Title of Report:	**Annual Review of Internal Audit**
Report to be considered by:	Governance & Audit Committee
Date of Meeting:	9th July 2012
Forward Plan Ref:	GA2476

Purpose of Report:	**To review the internal audit service of the Council .**
Recommended Action:	**Note the review**
Reason for decision to be taken:	To comply with the Accounts and Audit Regulations
Other options considered:	None
Key background documentation:	None

The proposals contained in this report will help to achieve the following Council Strategy priorities:

☒ **CSP1 – Caring for and protecting the vulnerable**
☒ **CSP2 – Promoting a vibrant district**
☒ **CSP3 – Improving education**
☒ **CSP4 – Protecting the environment**

The proposals will also help achieve the following Council Strategy principles:

☒ **Putting people first**
☒ **Living within our means**
☒ **Empowering people and communities**
☒ **Transforming our services to remain affordable and effective**
☒ **Doing what's important well**

The proposals contained in this report will help to achieve the above Council Strategy priorities and principles by:
Ensuring the Council has an effective internal audit service in place

Portfolio Member Details	
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Date Portfolio Member agreed report:	21st May 2012

Contact Officer Details	
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Implications

Policy: none

Financial: none.

Personnel: none

Legal/Procurement: none

Property: none

Risk Management: none

Equalities Impact Assessment: Not required

Is this item subject to call-in?	Yes: ☐	No: ☒
If not subject to call-in please put a cross in the appropriate box:		

If not subject to call-in please put a cross in the appropriate box:

The item is due to be referred to Council for final approval ☐

Delays in implementation could have serious financial implications for the Council ☐

Delays in implementation could compromise the Council's position ☐

Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months ☐

Item is Urgent Key Decision ☐

Report is to note only ☒

Executive Summary

1. Introduction

1.1 The purpose of this report is to provide an annual review of the Internal Audit Service of the Council. This is a requirement of the Accounts and Audit Regulations, and complements the requirement for the Council to carry out an annual review of the system of internal control that is also a requirement of the Accounts and Audit regulations.

1.2 The review takes the form of a self assessment of the Internal Audit service by the Chief Internal Auditor, which has then been reviewed by the Finance and Governance Group.

2. Proposals

2.1 The service is presently meeting the requirements of the CIPFA code of practice. However, there is limited resilience in the service, and steps are being taken to address this, through a mutual support arrangement with other Berkshire Councils.

2.2 Negotiations are underway with other Berkshire Authorities to put in place a reciprocal agreement to supply audit staff to cover temporary staff shortages.

3. Equalities Impact Assessment Outcomes

3.1 There is no decision to be made and therefore no Equality Impact Assessment has been undertaken.

4. Conclusion

4.1 There are no issues of concern, the Internal Audit service is functioning effectively.

Executive Report

1. Introduction

1.1 The purpose of this report is to allow the Governance and Audit Committee to consider and comment on the effectiveness of Internal Audit at the Council.

1.2 It is intended that the Committee's comments will feed into, and support, the Annual Governance Statement for the Council.

2. Background

2.1 The Accounts and Audit Regulations 2011 required the Council to review the effectiveness of its internal audit service on an annual basis and feed this into the Annual Governance Statement.

2.2 The revised regulation requires the result of the review to be considered by the Council's Audit Committee. CIPFA guidance indicates that the review should not be carried out by external audit or the head of internal audit, however they are best placed to do such a review. Consequently this review has been prepared by the Chief Internal Auditor and reviewed by the Finance and Governance Group.

2.3 The review of Internal Audit is based on an assessment of the extent to which internal audit complies with

(1) the CIPFA Code of Practice for Internal Audit in Local Government (appendix A)

(2) the CIPFA checklist for effectiveness measures for internal audit (appendix B)

3. Results of the review.

3.1 No issues have been identified from the review. The results are summarised in the appendix B. The table highlights the key aspects / requirements of the work of internal audit and provides a commentary on the extent to which Internal Audit complies with those requirements.

3.2 In addition it is also worth noting the results of the last review of Internal Audit by KPMG for their 2009-10 Audit. KPMG confirmed that they were able to rely on the work of internal audit and that Internal Audit fully complied with the CIPFA Code of Practice for Internal Audit. This was reported to G&A at the September 2010 meeting of the Committee.

4. Resources

4.1 Although the service is presently meeting the requirements of the CIPFA code of practice, present levels of staffing are considerably less than in previous years, 10 FTE in 1998 when the Council was set up to 6.3 at present. Corporate Board have determined that the staffing of the service can not be safely reduced any further. However, with existing resources there is very limited resilience within the service, which means that the delivery of the service could be at risk.

4.2 Such risks are:

(1)   An inability to provide assurance to the Council

(2)   An inability to respond to irregularities / fraud / corruption.

(3)   Additional external audit fees if KPMG are unable to rely on the work of Internal Audit.

4.3   The Heads of Internal Audit across Berkshire are presently discussing a formal agreement to allow sharing of staff. This will provide mutual support and allow the Council to draw on other experienced and qualified staff when required.

Appendices

Appendix A - Assessment against the CIPFA Code of Practice for Internal Audit
Appendix B - Assessment against the CIPFA Code of Practice, characteristics of effectiveness

Consultees

Local Stakeholders: N/a

Officers Consulted: Corporate Board

Trade Union: N/a

Appendix A
CIPFA Code of Practice – Standards

2006 Code standard	Evidence of Achievement	Areas for development
1. Scope of internal audit Terms of Reference	Terms of reference for Internal Audit are included in the Audit Charter which was endorsed by the Governance and Audit Committee	
Scope	Scope of audit work takes into account risk management processes and wider internal control issues. Resource levels reviewed and commented on in the annual Internal audit plan. Corporate Board have reviewed the staffing of internal audit and confirmed that it is now at minimum level with. 0.3 x Chief Internal Auditor 1 x Audit Manager 2 x Senior Auditor 3 x Auditor	
Responsibilities in respect of other organisations	The terms of reference do identify responsibilities in respect of other organisations.	
Fraud and corruption	Terms of reference define audit responsibilities in relation to fraud. This is backed up by the Authority's Anti-Fraud Strategy	

2006 Code standard	Evidence of Achievement	Areas for development
2. Independence		
Organisational independence	The Audit Charter lays down the independence of internal audit.	
Status of head of internal audit	The Chief Internal Auditor has direct access to those charged with governance through the Governance and Audit Committee Reports are made in auditors own names to management and to the Audit Committee by the Chief Internal Auditor.	
Independence of individual internal auditors	No conflict of interest between operational responsibilities and audit has been found.	
Declaration of interest	All staff are reminded annually of the need to declare any interests that may conflict with their duties	

2006 Code standard	Evidence of Achievement	Areas for development
3. Ethics		
Integrity Objectivity Competence Confidentiality	Staff appraisal system considers these issues; no significant points have been identified. Staff are made aware of ethics requirements through the CIPFA Code of Practice. (reminder issued to all staff annually).	

2006 Code standard	Evidence of Achievement	Areas for development
4. Audit Committee		
Purpose of the Audit Committee	Terms of reference have been formally approved and are regularly reviewed. They include responsibility for the review of the Annual Governance Statement. Governance & Audit Committee approves and monitors audit strategy and plan.	
Internal audit's relationship with the Audit Committee	The Chief Internal Auditor attends the meetings of the Governance and Audit Committee to report on the outcome of internal audit work, identify necessary changes to the audit plan, and present an annual report and opinion and assurance on the internal control framework.	

2006 Code standard	Evidence of Achievement	Areas for development
5. Relationships		
with management	Managers are consulted on the audit plan and on the scope of each audit. This is reflected in terms of reference for each audit. Responsibilities for managers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters.	
with other internal auditors	Regular meetings are held with the Home Counties Chief Internal Auditors Group and the Berkshire Audit Group	
with external auditors	Good working relations established with KPMG, including consultation on plan and regular meetings.	
with other regulators and inspectors	Sharing of information is undertaken with other internal review agencies. There is liaison with external regulators when necessary	
with elected Members	The responsibilities of internal audit staff and Members, particularly those of the	

2006 Code standard	Evidence of Achievement	Areas for development
	Governance and Audit Committee are laid out in the Audit Charter, and in the Audit Reporting Protocol, and the Terms of Reference for the G&A Committee.	

2006 Code standard	Evidence of Achievement	Areas for development
6. Staffing, training and continuing professional development (CPD)		
Training needs are identified	The skills and competencies required of each post have been determined through job descriptions and people specifications. Actual skills and competencies have been assessed and individual training and development plans have been agreed through the appraisal process and are being delivered. Professional staff are required to complete CPD by their respective institutes. The Council is a CIPFA accredited training organisation. The Auditor posts are on long linked grades from D-H. A clear criteria for progression has been drawn up to ensure training and qualifications match advancement. An Audit Manual has been produced in house and this is used to provide guidance and ensure consistency of work.	

2006 Code standard	Evidence of Achievement	Areas for development
7. Audit Strategy and Planning		
An effective Audit Strategy is in place	An Audit Strategy accompanies the annual audit plan. The Strategy complies with the Code of Practice and has been formally endorsed by the Governance and Audit Committee as part of the planning process. The risk-based Audit Plan has been prepared in accordance with the Strategy. The Council's risk registers have been used as the basis of the plan to the extent	

	deemed appropriate. This has been assessed by the Chief Internal Auditor. The plan has been endorsed by the Governance and Audit Committee.	

2006 Code standard	Evidence of Achievement	Areas for development
8. Undertaking Audit Work		
Planning	Terms of reference are prepared and agreed with management for each audit	
Approach	A risk-based approach is used and an audit opinion is given for every audit. Issues are discussed with management as they arise and at the post audit discussion.	
Recording and Assignments	Standards of working papers are specified and checked as part of the file review. Internal audit use an industry standard audit management system (Galileo). Reports are produced for management information. Adequate working papers supporting conclusions drawn and recommendations made are maintained and retained on Galileo. Reports are issued to appropriate managers in accordance with the agreed reporting protocol.	

2006 Code standard	Evidence of Achievement	Areas for development
9. Due professional care		
Responsibilities of the individual auditor	All internal auditors are aware of their individual responsibilities for due professional care.	

| Responsibilities of the Head of Internal Audit | Arrangements are in place to monitor this:

• Chief Internal Auditor reviews a sample of audit files and reports.
• Appraisal and training.

A whistle-blowing procedure is maintained through the Whistle-blowing Policy.

Work is assigned so as to avoid potential conflicts of interest, although none have arisen to date. | |

2006 Code standard	Evidence of Achievement	Areas for development
10. Reporting		
Reporting on audit work	Audit reports give an opinion on risks and controls, using approved methodology. Scope of audit is set out in the audit report. Recommendations are prioritised according to risk. Draft reports are discussed with management and action plans agreed in response to recommendations made Reports are issued to appropriate managers, including Directors, they are also issued to Portfolio Holders. Assurances are sought from managers on delivery of agreed actions. An escalation procedure has been defined. Implementation of agreed recommendations are followed up.	
Annual reporting	An annual report to support the Annual Governance Statement is presented to the Governance & Audit Committee. The report includes the opinion on the control environment and any qualifications to that opinion. The work on which the opinion is based is set out in the report. The report highlights significant issues and	

| | key themes arising from audit work in the year.

An Interim progress report is submitted to the Governance and Audit Committee. | |

2006 Code standard	Evidence of Achievement	Areas for development
11. Performance, quality and effectiveness		
Principles of performance, quality and effectiveness	Policies and procedures are defined in an audit manual. The Finance Service Plan includes performance indicators, which are reported to management	
Quality assurance of audit work	Audits are assigned according to the skills mix required and there is adequate supervision by the Audit Manager or Senior Auditor.	
Performance and effectiveness of the internal audit service	Performance measures are defined in the service plan and results reported to management Internal quality reviews are undertaken by the Chief Internal Auditor Post audit questionnaires are issued with each final report. An annual assessment of the work of internal audit is undertaken by the external auditor (and reported to members in the annual audit letter) in terms of the reliance the externals can place on the work of internal audit. The Audit Commission, and now KPMG have always placed full reliance on the work of internal audit.	

Appendix B
CIPFA Code of Practice - Characteristics of Effectiveness

An effective internal audit service:-	Evidence of achievement	Areas for development
Understands its position in respect to the organisation's other sources of assurance and plans its work accordingly.	Internal audit identifies other sources of assurance and takes these into account when preparing the Internal Audit Strategy and Plan:- • Use of risk registers to inform audit planning; • Has regular meetings with the external auditors • Has regular meetings with service managers • Effective liaison with Risk Management audit reports and risk registers are shared	
Understands the whole organisation, its needs and objectives.	The Internal Audit Strategy and plan demonstrates how audit work will provide assurance in relation to the authority's objectives and risks. Individual audit assignments identify risks to the achievement of those objectives.	
Is seen as a catalyst for change at the heart of the organisation.	Supportive role of audit for corporate developments such as corporate governance review, risk management. Major new systems implementations Individual assignments may be catalyst for change through the identification of improvements in control	
Adds value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work. Post audit questionnaires give auditees the chance to comment on added value of audit.	
Is involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.	Internal audit provides help and advice on request and supports specific projects identified in plan and on ad hoc basis. A resource is identified in the audit plan for general guidance and advice. Services are asked to inform internal audit of any planned changes to systems.	

An effective internal audit service:-	Evidence of achievement	Areas for development
Is forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.	When identifying risks and in formulating the plan, changes on the national agenda are considered. The Home Counties Chief Internal Auditors Group provides updates on national issues. The audit section maintains awareness of new developments in the services it audits through meetings, perusal of documents etc. The Internal Audit Strategy is updated annually and is based around the Council Plan	
Is innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.	Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and helping managers to develop their own responses to the risks. The aim of this is to encourage greater ownership of the control environment amongst managers.	
Ensures the right resources are available – the skills mix, capacity, specialisms and qualifications/experience requirements all change constantly	This is reported to the Audit Committee as part of the audit plan.	