
REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	18th APRIL 2007	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/audit committee/april07/effectiveness - covering report
SUBJECT:	ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE:

1.0 Recommendations

- 1.1 That the report on the effectiveness of the Council's Internal Audit Function is considered.
- 1.2 That the areas to be developed as identified in the report are approved.
- 1.3 That an opinion be given as to whether or not Internal Audit is effective.

2.0 Purpose of 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 This forms part of the overall system of internal control which will be considered by the Committee at its meeting in June 2007. The review is intended to strengthen governance and accountability within authorities.

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 in fact the central audit team as no other audit function is undertaken elsewhere in the Council, or any audit functions outsourced.
- 3.2 Government guidance suggests that an audit committee is the appropriate group to receive and consider the results of the review, as this committee already has oversight of internal

- 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 external 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 of a review and cannot be relied upon to fulfil the requirements of the Regulations.
- 3.5 In addition, the review cannot be influenced or directed by the audit team and they should remain as independent as possible.
- 3.6 Therefore, the Director of Corporate Services has undertaken this review. In addition, the Council's Audit Manager will not be in attendance at the meeting when the review is considered and an opinion resolved.

Basis of the Review

- 3.7 This is based on a checklist contained in the CIPFA Code of Practice for Internal Audit (2006). This provides guidance from which certain characteristics have been used to test the effectiveness of internal audit.
- 3.8 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 Statement on Internal Control
- 3.9 Although 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.
- 3.10 The review should also include the extent to which audit adds value to the authority in terms of delivering its services and priorities.

2006/07 Review

- 3.11 The review of the internal audit function for 2006/07 at South Derbyshire is attached. This sets out 10 specific characteristics with the corresponding evidence of how audit compares to each one.
- 3.12 There is then a conclusion as to whether each characteristic is met and areas to be developed (where appropriate) follow on from any specific issues that have been identified.

Overall Opinion

- 3.13 Based on the evidence in the review, it is considered that the internal audit function provides an effective service. There are two issues that need to be reviewed and developed, although it is not felt that they are significantly having an adverse affect on the overall effectiveness of the service. These are:
 - Reviewing and updating the internal audit strategy
 - Obtaining more regular feedback from service users on satisfaction and quality of work.

3.14 Both of these issues are to be actioned during 2007/08. It is planned to review and report on the strategy at the meeting of this Committee in September 2007 and feedback questionnaires will be introduced from 2007/08 audits.

4.0 Financial Implications

4.1 None.

5.0 Corporate Implications

5.1 None directly.

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