were not sufficiently consulted but this was through no fault of audit [Didn't have the time to read through the plan sent]</li> <li>• 40% would like extra audit services</li> <li>• 48% rated the standard of audits and reports as excellent</li> <li>• 44% rated the standard of audits and reports as good</li> <li>• 80% did not prefer audit services to be provided differently [10% no response]</li> <li>• 60% rated audit services as providing excellent value for money</li> <li>• 30% rated audit services as providing good value for money [10% no response]</li> </ul> <p>This shows an improvement in Customer Satisfaction, compared to the previous year. Dissatisfaction is related to wanting more audit coverage – 4 respondents would like extra audit services and the 1 respondent who would like audit services to be provided differently would like audit to cover more areas on a cyclical basis, if resources allowed. Given the limited audit resources of 3 FTE staff, plus the Manager who is also responsible for the Fraud section, and the requirements that have to be met for the external auditor and the CIPFA Code of Practice for Internal Audit, there is little we can do to develop more operationally-focused audits. The main emphasis to satisfy statutory requirements is on financial and corporate governance controls.</p>	<p><b>Action</b></p> <p>Where possible, management requests have been built into the audit plan.</p>
<p><b>Extent to which reliance is placed on internal audit by the external auditor in relation to the key financial system controls / Use of Resources Assessment</b></p> <p>Internal audit complied with the external auditor's protocol for internal audit in 2006/07. System files were provided for all the main financial systems, for the external auditor's preparatory work on the 2005/06 Statement of Accounts. There were no adverse comments in the Annual Audit &amp; Inspection Letter March 2007 or the Use of Resources Judgements March 2007.</p>	

<p><b>Assurances given by the auditors of outsourced functions</b></p> <p>The Head of Finance and Business Development has received an Assurance Statement from the auditors of North Country Leisure. [Copied to Internal Audit]. "Opinion 2006/07: Based on the work undertaken during the year, Internal Audit has reached the opinion that key systems are operating satisfactorily and there is no fundamental breakdown of controls resulting in material error or discrepancies. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of the organisation's financial affairs. .... No significant issues reported by exception during any of the audits."</p>	<p><b>Action</b> Head of Finance &amp; Business Development to obtain an Assurance Statement from Capita Symonds in respect of outsourced Valuation Services.</p>
<p><b>Outsourced Internal Audit Work</b></p> <p>The technical audit of IT Networks was outsourced in 2006/07. This computer auditor was supplied by Furness Audit, who carry out an internal audit function for South Lakes, Barrow and Eden Councils. Their Audit Manager is a member of Cumbria Audit Group and they also work to the standards set out in the CIPFA Code of Practice. The working papers and report points were reviewed by Copeland's own Audit Manager before the report was issued.</p>	
<p><b>Effectiveness of the Audit Committee</b></p> <p>This will be the subject of a separate review, to be considered by OSC Management on 04 06 07 and reported to the Audit Committee on 06 06 07.</p>	