

Report to: Audit Committee
Date of meeting: 23 June 2008
Report of: Director of Finance
Title: Review of Internal Audit's Effectiveness 2007/08

1.0 **SUMMARY**

1.1 The Accounts and Audit Regulations 2003 as amended in 2006 require that an annual review of the effectiveness of its system of internal audit is carried out. This report considers the evidence to support the view that it has been effective over the past year. It should be read in conjunction with the Annual Report set out elsewhere on this agenda.

2.0 **RECOMMENDATIONS**

2.1 That the Committee approve the conclusion that the system of internal audit has been effective in the past year

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3.0 **DETAILED PROPOSAL**

3.1 This is the third formal review of the effectiveness of the internal audit system. As the Council's Chief Finance Officer, I have a statutory duty to ensure effective financial administration and this includes the role and impact of internal audit. It is generally accepted that the annual report of the Audit Manager is a key piece of evidence and Members are referred to that report elsewhere on this agenda.

3.2 The key elements to be considered are:

- Does the Internal Audit team comply with the required Auditing Standards?
- Is the Audit Plan based on the authority's requirements and is it largely carried out?
- Are the results of audit work valued by management and implemented?
- What is the view of the external auditor?

3.3 **Auditing Standards**

As set out in the annual report from the Audit Manager, the CIPFA standards have been adopted and, having reviewed the self-assessment carried out by the Audit Manager, I consider that there are no material areas of non-compliance. The Audit Manager reviews the working papers for every audit at draft report stage to ensure they are accurate, complete and meet the objectives of the audit. The draft report is discussed with auditees for accuracy and practicality of recommendations. The final report is then reviewed by the Audit Manager before publication. The audit staff are all suitably qualified and experienced. These measures combine to ensure quality of output.

3.4 **The Audit Plan**

This is developed taking account of Heads of Service requests, external audit requirements as part of the managed audit and internal audit's assessment of risk. It is then considered by the Director of Finance and the Corporate Management Board before being put to Committee. This process of consultation makes it unlikely that any significant omissions will occur or that effort will be directed to low priority work. Inevitably, during the year some unplanned work has to be accommodated but this is at an acceptable level and does not impact significantly on the overall work plan. If the plan was inappropriate, large-scale changes would be seen during the year. The Plan for 2007/08 was 87.7% completed. This means achievement has been slightly below the target of 90% two years in a row. Two main factors affected last year. The first was that two planned audits could not be conducted, for reasons outside the control of internal audit, and this was identified too late to formally amend the plan. The second was that the Audit Manager had to have direct involvement in the tender for insurance cover. This was unavoidable in the circumstances but inevitably had some impact on his ability to progress-chase at the year end. Members may be pleased to note that in the draft structure for the Finance Shared Service, the Audit Manager will not have responsibility for risk management or fraud, so this situation should not recur.

3.5

Outcomes

The Audit Manager's annual report shows the scale of recommendations for improvement that are identified. Overall, these show a positive trend of fewer recommendations and a lower proportion being High Priority for implementation. This is reflected in the set of key financial systems. This shows the impact of internal audit in recent years in helping Heads of Service to improve the control environment, as well as demonstrating that further improvements are still possible. Heads of Service do occasionally reject recommendations (normally on grounds of practicality or resource constraints) but this is rare. The main cause for concern is if recommendations are accepted in principle but not implemented in a timely manner. A mechanism has been agreed for the Audit Manager to report to the Corporate Management Board if a recommendation has been agreed but is not being implemented. Prior to this, the relevant Corporate Director would be alerted, so the matter can be discussed with the Head of Service. Instances of this step being necessary are rare and tend to be due to technical problems but the existence and occasional use of the process illustrates that internal audit is valued as an aid to management. Auditees are asked to complete a satisfaction questionnaire and a 94.23% satisfaction rating shows a high degree of support for the work of the team, although this is based on a low level of response.

3.6

External audit views

This year's Annual Audit and Inspection Letter contains no explicit reference to the work of Internal Audit. However, the District Auditor's team has been happy to allow internal audit to undertake certain grant claim work and to provide systems information required under external auditing standards. This demonstrates the confidence of the external audit team in the work of internal audit. If the external auditors had any concerns about the effectiveness of internal audit, it would have been brought to my attention. Within the Use of Resources assessment, the DA has confirmed that internal audit operate in accordance with CIPFA's Code of Practice.

3.7

Conclusion

All the evidence supports the view that the internal audit service was effective during 200/08 and Members are invited to endorse this conclusion.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 The Director of Finance comments that there are no financial implications arising directly from this report.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 The Head of Legal and Democratic Services comments that annual review of the effectiveness of internal audit is a statutory requirement.

4.3 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
A positive assessment that was not supported by evidence would undermine effective internal control, leading to increased risk and potential criticism by the external auditors	1	3	3
This is not a significant risk because a false conclusion would become apparent before any serious damage could be done, given the arrangements in place.			

Background Papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

Use of Resources assessment

File Reference

None