

GOVERNANCE AND AUDIT COMMITTEE

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

Head of Southern Internal Audit Partnership

Portfolio: Governance and Logistics – Cllr Jackie Branson

Key Decision: No

1.0 Purpose of Report

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 internal audit'*. The purpose of this paper is to provide the Governance and Audit Committee with an overview of the measures currently in place to monitor and maintain internal audit effectiveness.

2.0 Recommendation

2.1 That the Governance and Audit Committee:

- approve the review conducted in assessing the 'Effectiveness of the System of Internal Audit'; and
- endorse the action plan generated from the assessment against the Public Sector Internal Audit Standards.

3.0 Summary

3.1 The Accounts and Audit (England) Regulations 2011 - S6 states:

'(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

'(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.'

3.2 With effect from 1 April 2013 the 'Public Sector Internal Audit Standards' and the 'Local Government Application Note' together supersede the 2006 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code) as *'proper practices'*.

3.3 The Public Sector Internal Audit Standards encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for Professional Practice of Internal Auditing.

Compliance with proper practices (Public Sector Internal Audit Standards / Local Government Application Note)

- 3.4** In addition to legislative requirements contained with the Accounts and Audit (England) Regulations 2011, the Public Sector Internal Audit Standards require the Chief Internal Auditor to maintain a ‘quality assurance and improvement programme’ which includes provision for both internal and external assessment.
- 3.5** Self- assessments are required to be undertaken annually with external assessments to be conducted at least once every five years by a qualified, independent assessor or assessment team. For 2013/14 a self-assessment against the Public Sector Internal Audit Standards has been undertaken.
- 3.6** The ‘Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards’ provides a checklist that has been developed to enable periodic self-assessment as part of the Quality Assurance and Improvement Programme.
- 3.7** In completion of the self-assessment the Chief Internal Auditor undertook an initial evaluation of the audit service against the checklist, and compiled documentary evidence to verify compliance. To provide independent scrutiny the Deputy Monitoring Officer at Hampshire County Council then considered each of the Standards for compliance against the self assessment and supporting documentation, concluding *‘I am satisfied that this is an accurate assessment of the internal audit function’*.
- 3.8** The summary of the self-assessment against the 341 Standards highlights:

Compliant			
Yes	Partial	No	N/A
322	1	1	17

- 3.9** In areas of ‘partial’ or ‘no’ compliance an action plan has been put in place to stimulate improvement (Appendix 1).

3.10 In addition to compliance against the 'Public Sector Internal Audit Standards' and 'Local Government Application Note' the Southern Internal Audit Partnership demonstrate effective performance management and quality assurance through:

- meeting internal quality standards;
- effective, efficient and continuous improvement; and
- added value and assisting the organisation achieve its objectives.

Meeting internal quality standards

3.11 A comprehensive and up-to-date framework 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 proper practices.

3.12 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.

3.13 The Southern Internal Audit Partnership operates a quality system (ISO 9001:2008) which covers all our audit reviews including irregularity reviews.

3.14 The use of audit management software (MK Insight) enables performance management information to be more readily available, and provides a consistency to the audit process followed.

Effective, efficient and continuously improving

3.15 On 1 February 2012 Hampshire County Council entered into a collaborative partnership with Southampton City Council for the provision of internal audit services to form the Southern Internal Audit Partnership.

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

3.17 The Partnership has grown since its formation and currently incorporates five local authorities (including Havant Borough Council). The Partnership also provides services to a range of clients including Hampshire Police and Crime Commissioner / Hampshire Constabulary, Hampshire Fire & Rescue Authority, Hampshire Pension Fund, the University of Winchester and 12 Further Education establishments.

3.18 Realised benefits since the introduction of the partnership include pooled expertise, economies of scale, flexibility and resilience.

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

- 3.20** The risk-based internal audit plan ensures it:
- aligns with the Council’s objectives;
 - is proportionate and focused; and
 - adds maximum value to the organisation.
- 3.21** The annual audit plan remains fluid and responsive should the risk environment change during the year.
- 3.22** The Southern Internal Audit Partnership 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.
- 3.23** The audit report format ensures a focused and value adding document, appropriate to its target audience.

Adding value and assisting the organisation in achieving its objectives

- 3.24** The ‘Risk-based Audit Plan’ demonstrates intended audit coverage aligned to the Council’s objectives.
- 3.25** 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.
- 3.26** 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.
- 3.27** The ‘Progress Report’ presented to each meeting of the Governance and 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.
- 3.28** Formal client feedback is sought in respect of each audit assignment conducted by means of a “client feedback survey”.

Role of the Governance and Audit Committee

3.29 The Governance and 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 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 Council's assurance statements properly reflect the risk environment and any actions required to improve it; and
- consideration of the Council's compliance with its own and other published standards and controls.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 380 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2011.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register. Havant's Corporate Risk Register as of 31 January 2014 can be accessed using the following link: <http://havant.moderngov.co.uk/documents/s6245/Havant%20Corporate%20Risk%20Register%20as%20at%2031%20January%202014.pdf>

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):

N/A

5.0 Consultation

The report has been discussed and approved by the Management Team who met at the Executive Board on 18 February 2014.

Appendices:

Appendix 1 – Compliance against the Public Sector Internal Audit Standards – Action Plan

Agreed and signed off by:

Legal Services: 18 February 2014

Finance: 13 February 2014

Executive Head of Governance & Logistics: 13 February 2014

Contact Officer: Neil Pitman
Job Title: Head of Southern Internal Audit Partnership
Telephone: 01962 845139
E-Mail: neil.pitman@hants.gov.uk