

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT – EFFECTIVENESS REPORT 2010/11

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide an opinion on the effectiveness of internal audit in accordance with the Accounts and Audit Regulations and CIPFA Code of Practice.
- 1.2 The assessment is based on the following:
- External Audit's assessment of Internal Audit's work
 - Compliance with Best Practice as defined by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Internal Audit
 - Customer feedback and endorsement
 - Achievement of performance targets.

2. BACKGROUND INFORMATION

- 2.1 The requirement for Internal Audit is supported by statute in the Accounts and Audit Regulations 2011 and the Local Government Act 1972. The Accounts and Audit Regulations also require an annual review of the effectiveness of Internal Audit.
- 2.2 Regulation 6 of the Accounts and Audit Regulations requires the council to review the effectiveness of their system of internal audit annually as part of the consideration of the Governance Statement.
- 2.3 The Regulation requires that an adequate and effective system of internal audit of its accounting records and its system of internal control shall be maintained in accordance with proper internal audit practice.
- 2.4 The assessment is based on the following:
- External Audit's assessment of Internal Audit's work
 - Compliance with Best Practice as defined by CIPFA's Code of Practice for Internal Audit
 - Customer feedback and endorsement
 - Achievement of performance targets

2.5 External Audit's triennial review of the internal audit function was reported to the Audit Committee in June 2009. The review concluded that the internal audit function meets all 11 standards as set out within the CIPFA Code, therefore the External Audit are able to place reliance on the work of Internal Audit to discharge their own audit responsibilities. A self- assessment was completed as part of the CIPFA audit benchmarking exercise for 2010/11, which measures the level of compliance with the Code and professional best practice. The assessment shows arrangements have a high level of compliance (93%) across all standards.

2.6 In the September 2010 VFM report external audit concluded that:
'We found improving risk management and internal control arrangements with no significant weaknesses'

'You have a clear strategy for dealing with fraud and corruption and can prove outcomes. You prepare an annual fraud risk profile, identify gaps and set a programme of work to address the risks. There is increasing use of the whistle-blowers hotline and detailed investigation of all allegations'.

'There is now greater clarity on the assurance given by Internal Audit for each system reviewed, and the impact of control failures identified. This provides clearer assurance for management and the audit committee and allows a benchmark to measure overall effectiveness of internal control in future'.

These conclusions demonstrate the external audit view the council's Internal Audit, Risk and Internal Control systems as being effective.

2.7 It is important to receive feedback on our work. Questionnaires are issued with each system review and establishment audit. Service managers are asked to comment on their satisfaction and added value received from the audit work. All comments are appreciated and used to improve our service delivery. One hundred percent of questionnaires returned considered the conduct, manner and attitude of the staff good or excellent.

The section provided an internal audit service for the Humberside Police Authority, won under contractual arrangements until 31st March 2010 when a regional police audit consortium was formed. The contract provided the opportunity for professional development and indicates good quality audit service. Towards the end of the contract the Police Authority Treasurer and the Finance Committee wrote to the section to express their thanks for the service and support provided to them.

2.8 The Internal Audit section constantly strives to improve the service they provide. There is a suite of performance measures and development issues set to monitor performance, set targets for improvements and

provide comparison both internally and externally. The Section also participates in national and local benchmarking exercises. Performance targets were met for 2010/11 details of which are below:

- 85% of the planned audit days were achieved, the shortfall being due to increased unforeseen audit work. This is an improvement on previous years.
- Follow up work confirmed acceptable progress on implementation of agreed audit recommendations (69% which is higher than in previous years) (although high risk areas receive closer attention)
- All customers were surveyed and quality control questionnaires returned showed 100% satisfaction with the service provided.
- 76% of audits were completed within agreed allocations (an increase on last year).
- 81% of audits were reviewed by the supervisor within the target.

One target not met this year was the completion of audits within agreed timescales (59% against a target of 70%). This indicator was adversely affected by the level of unforeseen work necessary during the year (details are provided in the Internal Audit Annual Report 2010/11).

2.9 CIPFA's Statement on the Role of the Head of Internal Audit was issued late last year. The Statement is not mandatory but sets out what CIPFA considers best practice for Heads of Internal Audit. It sets out principles that define the core activities and behaviours that belong to the role of the Head of Internal Audit in public service organisations CIPFA recommends that organisations should use the Statement as the framework to assess their existing arrangements. The local government version is not yet been finalised. However, in the meantime a self-assessment was completed to gauge the level of compliance. The assessment indicates a significant level of compliance however, a full assessment of arrangements will be carried out using the local government specific Statement when it is released and the results will be reported to the Committee.

2.10 The 2010/11 audit plan work was managed using new audit management software for the first time. Some benefits the software has introduced include:

- Integrated time recording and audit planning modules
- Electronic working papers
- Automated recommendation tracking
- Automated performance management information.

2.11 Based on the findings described in the above paragraphs Internal Audit is assessed as providing an effective service to the council.

3. OPTIONS FOR CONSIDERATION

3.1 Internal Audit provides an important source of assurance on the adequacy of internal control throughout the council. Members should

seek clarification on its contents as necessary to ensure Internal Audit's work was carried out in such a way to provide sufficient assurance to fulfil their role as set out in the Committee's terms of reference.

- 3.2 The Audit Committee may conclude Internal Audit's work was not carried out in an effective way and therefore cannot be relied upon as a source of assurance to fulfil its terms of reference.

4. ANALYSIS OF OPTIONS

- 4.1 It is a statutory requirement for the council to maintain an internal audit function and for its effectiveness to be reviewed on an annual basis. The information contained within this report provides evidence of that review and sets out the reasons for determining that the service provided by Internal Audit has been effective during 2010/11. In addition to the internal review, the External Audit work indicated that all of the standards set out in the CIPFA Code of Internal Audit had been met. This means that Internal Audit's work can be relied upon to provide an important source of assurance on the adequacy of the council's internal control environment. This report together with the Annual Internal Audit Report this report provides important reassurance that the council's governance processes are sound.

- 4.2 If the Committee concludes Internal Audit's work cannot be relied upon then an important source of assurance to enable them to fulfill their role is no longer available.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The work of the internal audit section enhances control over the use of the council's resources through the recommendations made in audit reports.

- 5.2 There are no additional staffing, property or IT implications

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

- 6.1 The requirement for an internal audit function is set out in the Accounts and Audit Regulations 2011. Internal audit will continue to assist the Chief Financial Officer discharge his statutory duty under the provisions of the Local Government Act 1972. The Accounts and Audit (Amendment) (England) Regulations 2006 require an annual review of the effectiveness of internal audit.

- 6.2 The effectiveness of internal audit's work is an important component of the Annual Governance Statement and promotes good corporate governance.

7. **OUTCOMES OF CONSULTATION**

- 7.1 The approach adopted to measure the effectiveness of internal audit has been agreed with external audit. Consultation takes place at all stages of audit work to ensure service provision is of a high standard. Customers are also invited to feedback on individual audit assignments to improve service delivery.

8. **RECOMMENDATION**

- 8.1 That the Audit Committee considers the effectiveness of Internal Audit in 2010/11 and the assurance provided on the adequacy as a key component of the council's internal review processes and internal control environment.

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Background Papers used in the preparation of this report
Audit Commission – Review of Internal Audit – June 2009
Audit Commission – VFM Report –September 2010
CIPFA Role of Head of Internal Audit