
Subject:	EFFECTIVENESS OF INTERNAL AUDIT
Meeting and Date:	Governance – 26 June 2014
Report of:	Director of Finance, Housing and Community
Portfolio Holder:	CLlr Mike Conolly, Portfolio Holder for Corporate Resources and Performance
Decision Type:	Non Key
Classification:	Unrestricted

Purpose of the report:	To comply with the Accounts and Audit Regulations 2011 by reporting to Members on the effectiveness of Internal Audit
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Recommendation:	It is recommended that Members receive the report.
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Summary

1. Regulation 6 of the Accounts and Audit Regulations (England) 2011 require the Council to review the effectiveness of the Internal Audit service and to consider the findings of the review in the context of the Annual Governance Statement which is also presented to Governance Committee.

Introduction and Background

2. In order to assess the effectiveness of the system of internal audit, from 1st April 2013 the East Kent Audit Partnership has been working to the Public Sector Internal Audit Standards (PSIAS), defined as the proper practice for Internal audit in the UK Public Sector.
3. A mandatory local government sector-specific application note issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) supplements the Standards. Previously the East Kent Audit Partnership worked to fulfil the requirements of the CIPFA Code of Practice for Internal Audit in the UK 2006. The Head of Audit Partnership reported to Governance on 20 March 2014 and summarised the self-assessment against the Public Sector Internal Audit Standards (PSIAS).
4. The PSIAS cover the following:
 - Attribute Standards address the characteristics of organisations performing the Internal Audit activities.
 - Standard 1000 - Purpose, Authority and Responsibility
 - Standard 1100 -Independence and Objectivity
 - Standard 1200 - Proficiency and Due Professional Care
 - Standard 1300 - Quality Assurance and Improvement Programme

- Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated.
 - Standard 2000 - Managing the Audit Activity
 - Standard 2100 - Nature of Work
 - Standard 2200 - Engagement Planning
 - Standard 2300 - Performing the Engagement
 - Standard 2400 - Communicating Results
 - Standard 2500 - Monitoring Progress
 - Standard 2600 - Communicating the Acceptance of Risks

5. In addition, the review also considered the extent to which the system of internal audit added value to the organisation and how it helped deliver the council's objectives. To help assess this, the following factors were taken into account:

- The percentage of productive time (83%).
- Feedback from Senior Management
- The extent to which the external auditors (Grant Thornton, formally the Audit Commission) place reliance on internal audit in relation to the key systems' controls
- The Section 151 Officer meetings to review the performance of internal audit

The review of the effectiveness of the internal audit function

6. The internal audit function is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Dover, Shepway and Thanet. As a result of this collaborative approach the partnership is able to be robustly resourced and provides a mechanism for sharing best practice to the East Kent authorities that use its service.
7. The partnership provides regular updates to the Audit and Standards Committee at each of its meetings.
8. The external auditors, Grant Thornton, have conducted a review in February 2014 of the Internal Audit arrangements. They have concluded that, where possible, they can place reliance on the work of the EKAP.
9. The EKAP also demonstrates that it is committed to continuous improvement having various measures with the performance measures and indicators for the year being reported on a Balance Scorecard of Performance Indicators.
10. The Head of EKAP and her deputy meet regularly with Director of Finance, Housing and Community (the S151 officer) to monitor performance against the Audit Plan and to discuss any matters arising in relation to the performance of the Audit Partnership.
11. The Director is able to assure Members that Partnership operates to appropriate professional standards and fosters a good working relationship with management, while maintaining the unfettered independence required to take a sufficiently independent perspective.

12. Feedback from the audits and any other matters arising from the work of the partnership are considered at regular meetings that are held between the Section 151 Officers of each of the partnering councils and the auditors to address any issues, to ensure the internal audit function continues to operate in an effective manner, and remains compliant with the requirements of the new PSIAS.
13. In reviewing the work of internal audit during 2013/14 the plan was completed and for the bulk of audits an assurance level of either substantial or reasonable was awarded. These included Food Safety, Coast Protection, Capital, Treasury Management, Main Accounting System, Budgetary Control and Performance Management. The Data Protection review demonstrates internal audit's contribution to mitigating risk and improving controls with a previous assurance level of limited which has now been assessed as reasonable.
14. EKAP's self-assessment in 2013/14 reported general compliance with the new PSIAS, and an action plan was set out in the report to Governance on 20th March 2013 for those improvements required to achieve full compliance with the new standard. The self-assessment concluded that EKAP complies in all other areas.
15. Areas where action is required included:
 - An update to the Audit Charter
 - Requirement of an external assessment to be carried out in the next four years
 - Confirm annually that EKAP is organisationally independent.
16. The progress towards achieving the improvement actions contained in the Action Plan is also reported elsewhere on this agenda in the 'Internal Audit Annual Report'. The new standards also require an update to the Audit Charter incorporating the (currently separate) Audit Strategy and this is also included in the 'Internal Audit Annual Report'.

CONCLUSION

17. The conclusion of the review was that the effectiveness of internal control gives sufficient assurance to enable the Annual Report provided by the Head of EKAP to be relied upon. The council can be confident in the context of EKAP's contribution to the council's Annual Governance Statement.
18. The review enables the council to demonstrate its compliance with Regulation 6 of the Accounts and Audit Regulations 2011.

RISK MANAGEMENT ISSUES

19. The key risks and mitigations are set out below.

Risk	Impact	Likelihood	Mitigation
The system of Internal Audit may not be effective or robust.	High	Low	Risk based approach to audit planning. Appropriate quality control of internal audit reviews.

Risk	Impact	Likelihood	Mitigation
Accounts may be qualified due to failure to assess the effectiveness of the internal audit system.	High	Low	Robust scrutiny of the effectiveness of internal audit.

Corporate Implications

20. Comment from the Section 151 Officer: The Section 151 Officer has been involved in the production of this report and has no comments to add (MD).
21. Comment from the Equalities Officer: This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15>

Background Papers

22. The Accounts and Audit Regulations (England) 2011
I:\Accountancy\Closing\2013-14\Assurance Statements and Letters\Review of the Effectiveness of Internal Audit.doc
23. Contact Officer: Director of Finance, Housing and Community