

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	27 September 2012
<b>Title:</b>	Effectiveness of the System of Internal Audit
<b>Reference:</b>	4263
<b>Report From:</b>	Director of Corporate Resources

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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. 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. 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 structure.

2.3. 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.

- 2.4. Benchmarking highlighted that many Council's approach remains proportionate through a high level self assessment or independent officer review undertaken by either the Head of Finance or the Monitoring Officer.
- 2.5. 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 Director of Corporate Resource and the Monitoring Officer are considered well placed to meet these requirements
- 2.6. Within the County Council the Director of Corporate Resource (Section 151 officer) maintains line management responsibility for the Chief Internal Auditor, as such to enable true independence it was considered 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.
- 2.7. It was subsequently approved by the Audit Committee (22 March 2012) that the review and report on the effectiveness of the system of internal audit 2011/12 be undertaken by the Monitoring Officer

### **3. 2011/12 Review**

- 3.1. 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."*

#### **3.2. 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.

### 3.3. 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.

In accordance with the Audit Committee recommendation (22 March 2012) the review of Internal Audit compliance against the Code was completed by the County Council's Monitoring Officer.

The Chief Internal Auditor provided an initial assessment against the standards accompanied by documentary evidence to support relevant compliance. The Monitoring Officer then considered each of the standards for compliance concluding 'I am happy in my capacity as the County Council's Monitoring Officer to give my view that the conclusions reached represent a true and fair appraisal'.

The summary of the assessment against the 106 standards highlights:

Compliance		
Yes	Partial	No
104	2	0

In areas of 'partial' or 'no' compliance an action plan has been put in place to stimulate improvement (Appendix 1)

### 3.4. 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.
- 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

### 3.5. Effective, efficient, continuously improving

- i. On 1 February 2012 Hampshire County Council entered into a collaborative partnership with Southampton City Council for the provision of internal audit services

The development of the Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.

The Internal Audit Partnership has a vision to deliver

*“A collaborative Audit Partnership delivering an innovative, customer focussed service aligned to business needs and improved outcomes through:*

- o A seamless, flexible and efficient service working across all partners;*
- o Key specialism’s reflective of and adaptive to business need;*
- o Best practice that is embraced, developed and promoted; and*
- o A forward looking Audit Partnership supporting change and transformation across all partners.”*

- ii. The Internal Audit Strategy 2011-14 ensures it:
  - o aligns with the County Council’s objectives;
  - o is proportionate and focused; and
  - o 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 responsive should the risk environment change during the year.
- iv. The internal audit team have 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 ensures a focused and value adding document, appropriate to its target audience.

### **3.6. 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 demonstrates intended audit coverage of the Council’s objectives.
- iii. One of the key deliverables for internal audit is to provide independent and objective assurance to management on the adequacy or otherwise of the effectiveness of the framework of risk management, control and governance designed to support the achievement of their objectives.

This in itself can be viewed as providing added value to the organisation, however there are a number of other dimensions to the work of internal audit that add value to the organisation:

- Assess and report risk exposure;
  - Improve opportunities to achieve organisational objectives;
  - Identify over control and opportunities for efficiencies; and
  - Identify operational improvements
- iv. The 'Progress Report' presented 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 on a timely basis.
- v. Formal client feedback is sought in respect of each audit assignment conducted by means of a "client feedback survey". For the period 2011/12 the % of positive customer responses to the 'Quality Appraisal Questionnaire' was 94%

### **3.7. 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

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

- 4.1. 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.
- 4.2. It was agreed at the meeting of the Audit Committee (22 March 2012) that a sub-group of Members (supported by relevant officers) would 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.
- 4.3. This review was completed by a sub-group at its meeting on 8 June 2012 and a subsequent report and action plan is detailed on the agenda.

**5. Recommendations**

5.1. That the Audit Committee:

- a) approve the review conducted in assessing the 'Effectiveness of the System of Internal Audit'; and
- b) endorse the Action Plan generated from the review 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>	<u>Reference</u>	<u>Date</u>
Internal Audit Strategy 2011-14	2338	09 Dec 2010
Effectiveness of the System of Internal Audit – Assessment Options	3788	22 Mar 2012
<b>Direct links to specific legislation or Government Directives</b>		
<u>Title</u>	<u>Date</u>	
Accounts and Audit (England) Regulations 2011	<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