

Wolverhampton City Council

OPEN DECISION ITEM

Audit Committee

Date **6 July 2012**

Originating Service Group(s)

DELIVERY

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Title/Subject Matter

**ANNUAL REVIEW OF THE EFFECTIVENESS OF
INTERNAL AUDIT 2011/2012**

RECOMMENDATION

That members of the Audit Committee formally approve the annual review of the effectiveness of internal audit in order to discharge their responsibility under Regulation 6 of the Accounts and Audit Regulations 2011, where “the relevant body shall, at least once in each year, conduct a review of the effectiveness of internal audit”.

1. PURPOSE AND BACKGROUND

- 1.1 The Accounts & Audit Regulations 2011 state that the relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control” and that “for principal local authorities, proper internal control practices for internal audit are those contained within the Code of Practice for Internal Audit in Local Government”
- 1.2 At paragraph 6 the regulations also state that “the relevant body shall, at least once in each year, conduct a review of the effectiveness of internal audit” The regulations go on to say that the findings of this review be considered by a committee of the relevant body, or by the members of the relevant body as whole, as part of the wider consideration of an organisations’ system of internal control. At the Council, the Audit Committee perform this role.
- 1.2 The current policy with regard to reviewing the effectiveness of the system of Internal Audit was established in April 2007 when it was agreed that:
- The CIPFA Code of Practice for Internal Audit in Local Government 2006 be formally adopted as the standard by which Internal Audit is assessed in Wolverhampton.
 - Members of the Audit Committee receive and consider the results of the review to discharge the responsibility under paragraph 6 of the regulations.

This report provides the Committee with sources of information and measures in place in order to assist in being able to reach a conclusion on the adequacy and effectiveness of the Internal Audit Service.

2. DETAILS

- 2.1.1 The Council’s arrangements for Internal Audit are contained within the Constitution, which states that “The Section 151 Officer shall ensure that an adequate and effective internal audit of all Council activities is carried out in accordance with the most recent CIPFA Statements on Internal Audit Practice and relevant legislation.”
- 2.1.2 Internal Audit follow the CIPFA Code of Practice for Internal Audit in Local Government 2006 which covers the following standards:
- Scope of Internal Audit
 - Independence
 - Ethics
 - Audit Committees
 - Relationships
 - Staffing, Training and Continuing Professional Development
 - Audit Strategy and Planning
 - Undertaking Audit Work
 - Due Professional Care
 - Reporting
 - Performance, Quality and Effectiveness

In reviewing the effectiveness of internal audit, the following have been taken into consideration:

- The process by which the control environment and key controls have been identified.
- The process by which assurance has been gained over controls.

- The adequacy and effectiveness of the remedial action taken where there are deficits in controls.
- The operation of the Audit Committee and the internal audit function to current codes and standards.
- An assessment against the five principles contained in the CIPFA document “The Role of the Head of Internal Audit”.

Further details on each of these are detailed below.

The process by which the control environment and key controls have been identified

The control environment and key controls of the Council are identified through the risk management system. Risks to the achievement of the Council’s priorities are identified and mitigated within the control environment through risk management, with risk registers at various levels across the council. However, a register at a corporate level is still being developed.

The process by which assurance has been gained over controls

Assurance is gained over controls through a number of sources including the work of Internal and External Audit (currently PwC). Internal Audit produce a risk based Corporate Assurance Plan, which is driven by the risks the Council faces. They also report progress on the delivery of this plan on a quarterly basis to the Audit Committee, and for 2011/12 produced an Annual Internal Audit Report, which gave the following opinion:

“Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes”.

The adequacy and effectiveness of the remedial action taken where there are deficits in controls

Where deficits in internal control are identified, both Internal and External Audit will make recommendations that are entered onto an action plan. Management are then responsible for identifying what remedial action will be undertaken, who by and by when. Internal Audit will then follow up all key recommendations and report back on any significant non-compliance to the Audit Committee.

The operation of the Audit Committee and the internal audit function to current codes and standards

Internal Audit

A review of the self-assessment checklist completed by Internal Audit taken from the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, has been undertaken, and this indicated that the standards included in the code were being met. A full copy of the completed checklist can be made available upon request.



Audit Committee

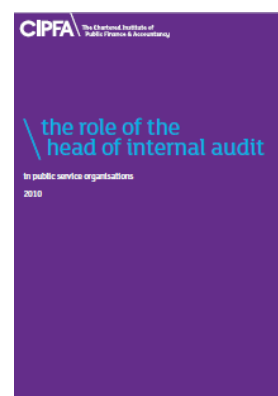
The Audit Committee operate within a Terms of Reference based on the model provided by CIPFA in their “Audit Committees – Practical Guidance for Local Authorities” guidelines.



Assessment of the five principles contained in CIPFA’s ”Role of the Head of Internal Audit in public service organisations”

This document includes five principles for the Head of Internal Audit:

- Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.
- Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and the Audit Committee.
- Must lead and direct an internal audit service that is resourced to be fit for purpose.
- Must be professionally qualified and suitably experienced.



Underpinning each of the above 5 principles in the CIPFA document is a series of governance requirements, core responsibilities and personal skills and professional standards. As part of this review the current arrangements have been assessed against these requirements and found to be in compliance.

The Council’s Head of Internal Audit’s background and experience

The Head of Audit is a qualified accountant (FCCA) and also has the following experience:

- Executive Board member, with lead responsibility for governance and risk management for the National Anti-Fraud Network (NAFN)
- Former Chair and a current member of the Organising Committee for the CIPFA in the Midlands Audit Training Seminars (CATS)
- co-opted Regional CIPFA Council member
- Governor and Chair of the Audit Committee at a sixth form college
- A regular speaker on internal audit matters for a number of organisations, including CIPFA and the Institute of Internal Auditors (IIA)
- Articles on internal audit issues published by the IIA.

The post is a shared role as part of an arrangement with Sandwell Metropolitan Borough Council, and the current Head of Audit acts in a similar role for the following organisations:

- Wolverhampton City Council

- Sandwell Metropolitan Borough Council
- West Midlands Fire Service
- West Midlands Pension Fund
- Sandwell Homes
- Sandwell Leisure Trust
- Sandwell Arts Trust

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications arising from the recommendations in this report. [GE/29052012/S]

4. LEGAL IMPLICATIONS

- 4.1 The report is submitted to comply with the Accounts and Audit Regulations (2011).and associated statutory instruments which are issued from time to time. [MW/29052012/F]

5. EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 There are no direct equal opportunities implications arising from this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from this report.

7. SCHEDULE OF BACKGROUND PAPERS

- 7.1 Accounts and Audit Regulations (2011)
CIPFA Code of Practice for Internal Audit (2006)
Wolverhampton City Council Constitution