



<u>Committee and Date</u>
Audit Committee
21 June 2013
10.00am

<u>Item</u>
<b>13</b>
<u>Public</u>

## **ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**

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### **1. Summary**

The Accounts and Audit Regulations 2011 require the Council to conduct an annual review of the effectiveness of its internal audit; Audit Committee is required to review this report and findings.

The review and update of the self-assessment has confirmed that the Council continues to operate an effective Internal Audit function. There are no areas where the Internal Audit function is not complying with the Code and only one area of partial compliance which does not compromise compliance with the code.

### **2. Recommendations**

The Committee is asked to consider and endorse the conclusion that the Council has an effective system of internal audit in place with appropriate comment.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

3.1 An effective Internal Audit Service provides, 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'. Therefore, providing assurances on the Council's internal control systems by identifying areas for improvement or potential

weaknesses and engaging with management to address these in respect of current systems and during system design. Internal Audit will also continue to align its work with the Strategic Risk Register.

- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal. Consultation has been used to inform the evidence gathered in support of the self assessment against CIPFA's Code of Practice for Internal Auditors in Local Government.

#### **4. Financial Implications**

- 4.1 The Internal Audit service is provided within approved budgets.

#### **5. Background**

- 5.1 The Accounts and Audit Regulations 2011 6(3), requires the Council to undertake an annual review of the effectiveness of its internal audit and to report the findings of this review to the Audit Committee.
- 5.2 There is no prescriptive guidance; organisations are offered an opportunity to find their own solutions in order to meet the requirements of the Regulations. It is acknowledged best practice that the assessment should be based on the application of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Audit Practice for Internal Auditors in Local Government which includes a checklist to assist in the assessment of compliance with the code.
- 5.3 Previously on a triennial basis the External Auditors have used this Code to assess the quality of Internal Audit. It was last applied by them in February 2010 and confirmed that Internal Audit effectively contributes to the Council's Internal Control process. The Audit Service Manager has continued to update the detailed document demonstrating compliance with the Code's checklist which is supported with evidence for 2012/13; **Appendix A** provides a summary of the compliance with the Code.
- 5.4 The Public Sector Internal Audit Standards (PSIAS) replaced the CIPFA Code of Practice for Internal Audit in Local Government in April 2013. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011. With effect from 1 April 2013, Internal Audit has adopted, and operated in accordance with the principles of, the Public Sector Internal Audit Standards and will report the effectiveness of Internal Audit against the PSIAS for 2013/14.

## 6 Summary

- 6.1 A review and update of the self assessment has confirmed that the Council continues to operate an effective Internal Audit function. Internal Audit continues to be an effective part of the internal control process. There are no areas where the Internal Audit function is not complying with the Code and only one area of partial compliance due to a very small number of non-audit duties which does not compromise compliance with the code.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

- Code of Practice for Internal Auditors in Local Government 2006 –published December 2006.
- Local government application note for the UK Public Sector Internal Audit Standards. CIPFA
- Accounts and Audit Regulations 2011.
- Various internal documents supporting the review of the CIPFA Code of Practice checklist.
- Public Sector Internal Audit Standards 2013

**Cabinet Member (Portfolio Holder)**

Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee

**Local Member** N/A

**Appendices**

**Appendix A** Compliance with the Code of Practice for Internal Auditors in Local Government 2006

## Appendix A

<b>Compliance with the Code of Practice for Internal Auditors in Local Government 2006</b>	
<b>1 Scope of Internal Audit</b>	<b>Conclusion</b>
1.1 Terms of reference	Compliant
1.2 Scope of work	Compliant
1.3 Other work	Compliant
1.4 Fraud and Corruption	Compliant
<b>2 Independence</b>	
2.1 Principles of Independence	Partial compliant: Internal Audit has a small number of non-audit duties, but this does not compromise their independence.
2.2 Organisational independence	Compliant
2.3 Status of the Head of Internal Audit	Compliant
2.4 Independence of Individual Internal Auditors	Compliant
2.5 Independence of Internal Audit Contractors	Compliant
2.6 Declaration of Interest	Compliant
<b>3 Ethics for Internal Auditors</b>	
3.1 Purpose	Compliant
3.2 Integrity	Compliant
3.3 Objectivity	Compliant
3.4 Competence	Compliant
3.5 Confidentiality	Compliant
<b>4 Audit Committees</b>	
4.1 Purpose of the Committee	Compliant
4.2 Internal Audit's relationship with the Audit Committee	Compliant
<b>5 Relationships</b>	
5.1 Principles of good relationships	Compliant
5.2 Relationships with Management	Compliant
5.3 Relationships with other Internal Auditors	Compliant
5.4 Relationships with External Audit	Compliant
5.5 Relationships with other Regulators and Inspectors	Compliant
5.6 Relationships with Elected Members	Compliant
<b>6 Staffing, Training and Continuing Professional Development</b>	
6.1 Staffing Internal Audit	Compliant
6.2 Training and Continuing Professional Development	Compliant
<b>7 Audit Strategy and Planning</b>	
7.1 Audit Strategy	Compliant
7.2 Audit Planning	Compliant

<b>8 Undertaking Audit Work</b>	
8.1 Planning	Compliant
8.2 Approach	Compliant
8.3 Recording Audit Assignments	Compliant
<b>9 Due Professional Care</b>	
9.1 Due Professional Care	Compliant
9.2 Responsibilities of the Individual Auditor	Compliant
9.3 Responsibilities of the Head of Internal Auditor	Compliant
<b>10 Reporting</b>	
10.1 Principles of reporting	Compliant
10.2 Reporting on audit work	Compliant
10.3 Follow up of Audits and Reporting	Compliant
10.4 Annual reporting and presentation of the Audit Opinion	Compliant
<b>11 Performance Quality and Effectiveness</b>	
11.1 Principles of Performance, Quality and Effectiveness	Compliant
11.2 Quality assurance on audit work	Compliant
11.3 Performance and effectiveness of the Internal Audit Service	Compliant