
REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM:
DATE OF MEETING:	8th APRIL 2009	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/audit committee/internalauditreview/ april09/iareviewsummary
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 based on the evidence submitted in the report, 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 2008/09.

3.0 Detail

Background

- 3.1 This is the third year such a review has taken place to satisfy the statutory requirements. It is for each authority to decide what constitutes internal audit and how it undertakes its own review.

- 3.2 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.
- 3.3 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.
- 3.4 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.
- 3.5 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.
- 3.6 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

- 3.7 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.
- 3.8 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.
- 3.9 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

- 3.10 In 2006/07 (the first year) the review was based on a checklist contained in the CIPFA Code of Practice for Internal Audit (2006). This was the basis generally used by most authorities.
- 3.11 The checklist provides guidance from which certain characteristics can be used to test the effectiveness of internal audit.
- 3.12 Although it is for each authority to decide on what basis they undertake the annual review, there is still some debate about how this should be done.
- 3.13 The spirit of the regulations point to an independent review conducted externally. However, this needs to be balanced against the practicalities in terms of cost and other resources in undertaking an external review each year.

- 3.14 Consequently, guidance suggested by CIPFA is:

- Year 1 – Self-assessment via the 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.

3.15 It is considered that this cycle is both sensible and practical, with an external assessment taking place every 3 years.

3.16 In addition, an independent review was undertaken at the Council in 2005/06. With the self-assessment method used in 2006/07, the Council was effectively working to the above cycle in any case.

3.17 The Committee adopted this methodology last year and a “light touch” approach was used for the 2nd year 2008/09. As part of that review, the Committee endorsed an independent external assessment for 2008/09 (Year 3).

Review for 2008/09

3.18 The Council commissioned PriceWaterhouseCoopers (PWC) to undertake an independent external assessment.

3.19 PWC will be in attendance at the meeting to present their findings and take questions as required. The Committee is then asked to consider any issues, decide on the effectiveness of internal audit and make any recommendations for service improvement.

4.0 Financial Implications

4.1 The costs of the external assessment have been met from within the overall budget for External Audit fees.

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