

Wolverhampton City Council

OPEN DECISION ITEM

Audit Committee

Date **8 July 2013**

Originating Service Group(s)

DELIVERY

Contact Officer(s)/

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Title/Subject Matter

**ANNUAL REVIEW OF THE EFFECTIVENESS OF
INTERNAL AUDIT 2012/2013**

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 the system of internal control. At the Council, the Audit Committee perform this role.
- 1.3 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. However, from 1 April 2013 this code has been replaced by a new set of Public Sector Internal Audit Standards.
 - 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 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.”
- 2.2 Throughout 2012/13 Internal Audit followed the CIPFA Code of Practice for Internal Audit in Local Government 2006 which covered 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

From 1 April 2013 this code has been replaced by a new set of Public Sector Internal Audit Standards.

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 Strategy for Internal Audit, 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 2012/13 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. From 1 April 2013 this code has been replaced by a new set of Public Sector Internal Audit Standards, and again Audit Services will ensure that they comply with these requirements in the year ahead.



PwC were commissioned to undertake a review of the effectiveness of the internal audit function and the role of the Audit Committee, which was reported upon in 2011. In 2012 the Committee requested that PwC undertake a follow up report in order to give the Committee assurance that action had been taken to address their recommendations, which were as follows:

Ref	Recommendation	Priority
1	Address inefficiencies in the internal audit plan.	High
2	Create a more risk-focused internal audit plan.	High
3	Provide pro-active fraud awareness training.	Medium
4	Create investigative specialism within the internal audit team.	Medium
5	Consideration of open plan environment.	Low
6	Consideration of paid accounts process.	High
7	Introduction of timescales for internal audit reporting.	Low
8	Increase service involvement in clearing reports.	High
9	Introduction of automated audit software and consideration of further specialisms.	Medium
10	Introduction of Key Performance Indicators and a robust quality assurance framework.	Medium
11	Improve compliance with the CIPFA Code of Internal Audit.	Medium
12	Introduction of a new internal audit Charter.	High
13	Consideration of Audit Committee preparation and practice.	High
14	Provision of Member training.	Medium
15	Introduction of CIPFA guidance compliant Audit Committee role and remit.	High
16	Consideration of independent membership of Audit Committee.	High

They were able to report that 15 of the 16 recommendations they originally made had been implemented. The only outstanding recommendation related to number 3 around the need to prioritise and implement the actions identified through the CIPFA 'Managing the Risk of Fraud – Red Book 2' self-assessment, which was now also been completed.

Internal Audit also seek feedback from each audit they undertake by providing a service quality questionnaire for the auditee to complete and return. Feedback from these has been positive throughout the year, and further details can be provided upon request.

Finally a series of Internal Audit effectiveness measures have been agreed by the Audit Committee, including delivery of at least 80% of the Internal Audit Plan, and good progress has been made against these and is reported in more detail in the Annual Internal Audit Report.

The below is an extract from the minutes of the Audit Committee held in September 2012:

Internal Audit Management Arrangements Update (Appendix 20)

A report was submitted which updated the Committee on arrangements to extend the partnership with Sandwell MBC for the role of Head of Audit. The Chair felt that the current arrangements are working very well and he also asked for his appreciation to be passed to the internal audit team for their continuing good service.

Also, in their 2011/12 External Audit Report (also reported to the Audit Committee), PwC reviewed the work of internal audit across a number of areas and were able to place full reliance on their work:

Wolverhampton City Council – External Audit Update Report 2011/12

June 2012

Section 4 – Review of the work of Internal Audit

We have reviewed the work of Internal Audit across the following key financial systems:

- Cash / general ledger
- Debtors
- Creditors
- Treasury management (borrowings and investments)
- Budgetary control
- Property, plant and equipment
- Payroll
- Council tax income
- Housing benefits and rent

In completing our work we found that:

- the scope of the work of Internal Audit met our requirements;
- the quality of the work undertaken by Internal Audit was of a good standard;
- the conclusions of Internal Audit were consistent with the work they had completed;
- our re-performance testing (of a sample of work undertaken by Internal Audit) reached the same conclusion in every instance;

Our review of the aforementioned reviews of Internal Audit also found that:

- no material control weaknesses were identified; and
- all systems achieved an assurance rating of at least 'satisfactory';

On the basis of the above we were able to conclude that:

- we are able to place reliance on the work of Internal Audit, as planned;
- we are able to place reliance on the controls within the Council's key financial systems, as planned; and
- there are no findings which would require changes to our planned audit approach.

Our final accounts audit approach will therefore continue as planned.

We have provided feedback to the Internal Audit Team on their good performance and suggested a number of areas where efficiencies could be gained in the delivery of the managed audit in future years.

Audit Committee

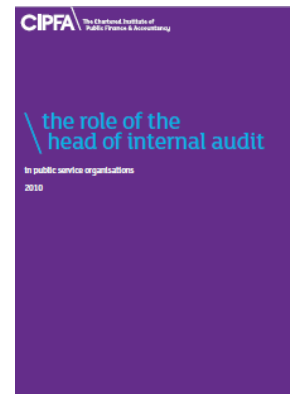
The Audit Committee operate within a Terms of Reference based on the model provided by CIPFA in their "Audit Committees – Practical Guidance for Local Authorities" guidelines. During the year they also undertook a self-assessment exercise and a skills audit.



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 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)
- Chair of the Audit Committee and Governor at an FE college
- A regular speaker on internal audit matters for a number of organisations, including CIPFA and the Chartered Institute of Internal Auditors (CIIA)

The post is a shared service role as part of an arrangement with Sandwell MBC, and the current Head of Audit throughout 2012/13 acted in a similar role for a number of Midlands based public sector organisations. Also, during the year the audit teams have continued to work closely together and have developed a series of innovative ways of working, across their wide and varied client base. This included being successfully awarded the audit role at three of Wolverhampton's recent academy convertors. The following 'flyer' provides more information on the current arrangement:



WEST MIDLANDS FIRE SERVICE



A shared internal audit, counter fraud and risk service

Since January 2012 Wolverhampton City Council and Sandwell MBC have entered into a unique shared service arrangement for their internal audit and related services.

The shared service has a wide and varied customer base including the two local authorities, West Midlands Fire Service, West Midlands Pension Fund, both Sandwell Leisure and Arts Trust and three recent academy converters. Our aim is to add real benefits to our customers in their key areas of governance, control and risk.

Key highlights from this unique arrangement include:

'blue chip' clients	expertise	benefits to customers
<ul style="list-style-type: none">• Wolverhampton CC• Sandwell MBC• WM Fire Service• WM Pension Fund	<ul style="list-style-type: none">• internal audit• counter fraud• investigations service• risk management• assurance mapping• partnership governance	<ul style="list-style-type: none">• innovation• wider skills pool• efficiency savings• commercial awareness• flexibility• professionalism



"A joint local professional team providing the internal audit service to a wide range of public and related organisations across the West Midlands - putting true 'localism' into practice".

For further information please contact Peter Farrow – Head of Audit, at peter.farrow@wolverhampton.gov.uk

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications arising from the recommendations in this report. (GE/03062013/P)

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/03062012/A)

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)
CIPFA Role of the Head of Internal Audit in Public Service Organisations
CIPFA Audit Committees – Practical Guidance for Local Authorities
Wolverhampton City Council Constitution