

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**INTERNAL AUDIT – EFFECTIVENESS REPORT 2009/10**

**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 2003 and the Local Government Act 1972. From 1 April 2006 The Accounts and Audit (Amendment) (England) Regulations 2006 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.
- 2.6 In the September 2009 CAA Use of Resources report the council was assessed as performing adequately –meeting minimum requirements (level 2) in the risk management and internal control sub theme. A contribution to that assessment was that the Internal Audit function meets all CIPFA standards. The 2009/10 self assessment has been completed but is now suspended by the government therefore the potential outcomes are unknown however a request has been made to receive feed back on any improvement areas.
- 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 31<sup>st</sup> March 2010. This contract provided the opportunity for professional development and indicates good quality audit service.

- 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 2009/2010 details of which are below:
- 80% 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 (66%) (although high risk areas receive closer attention)
  - All customers were surveyed and quality control questionnaires returned showed 100% satisfaction with the service provided.
  - 70% of audits were completed within agreed allocations.
  - 75% of audits were completed within agreed timescales.
  - 81% of audits were reviewed by the supervisor within the target.

- 2.9 The report format for internal audit reviews was revised and improved during 2009/10 to provide greater clarity on the level of assurance that can be given following each audit. More details are provided in Internal Audit's Annual Report 2009/10 elsewhere on this agenda.
- 2.10 Roll out of the audit management system has commenced and 2010/2011 audit plan work is being managed using this software. Some benefits the software will introduce include:
- Integrated time recording and audit planning modules
  - Electronic working papers
  - Automated recommendation tracking
  - Automated performance management information.
- Further updates will be provided through the audit plan year.
- 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 2009/10. 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 2003. 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 consider the effectiveness of Internal Audit in 2009/10, and the assurance provided on the adequacy as a key component of the council's internal review processes and internal control environment.

SERVICE DIRECTOR FINANCE

Pittwood House  
Ashby Road  
SCUNTHORPE  
North Lincolnshire  
DN16 1AB

Author: C Andrews

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**Background Papers used in the preparation of this report**

**Audit Commission – Review of Internal Audit – June 2009**

**Audit Commission - Use of Resources Report –September 2009**