

Audit Committee

6 July 2015

Report title	Annual Review of the Effectiveness of Internal Audit	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Accountable director	Mark Taylor, Finance	
Originating service	Audit	
Accountable employee(s)	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation(s) for action or decision:

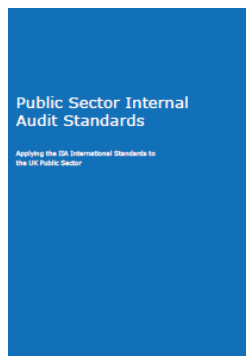
The Committee is recommended to:

1. 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”.

1.0 Purpose

- 1.1 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.
- 1.2 The definition of internal audit, as described in the Public Sector Internal Audit Standards, is set out below:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.



- 1.2 The Accounts and 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”. For local authorities the proper internal control practices for internal audit are those contained within the Public Sector Internal Audit Standards.
- 1.3 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.

2.0 Background

- 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 2014/15 Internal Audit followed the Public Sector Internal Audit Standards, which cover both attribute and performance standards.
- 2.3 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.

2.4 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, including the Strategic Risk Register which is regularly presented to the Audit Committee.

2.5 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, but from 2015/16 this will be Grant Thornton). Internal Audit produce a risk based Internal Audit 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 2014/15 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”.

As indicated above, the Strategic Risk Register is also regularly presented to the Audit Committee. When presented it is accompanied by an Assurance Map based on the three lines of defence model.

First line	Second line	Third line
The first level of the control environment is the business operations which perform day to day risk management activity	Oversight functions such as Finance, HR and Risk Management set directions, define policy and provide assurance	Internal and external audit are the third line of defence, offering independent challenge to the levels of assurance provided by business operations and oversight functions

The three lines of defence model

2.6 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.

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

Internal Audit

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

- The Quality and Improvement Programme for internal audit - during the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.
- The ongoing views of the Audit Committee.
- The external auditor comments from their latest Annual External Audit Reports.
- The internal audit self-assessment checklist included in the CIPFA Application Note that accompanies the Public Sector Internal Audit Standards.
- Ongoing dialogue held with key officers throughout the council on the role internal audit plays.
- An annual review by the Audit Committee of the Internal Audit Charter
- An in-year review of the staffing arrangements within Internal Audit, by the Audit Committee.
- Internal Audit also seeks 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, and good progress has been made against these and is reported in more detail in the Annual Internal Audit Report.

Audit Committee

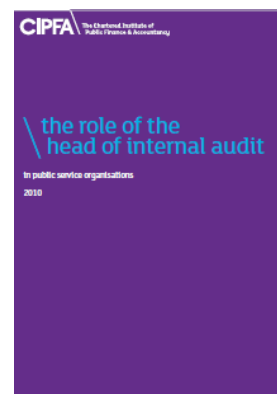
The Audit Committee operate within a Terms of Reference based on the model provided by CIPFA in their Audit Committees – Practical Guidance for Local Authorities 2013 edition. The Terms of Reference were also reviewed in-year by the Audit Committee, and found to remain fit for purpose.



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 five 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.

2.8 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 and Treasurer 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 2014/15 acted in a similar role for a number of Midlands based public sector organisations, including Wolverhampton City Council, Sandwell Metropolitan Borough Council, the West Midlands Pension Fund and West Midlands Fire Service

3.0 Progress, options, discussion

3.1 The Internal Audit Service will continue to report back to the Audit Committee on all relevant control issues throughout the year.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendation in this report (GE/18062015/V).

5.0 Legal implications

5.1 There are no legal implications arising from the recommendation in this report (RB/23062015/F).

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendation in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendation in this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendation in this report.

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendation in this report

10.0 Schedule of background papers

- Accounts and Audit Regulations (2011)
- Public Sector Internal Audit Standards and accompanying CIPFA local government application note
- CIPFA Role of the Head of Internal Audit in Public Service Organisations
- Audit Committees – Practical Guidance for Local Authorities 2013 Edition
- Wolverhampton City Council Constitution