
REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	19th June 2013	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/internal audit/annual reviews/19 June effectiveness
SUBJECT:	EFFECTIVENESS OF INTERNAL AUDIT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 09

1.0 Recommendations

- 1.1 To note the findings and the conclusion that the Internal Audit Function is considered to be effective.

2.0 Purpose of Report

- 2.1 This report is designed to give Members 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 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 Director of Finance and Corporate Services 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 All local authorities have a statutory requirement to make provision for internal audit and for the purpose of the regulations, in accordance with proper standards of professional practice, as set out in the CIPFA Code of Practice for Internal Audit in

Local Government. These have been superseded by the new Public Sector Internal Audit Standards from 1 April 2013.

- 3.5 My assessment is based on the framework guide developed by the Chartered Institute of Public Finance and Accountancy's (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:

3.5.1 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

The Director of Finance and Corporate Services has carried out an assessment against these 5 principles in conjunction with the Head of Governance and Assurance at Derby City Council and have concluded that they are sufficiently implemented to demonstrate compliance with best practice.

3.5.2 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 Council's internal control environment and also making recommendations for improvement. Based on the work of Internal Audit, the Head of the Audit Partnership provides a level of assurance to the Council on the effectiveness of its system of internal control in his Annual Audit Opinion.

3.5.3 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 report and then post audit to get feedback. Following every audit review, a customer satisfaction survey is sent to the relevant manager. The responses received from managers in 2012/13 are summarised below:

Overall Rating	Number
Excellent	6
Good	3
Fair	0
Poor	0
Very Poor	0

3.5.4 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 and one has recently gained the CISA (Certified Information Systems Auditor) qualification the other has recently completed the ITIL qualification. The Audit Partnership also benefits from having one member of staff who is IRRV qualified. In addition, 4 staff have completed 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, personal research and studying for a relevant professional qualification.

3.5.5 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.

The following performance measures contribute to the overall assessment of the effectiveness of internal audit:

	Target	Actual
Productivity	73.2%	70.1%
% of audit plan completed	91.0%	90.7%

Detail on the performance of the Internal Audit Service is provided in the CMAP's Annual Report which accompanies the Head of Audit's "Annual Audit Opinion" report.

3.5.6 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. My summary assessment against the Code is attached at Appendix 2. Self assessments by Derby City Council and Derbyshire Fire and Rescue in 2013 have also found no significant areas of non-compliance against the Code.

- 3.6 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

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.

6.0 Corporate Implications

None directly

7.0 Community Implications

None directly

8.0 Background Papers

- 8.1 None

Appendix 1

Assessment against CIPFA's "The Role of the Head of Internal Audit in public organisations"

Principle	Compliant	Current position
<p>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</p>	Yes	<p>The Head of the Internal Audit Partnership has a role to play in promoting corporate governance and spreading good practice. The internal audit strategy sets out how the Head of Internal Audit fulfils this role. Through internal audit, the HIA reviews and makes a judgement on the whole range of controls including those relating to achieving value for money and the prevention and detection of fraud and corruption.</p>
<p>Principle 2: Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control</p>	Yes	<p>The HIA provides the Council with a range of assurances which includes the Annual Head of Audit's Opinion.</p>
<p>Principle 3: A senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee</p>	Yes	<p>The Council is part of the Central Midlands Audit Partnership, therefore the role of the HIA is free from any interference in the work of internal audit. The HIA has full access to the Head of Corporate Finance and if required the Chair of Audit Sub Committee.</p>
<p>Principle 4: must lead and direct an Internal Audit Service that is resourced to be fit for purpose</p>	Yes	<p>The Central Midlands Audit Partnership resources are currently proportionate to the size, complexity and risk profile of the Council and enable the HIA to give a reliable opinion on the Council's control environment. Because reliance is placed on the work of internal audit and the HIA ensures that all the work is consistently of a high quality and in line with professional standards. The HIA ensures that all staff demonstrate the highest ethical standards.</p>
<p>Principle 5: must be professionally qualified and suitably experienced</p>	Yes	<p>The HIA is a qualified accountant and a member of the Chartered Institute of Public Finance & Accountancy with 26 years internal audit experience, of which 20 years have been as a Head of Internal Audit.</p>

Appendix 2

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 and is approved by the Audit Sub-Committee.
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). All audit staff complete annual declarations of interest.
3 Ethics for Internal Auditors	Yes	All staff are aware of the requirement for integrity, objectivity and confidentiality in carrying out audit work.
4 Audit Committees	Yes	Audit Sub-Committee
5 Relationships	Yes	Effective channels are in place within South Derbyshire DC. The Head of Corporate Finance 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.