

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

|                        |  |
|------------------------|--|
| <b>Decision Maker:</b> | Audit Committee  |
| <b>Date:</b>           | 22 March 2012  |
| <b>Title:</b>          | Effectiveness of the System of Internal Audit – Assessment Options |
| <b>Reference:</b>      | 3788   |
| <b>Report From:</b>    | <i>County Treasurer</i>  |

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#### 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. This paper summarises the options and methodology available to undertake future reviews.

#### 2. Contextual information

- 2.1. The Accounts and Audit (England) Regulations 2011, require relevant bodies 'to conduct an annual review of the effectiveness of its system of internal audit'. This process is part of the wider annual review of the effectiveness of the internal control system, and significantly contributes towards the overall controls assurance gathering processes and ultimately the publication of the Annual Governance Statement.
- 2.2. The Accounts and Audit Regulations also state that internal audit should conform to 'proper practices' and it is advised that proper practices for internal audit is set out in the Code of Practice for Internal Audit in Local Government in the UK published in 2006 by the Chartered Institute of Public Finance and Accountancy (CIPFA)
- 2.3. The 2010/11 review of the 'effectiveness of the system of internal audit' was undertaken in the form of a self assessment against the compliance checklist within the CIPFA Code of Practice, following a fundamental review of the Internal Audit Strategy, Strategic Plan and service restructure.
- 2.4. The self assessment was presented to and approved by the Audit Committee (29 September 2011). In approving the report Members raised the question of independence in the review methodology adopted.

2.5. The limited guidance available provides a number of options available to relevant bodies, for carrying out the review of the effectiveness of internal audit, which include:

- The Head of Internal Audit
- A review group of officers
- Peer review
- External assessment
- A sub-group of the Audit Committee (or an officer / member group)

2.6. Benchmarking highlights a variety of approaches undertaken by a number of Council's in the completion of their respective reviews:

| <b>Type of Review</b>   | <b>No. Council's adopting review type</b> |
|---|---|
| Self Assessment   | 3   |
| Independent Officer Review<br>(Head of Finance or Monitoring Officer) | 2   |
| Audit Committee Task Group  | 1   |
| No record of report to Audit Committee                                | 5   |

2.7. In a majority of the benchmarked Council's the approach remains proportionate through a high level self assessment or independent officer review undertaken by either the Head of Finance or the Monitoring Officer. Guidance stipulates 'whoever carries out the review, it is vital that they are appropriately skilled and relevant technical support available to them'. As such both the County Treasurer and the Monitoring Officer would be well placed to meet these requirements

2.8. Within the County Council the County Treasurer (Section 151 officer) maintains line management responsibility for the Chief Internal Auditor, as such to enable true independence it may be more appropriate for any such review to be undertaken by the County Council's Monitoring Officer. This would further provide clear synergies for the review of the effectiveness of the system of internal audit to feed into the wider Annual Governance Statement process.

### **3. Role of the Audit Committee**

3.1. 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.

3.2. One key aspect of the review of the effectiveness of the system of internal audit is the operation of the Audit Committee to current codes and standards.

3.3. There is potential for a Sub group of the Audit Committee to assess the Audit Committee's operation against the relevant standards detailed in the CIPFA publication 'A toolkit for Local Authority Audit Committees' to feed into the overall report on the effectiveness of the system of internal audit

#### **4. Recommendation(s)**

4.1. That the Audit Committee:

- a) Approve that the review and report on the effectiveness of the system of internal audit 2011/12 be undertaken by the Monitoring Officer; and
- b) Select a sub-group of Members (supported by relevant officers) to review and assess the operation of the Audit Committee against the relevant CIPFA standards to feed into the overall report of the effectiveness of the system of internal audit.

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

|   |        |
|---|--------|
| <b>Hampshire safer and more secure for all:</b>   | yes/no |
| Corporate Improvement plan link number (if appropriate):  |        |
| <b>Maximising well-being:</b>   | yes/no |
| Corporate Improvement plan link number (if appropriate):  |        |
| <b>Enhancing our quality of place:</b>  | yes/no |
| Corporate Improvement plan link number (if appropriate):  |        |
| <b>OR</b>   |        |
| <b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:</b>  |        |
| 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**

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

| <u>Document</u> | <u>Location</u> |
|-----------------|-----------------|
| 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