

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

20 June 2011

Report of Management Team

Part 1- Public

Delegated

1 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2010/11

Summary

This report is to inform Members of the outcome of a review of the effectiveness of the system of Internal Audit. The report asks Members to consider the findings of the review and to endorse the opinion that a “good” system of internal audit was in place during 2010-11.

1.1 Introduction

- 1.1.1 The Accounts & Audit Regulations 2011 require that “A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.” This is a change from the previous requirement that an authority should “review the effectiveness of the system of internal control”.
- 1.1.2 There is no guidance as to how this effectiveness should be measured. However, previous guidance relating to the Accounts & Audit Regulations 2006 on adequate internal control has stated that compliance with the CIPFA Code of Practice for Local Government Auditors 2006 in the United Kingdom (CIPFA Code) is considered best practice.
- 1.1.3 The new regulations came into effect on 31 March 2011. The old requirement to review the effectiveness of internal control was covered in the annual report of the Chief Internal Auditor that was prepared for presentation to the deferred April meeting of this Committee.
- 1.1.4 The next Chief Internal Auditor annual report will be presented to the Audit Committee scheduled for April 2012. That report will contain evidence that the Accounts and Audit Regulations 2011 have been complied with.
- 1.1.5 In order to ensure that this review takes place at least once annually a review has been undertaken to comply with this new requirement within the twelve month time frame of enactment.

1.2 Code of Practice Checklist

- 1.2.1 As stated above guidance refers to the CIPFA Code as being identified as best practice. The Internal Audit section uses the CIPFA Code as a template for providing the Internal Audit function. As part of the section management review function all audit reports are reviewed to ensure compliance with the CIPFA Code.
- 1.2.2 Staff in Internal Audit are required to acknowledge that they have read, understood and comply with the CIPFA Code.
- 1.2.3 The CIPFA Code contains a self-assessment checklist that covers all of the areas of the CIPFA Code including a section on the effectiveness of Internal Audit. The Chief Internal Auditor has carried out an assessment against this checklist and considers that the Internal Audit Section is compliant with the Code and meets the requirements for effectiveness.
- 1.2.4 A completed checklist is attached. **[Annex 1]**
- 1.2.5 There are five questions in section 11.3 of the checklist that relate to performance and effectiveness of the Internal Audit Service. The latest version of the Audit Charter is presented to Members as a carry over report from the deferred meeting of April 2011 and includes the requirements to ensure compliance with the Code.

1.3 Audit Commission

- 1.3.1 The Audit Commission are no longer required to carry out a regular assessment of the effectiveness of Internal Audit. However, they do work closely with Internal Audit and have regular meetings to ensure that there is no duplication of effort. The District Auditor, Mr Mack, was asked to comment on the effectiveness of the Internal Audit Section. His responses covered two areas as follows: -
- "The external auditor (the Audit Commission) and Internal Audit agree their audit plans annually. As part of this process the Audit Commission identify testing that Internal Audit can carry out that may be used to support their audit of the annual accounts. Internal Audit carried out this testing during 2010/11. The Audit Commission have confirmed they will be placing reliance upon this work for their year end audit."
 - "The external auditor has also reported that in its view internal audit provides effective assurance for management and is demonstrating good practice in its shared working with Gravesham council."

1.4 Audit plan and reporting

- 1.4.1 The annual audit plan is compiled on a risk based assessment and agreed by Management Team, prior to being approved by Audit Committee. In addition the plan is also circulated to the Audit Commission for comment.

- 1.4.2 The audit plan for 2010/11 was completed in full for all of the high risk areas. The outcomes of these reviews have been reported to management and to the Audit Committee with the contents of these reports being noted by the Audit Committee.
- 1.4.3 Members have also been given feedback in the annual report of the Chief Internal Auditor on acceptance of recommendations and the results of quality assurance questionnaires. The results of these measures exceeded the targets as set out in the Audit Charter.

1.5 Assessment of effectiveness of Internal Audit

- 1.5.1 The regulations do not provide any guidance on how the relevant body should measure the effectiveness of Internal Audit. However, the Internal Audit team works in a partnership arrangements with Gravesham Borough Council. Their Management Team considered how they could measure effectiveness and came up with the following table: -

Opinion	Definition
Good	The arrangements put in place by the Council provide substantial assurance of the adequacy of the control environment as a contribution to the achievement of its objectives.
Satisfactory	The arrangements put in place by the Council provide reasonable assurance of the adequacy of the control environment as a contribution to the achievement of its objectives.
Adequate	The arrangements put in place by the Council provide limited assurance of the adequacy of the control environment as a contribution to the achievement of its objectives.
Unsatisfactory	The arrangements put in place by the Council provide no assurance of the adequacy of the control environment as a contribution to the achievement of its objectives.

- 1.5.2 Management team were asked to assess the effectiveness of Internal Audit and concluded that it was

1.6 Legal Implications

- 1.6.1 The Council is required to consider the effectiveness of Internal Audit as part of the Accounts & Audit Regulations 2009. This review fulfils that obligation.

1.7 Financial and Value for Money Considerations

- 1.7.1 An effective Internal Audit ensures that the risk of fraud and error is minimised and attempts to add value to the organisation.

1.8 Risk Assessment

1.8.1 An ineffective Internal Audit would lead to poor corporate governance and increase the risk of fraud and error.

1.9 Equality Impact Assessment

1.9.1 This report has no impact on equality issues.

1.10 Recommendations

1.10.1 Members are asked to consider the evidence provided in this report together with the Audit Committee reports of the previous year and are **RECOMMENDED** to rate the effectiveness of Internal Audit as GOOD.

Background papers:

contact: David Buckley

CIPFA Code of Practice for Internal Auditors in Local Government in the United Kingdom 2006

Email from District Auditor

David Hughes
Chief Executive

for Management Team

Sharon Shelton
Director of Finance

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	This report relates to the effectiveness of Internal Audit against a Code of Practice and has no equality issues.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	As above
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.