

Report to: Audit Committee
Date of meeting: 30 June 2010
Report of: Head of Strategic Finance
Title: Review of Internal Audit's Effectiveness 2009/10

1.0 **SUMMARY**

1.1 The Accounts and Audit (Amendment)(England) Regulations 2006 require that an annual review of the effectiveness of the 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 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.

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 an annual self-assessment which has included a detailed compliance check list. I have reviewed all documents and consider that there are no material areas of non-compliance.

3.4 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 and he may discuss sensitive issues with myself prior to publication. He is however totally independent and internal audit reports reflect an objective assessment of financial controls in place.

3.5 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.

3.6 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 Head of Strategic Finance and Leadership Team before being considered by the Audit 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 necessary during the year.

During 2009/2010, 39 Audits were completed and 94.5% of the original Audit Plan was achieved (against a target of 90%).

3.7 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.

3.8 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 relevant Executive Director if a recommendation has been agreed but is not being implemented so the matter can be 'discussed' with the Head of Service.

3.9 This process has been further strengthened whereby Leadership Team now receive on a quarterly basis detail of those audit recommendations (ranked as being High or Medium priority) which have still to be implemented. Audit Committee will now also receive at every meeting detail of recommendations still outstanding.

3.10 This process indicates the seriousness with which the Council monitors corporate governance arrangements and also illustrates that Internal Audit is valued as an aid to management. Periodically, service managers/ heads of service are asked to complete a satisfaction questionnaire and the last such survey indicated a 94.7% satisfaction rating (based on 17 returned questionnaires).

3.11 External Audit (Grant Thornton) views

This year's Annual Audit Letter was considered by the Audit Committee on 13th January 2010 and included... 'the scope and conduct of internal audit work was appropriate to support our audit work'.

3.12 Conclusion

All the evidence supports the view that the internal audit service was effective during 2009/10 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