

Report to: Audit Committee
Date of meeting: 30 June 2009
Report of: Head of Strategic Finance
Title: Review of Internal Audit's Effectiveness 2008/09

1.0 **SUMMARY**

1.1 The Accounts and Audit (Amendment) Regulations 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 Audit Manager's 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 fourth formal review of the effectiveness of the system of internal audit. 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 of the level of financial and other controls and Members are referred to that report elsewhere on this agenda. As there is no guidance on the approach to be taken in carrying out the review and this is the first I have completed I have adopted the same format as last year.

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 (*Code of Practice for Internal Audit in Local Government in the UK 2006*) have been adopted. The Audit Manager has carried out annual self-assessments since 2007 and, having reviewed the latest self-assessment, 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. Internal Audit has the necessary independence from other operational duties and unrestricted rights of access to staff and records to enable it to discharge its duties effectively. 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 own assessment of risk. It is then considered by the Director of Finance and the Corporate Management Board (for 2008/09) 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 2008/09 was 90.5% completed, just above target level with work on all of the key systems completed.

3.5 Outcomes

The Audit Manager's annual report shows the scale of recommendations for improvement that are identified. Over recent years there has been a positive trend of fewer recommendations with a generally lower proportion being High Priority for implementation. This shows the continuing 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 the relevant Corporate Director if a recommendation has been agreed but is not being implemented 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 94.7% satisfaction rating shows a high degree of support for the work of the team (based on 17 returned questionnaires).

3.6 External audit views

This year's Annual Audit and Inspection Letter contains no explicit reference to 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.

3.7 Conclusion

All the evidence supports the view that the internal audit service was effective during 2008/09 and Members are invited to endorse this conclusion.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 The Head of Strategic 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.			

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.

Audit Manager's report
 Annual Audit Letter
 Audit working papers and reports.

File Reference

None