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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>6th APRIL 2010</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (595811)</b>	<b>DOC:</b> u/ks/audit committee/internal audit review/ Summary report 2010
<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:</b>

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## **1.0 Recommendations**

- 1.1 That the report on the effectiveness of the Council's Internal Audit Function is considered.
- 1.2 That based on the evidence submitted in **Appendix 1**, an opinion be given as to whether or not Internal Audit is effective.
- 1.3 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 2009/10.

## **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 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 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.
- 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.
- 3.10 In 2008/09, an independent external assessment was undertaken by Price Waterhouse Coopers (PWC), i.e. Year 3 of the cycle. Therefore, for 2009/10, the review has been conducted by reference to the self-assessment checklist, i.e. Year 1.
- 3.11 This is based on a checklist arising out of guidance (“A Rough Guide”) published by the Chartered Institute of Public Finance and Accountancy

(CIPFA). This guidance draws out certain characteristics that are used to test the effectiveness of internal audit. The checklist was last used in 2006/07.

### **Review for 2009/10**

- 3.12 Based on the checklist, the review of the internal audit function for 2009/10 at South Derbyshire is attached at **Appendix 1**. This sets out 10 specific characteristics with the corresponding evidence of how audit compares to each one.
- 3.13 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.
- 3.14 It is fair to say that much of the checklist from 2006/07 still applies as underlying principles and standards of auditing remain unchanged. However, it has been updated to reflect actions that have arisen from subsequent reviews.
- 3.15 In particular, it has been updated to reflect the action plan that arose out of last years PWC peer review. Progress on these actions was reported to the Committee in December 2009.

### **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