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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>19th June 2012</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>CHIEF FINANCE OFFICER</b>	
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<b>SUBJECT:</b>	<b>A REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

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## **1.0 Recommendations**

1.1 To note the conclusion that the Internal Audit function is considered to be effective.

## **2.0 Purpose of Report**

2.1 In accordance with statutory requirements, the report is designed to give the Committee an overview of the effectiveness of Internal Audit.

## **3.0 Detail**

3.1 Paragraph 6(3) of the Accounts and Audit (England) Regulations 2011 requires that "A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit".

3.2 During 2011/12, the Council's internal audit service changed from being provided by an in-house audit team. From 1 January 2012, Derby City Council and South Derbyshire District Council formed an internal audit partnership (the Central Midlands Audit Partnership) to provide internal audit services to both authorities.

3.3 There is no mandatory requirement or guidance on who should perform the review. The assessment has been undertaken by the Council's Chief Finance Officer in conjunction with the Head of Governance and Assurance at Derby City Council. It also takes into account the assessment of the effectiveness of the Internal Audit Partnership carried out by the other organisations for which it provides internal audit services.

3.4 The assessment is based on the framework guide developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Better Governance Forum which aims to provide practical support to help make internal audit more effective. This has been achieved by assessing the internal audit function against the 6 building blocks for effective internal audit identified in the guidance. My assessment against these building blocks is summarised below:

### 3.4.1 Leadership

Leadership plays a pivotal role in the effectiveness of the internal audit service in that it makes the most of people, develops the best systems & processes and ensures compliance with professional standards.

In 2010, CIPFA published “The Role of the Head of Internal Audit (HIA) in public sector organisations” to clarify the role of the HIA and to raise the profile of internal audit. CIPFA believe organisations should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements. The Statement articulates the core responsibilities of the HIA, as well as the personal and professional skills that they need. The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. These principles are:

**Principle 1:**

Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments

**Principle 2:**

Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control

**Principle 3:**

A senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee

**Principle 4:**

Must lead and direct an internal audit service that is resourced to be fit for purpose

**Principle 5:**

Must be professionally qualified and suitably experienced

I have carried out an assessment against these 5 principles in conjunction with Derby City Council and have concluded that they are sufficiently implemented to demonstrate compliance with best practice.

### 3.4.2 Governance and relationships

Internal audit is one of the cornerstones of effective governance. Therefore, an effective internal audit function is paramount if the Council is going to demonstrate it has embedded the principles of good governance. Internal Audit is responsible for reviewing and reporting on the adequacy of the Authority’s internal control environment and also making recommendations for improvement. Based on the work of Internal Audit, the Head of Governance and Assurance provides a level of assurance to the Council on the effectiveness of its system of internal control in his annual audit opinion.

### 3.4.3 Customer focus

Customer focus is essential not just for the manner in which internal audit is approached, but also to ensure that internal audit understands the organisation and

focuses on the current and future risks to the organisation and supports the achievement of the Council's objectives.

The partnership has a framework for consulting with all of its clients at the audit planning stage, following completion of the fieldwork, through draft a report and then post audit to get feedback.

#### 3.4.4 People

The staff in the Internal Audit Partnership have the appropriate technical skills and knowledge to perform effectively and access to training and other material to maintain their skills. The majority of the team have either a professional accountancy qualification (3 CIPFA and 2 ACCA, plus 2 part-qualified) or an internal auditing qualification (3 PIIA), and the IT Audit staff have relevant IT degrees. One member of staff is IRRV qualified. Four staff also have the CIPFA Certificate in Investigative Practice.

All of the staff have personal development and training plans as part of their Individual Performance process. Personal development is achieved through a combination of sources including in-house training, external courses/seminars/groups, and personal research and studying for a relevant professional qualification.

#### 3.4.5 Systems and processes

The Partnership has processes that support the delivery of high quality work that are regularly reviewed by its management team to maintain efficiency, relevance and effectiveness. Audit assignments are properly planned and work undertaken is evidenced appropriately. Audit reports include an opinion on risk and the control environment, are agreed with the appropriate officer and all recommendations are followed up to ascertain the progress being made on implementation.

#### 3.4.6 Professional Standards

Standards provide a consistent framework of professional practice. They are the fundamental building block for effectiveness and the starting point for any internal audit team.

Compliance with the CIPFA Code of Practice on Internal Audit in Local Government in the UK is a key element for determining whether an internal audit service is effective. The summary assessment against the Code is attached at **Appendix 1**. Self assessments by Derby City Council and Derbyshire Fire and Rescue in 2012 have also found no significant areas of non-compliance against the Code.

### 3.5 From the evidence reviewed, my overall conclusion is that the internal audit service that the Council receives can be assessed as effective.

## **4.0 Financial Implications**

4.1 None

## **5.0 Legal Implications**

5.1 The Authority is obliged under the Accounts and Audit Regulations (England) 2011 to maintain an effective internal audit function. This is now achieved through the Central Midlands Audit Partnership.

## **6.0 Corporate Implications**

6.1 None

## **7.0 Community Implications**

7.1 An effective Internal Audit function helps to ensure that the Council is providing value for money and has strong governance arrangements. These are key priorities in the Council's Corporate Plan.

## **8.0 Background Papers**

8.1 Account and Audit Regulations.

8.2 Best Practice Guidance issued by the Chartered Institute of Finance and Accountancy.

## Appendix 1

### Compliance with the CIPFA Code of Practice on Internal Audit

CIPFA Code of Practice requirement - Summary	Compliance	Comments
1 Scope of Internal Audit	Yes	There is a partnership document and each authority has its own terms of reference for internal audit. The Internal Audit Plan contains the strategy.
2 Independence	Yes	Under the governance arrangements, the Central Midlands Audit Partnership reports to both an Operational Board (s151 officers of partnering authorities) and a Partnership Board (Member representation for each partner authority).
3 Ethics for Internal Auditors	Yes	All audit staff complete annual declarations of interest.
4 Audit Committees	Yes	Audit Sub-Committee
5 Relationships	Yes	Effective channels are in place within South Derbyshire DC. The Head of Corporate Services is the key point of contact. The External Auditors have regular contact/meetings with the audit partnership.
6 Staffing, Training and Continuing Professional Development	Yes	The Audit Partnership follows CIPFA's "Excellent Internal Auditor" framework and all personal development actions/time are recorded.
7 Audit Strategy and Planning	Yes	This is detailed in the annual audit plan document.
8 Undertaking Audit Work	Yes	All internal audit work is properly planned – scoping document. All assignments follow the partnership's defined procedures.
9 Due Professional Care	Yes	The partnership complies with all relevant internal auditing standards.
10 Reporting	Yes	This is all evidenced through the audit reporting process. Standards are laid down for all audit reports. All reports are discussed with management and action plans are agreed and followed up.
11 Performance, Quality and Effectiveness	Yes	All internal audit work is subjected to a rigorous quality checking process. A performance management framework is in place.