

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	29 September 2011
Title:	Effectiveness of Internal Audit
Reference:	3292
Report From:	<i>County Treasurer</i>

Contact name: Neil Pitman

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

1. Executive Summary

1.1. Under the Accounts and Audit (England) Regulations 2011 the Council is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit. To assist the Audit Committee in discharging this requirement on behalf of the Council, this paper summarises the measures currently in place to monitor internal audit effectiveness.

2. Contextual information

2.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) have provided technical guidance suggesting a number of options available to authorities for carrying out the review of the effectiveness of internal audit which include:

- The Head of Internal Audit
- A Sub-group of the Audit Committee
- A review group of officers
- Peer review
- External assessment
- A group of members and officers

2.2. Whoever carries out the review, it is vital that all participants are appropriately skilled and have relevant technical support available to them.

2.3. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 [the Code] recommends that:

“The Head of Internal Audit should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is:

- *Meeting its aims and objectives*
- *Compliant with the Code*
- *Meeting internal quality standards*
- *Effective, efficient, continuously improving*
- *Adding value and assisting the organisation in achieving its objectives.”*

2.4. Meeting aims and objectives

The aims and objectives of the system of internal audit are defined in the Internal Audit Strategy 2011 – 2014 and within the departmental business plan.

Objectives are continuously measured and monitored and formally reviewed as part of the Chief Internal Auditor’s Individual Performance Plan (IPP) assessment and appraisal

2.5. Compliance with the Code

Guidance cites the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) as proper practice in relation to internal audit in local authorities. A full self assessment against the 107 criteria within the Code was completed in August 2011 and an action plan produced to reflect the measures required to achieve full compliance (Appendix 1)

2.6. Meeting internal quality standards

- i. A comprehensive and up-to-date internal audit manual is in place and available to all staff to provide guidance on quality standards in carrying out day-to-day audit work in compliance with the Code.
- ii. A system of quality checks is in place to ensure all internal audit work is appropriately supervised and reviewed throughout all audits to monitor progress, assess quality and coach staff.
- iii. Audit Services operate a quality system (ISO 9001) which covers all our audit reviews including irregularity reviews. Adherence to the Quality Audit Procedures (QAPs) provides assurance that a quality audit product is consistently delivered.
- iv. The use of audit management software (MKInsight) enables performance management information to be more readily available, and provides a consistency to the audit process followed

2.7. **Effective, efficient, continuously improving**

- i. On 1 November 2010 Hampshire County Council and Southampton City Council agreed to a collaborative approach for the provision of a shared internal audit service. The agreement introduced a shared Chief Internal Auditor role across both authority's

This initiative provides further scope to develop the shared service approach to best utilise areas of expertise across both authorities, adding greater service resilience and further generating economies of scale through training and development.

- ii. As reflected within the Audit Strategy 2011-14 the strategic audit approach has been significantly adapted to ensure it:

- aligns with the County Council's objectives;
- is proportionate and focused; and
- adds maximum value to the organisation

- iii. The team operate a modern risk based audit approach focusing on medium and high priority areas within the audit universe

The annual audit plan remains fluid and a contingency provision has been incorporated to ensure internal audit availability should the risk environment change during the year.

- iv. A restructure of the internal audit team has adopted a matrix style approach, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine. This approach ensures an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise

- v. The audit report format has been reviewed to ensure a focused and value adding document, appropriate to its target audience.

The revised report format was implemented in accordance with the introduction of the revised strategy and restructure (May 2011).

2.8. **Adding value and assisting the organisation in achieving its objectives**

- i. The Internal Audit Strategy 2011-2014 is designed to demonstrate how the internal audit service seeks to add value to the Council and to assist in achieving its objectives.

- ii. The Strategic Audit Plan for 2011/14 demonstrates intended audit coverage of the Council's objectives.

- iii. The 'Status of work' reports provided to each meeting of the Audit Committee demonstrates how management is responding to the issues and risks highlighted by internal audit's work and that management actions in response to audit observations are properly implemented in a timely basis.

- iv. Formal client feedback is sought in respect of each audit assignment conducted by means of a "client feedback survey".

2.9. Role of the Audit Committee

The Audit Committee plays an essential role in the effectiveness of the system of internal audit through its function to monitor, review and report on the way in which governance is exercised within the County Council, particularly with regard to:

- receipt and consideration of reports on internal audit strategy, planning and delivery, including the Chief Internal Auditor's Annual Report and Opinion;
- view on internal assurances of governance practice and to be satisfied that the County Council's assurance statements properly reflect the risk environment and any actions required to improve it; and
- consideration of the County Council's compliance with its own and other published standards and controls

3. Recommendation(s)

3.1. That the Audit Committee:

- a) Approve the review conducted in assessing the effectiveness of internal audit; and
- b) Endorse the action plan generated from the review of the effectiveness of internal audit.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:	
Under the Accounts and Audit (England) Regulations 2011 the Council is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit	

NB: If the 'Other significant links' section below is not applicable, please delete it.

Other Significant Links

Links to previous Member decisions:		
<u>Title</u> Internal Audit Strategy 2011-14	<u>Reference</u> 2338	<u>Date</u> 9 Dec 2010
Direct links to specific legislation or Government Directives		
<u>Title</u> Accounts and Audit (England) Regulations 2011	<u>Date</u> <u>April 2011</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals within this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, however internal audit work is planned to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific changes

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change