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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>6th APRIL 2011</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>CHIEF EXECUTIVE</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>HEAD OF CORPORATE SERVICES and CHIEF FINANCE OFFICER KEVIN STACKHOUSE (595811) <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a></b>	<b>DOC:</b> u/ks/audit committee/internal audit review/ summary report 2011
<b>SUBJECT:</b>	<b>ANNUAL 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 That based on the analysis detailed in the report, together with work undertaken in the year, an opinion be given as to whether or not the Council's Internal Audit Service has remained effective.
- 1.2 That any actions for improvement are considered and approved.

## **2.0 Purpose of the Report**

- 2.1 Regulation 6 of the Accounts and Audit (Amendment) Regulations 2006 requires that authorities review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by an appropriate Committee.
- 2.2 The internal audit function is considered to be a key indicator in providing an assurance on internal control. This review is required as part of satisfying the overall governance arrangements in local authorities and will be feed into the Council's Annual Governance Statement for 2010/11.

## **3.0 Detail**

### **Background**

- 3.1 It is for each authority to decide what constitutes internal audit and how it undertakes its own review. It is considered that for South Derbyshire, internal audit is infact the central audit unit. During 2010/11, some audit work was undertaken by Derby City Council to cover a vacant post in the Internal Audit Unit.

- 3.2 Government guidance suggests that an audit committee is the appropriate body to receive and consider the results of the review, as this committee already has oversight of internal audit.
- 3.3 A key point is that it is the responsibility of each authority to conduct an annual review; it is not a review that will be carried out by the Council's appointed auditor. External audit do review elements of internal audit's work and this can be used to support the review.
- 3.4 However, the Audit Commission's view is that this will not be comprehensive enough to cover all elements and cannot be relied upon to fulfil the requirements of the Regulations in this aspect.
- 3.5 In addition, the review cannot be influenced or directed by the audit team and they should remain as independent as possible.

### **Basis of the Review**

- 3.6 The review is not about processes or value for money. The review is required to ensure that the opinion in the annual report of the Audit Manager may be relied upon as a key source of evidence for the system of Internal Control.
- 3.7 Although clearly efficiency is important, the focus of the review should be on the delivery of the internal audit service to the required standard so as to act as a reliable assurance on internal control and the management of risks.
- 3.8 Just as importantly, the review should also include the extent to which audit adds value to the authority in terms of delivering its services and priorities. This can also include the role of the Audit Committee

### **Conducting the Review**

- 3.9 An annual review has been conducted since 2006/07 in accordance with the regulations. The Council has an established a 3-year cycle which balances out a detailed review in 1 year followed by a lighter touch review for the following 2 years. This is undertaken on the following basis:

- Year 1 – Self-assessment via a Checklist.
- Year 2 – “Light touch” approach – review checklist and the completion of any actions arising from the Year 1 review.
- Year 3 – An independent external assessment.

### **Review for 2010/11**

- 3.10 2010/11 is a “light touch” year and is an update on actions approved following an independent assessment in 2008/09 and the self-assessment in 2009/10. These reviews concluded that the Council's Internal Audit Service displayed the following characteristics:

- Has a high profile and level of independence within the Council
- Adopts best professional practice
- Has good planning arrangements
- Has satisfactory reporting and follow up arrangements
- Adds value where necessary
- Is involved in major projects
- Proactively embeds internal control at the Council
- Has sufficiently qualified and experienced staff
- Is subject to external scrutiny
- Performance is kept under constant review

3.11 It is considered that there is no evidence to suggest that any of these characteristics have adversely changed during 2010/11. Based on reports and work of Internal Audit over the year, the Committee is requested to confirm whether or not this has been the case.

3.12 The main improvements recommended during the last 2 years that were reviewed and completed during 2010/11 concerned greater reporting against a set of key indicators to assess performance, together with looking at opportunities for joint working.

### **Performance Reporting**

3.13 As part of Internal Audit's quarterly reports to Committee, greater detail is now provided on productivity, status of recommendations and any change in the risk assessment of systems following audit, together with days taken compared to those planned to complete major audit assignments.

### **Joint Working**

3.14 During the year, an options appraisal for the future delivery of Internal Audit was undertaken. This was reported to the Finance and Management Committee in October 2010 which approved a joint working/partnership arrangement was pursued in conjunction with neighbouring authorities.

3.15 Further reports were considered by the same Committee in February and March 2011 and these approved the establishment of a Partnership between South Derbyshire District and Derby City Councils. This is due to commence on 1<sup>st</sup> June 2011.

### **External Audit Review of Internal Audit**

3.16 The Council's external auditors (Grant Thornton) also undertook a triennial review of Internal Audit during their recent interim audit work. The findings arising out of this work, including any issues highlighted for internal audit, will be subject to a separate report to the Committee in June 2011.

#### **4.0 Financial Implications**

4.1 None

#### **5.0 Corporate Implications**

5.1 None

#### **6.0 Community Implications**

6.1 Ensuring an effective internal audit service helps to strengthen the Council's governance and accountability duties to the local community. In addition, it demonstrates that this core service is adding value to the Council's operations and priorities.

#### **7.0 Background Papers**

7.1 The Accounts and Audit Regulations (Amendment) (England) Regulations 2006.

7.2 CIPFA – Guidance on implementing Regulations 4 and 6