



Haringey Council

Agenda item:

Audit Committee

On 2 June 2009

Report Title: **The review of the Effectiveness of the system of Internal Audit**

Report authorised by: **Chief Financial Officer**

Report of and Contact Officer: Anne Woods, Head of Audit and Risk Management

Tel: 020 8489 5973

Email: anne.woods@haringey.gov.uk

Wards(s) affected: **All**

Report for: **Non-key decision**

1. Purpose of the report

1.1 To inform Members of the requirements of the Accounts and Audit (amendment) (England) Regulations 2006 and the action taken to address these.

2. State link(s) with Council Plan Priorities and actions and/or other Strategies:

2.1 Audit and Risk Management contribute to the Council priority to deliver excellent, customer focused, cost effective services by reviewing key services and making recommendations for improvement where appropriate. Follow up work is undertaken to ensure that managers implement agreed recommendations and improvements.

2.2 Internal audit forms a key element within the revised Use of Resources assessment and will continue to be part of the CAA from 2009 onwards. Ensuring that internal audit complies with relevant statutory and best practice guidance in delivering their services ensures that the requirements of the CAA assessment are fulfilled.

3. Recommendations

3.1 That the Audit Committee notes the findings of the review of the effectiveness of the system of internal audit.

3.2 That the Audit Committee approves the action plan to address the identified areas for development.

4. Reason for recommendation(s)

4.1 The Audit Committee is responsible for reviewing the effectiveness of the internal audit terms service as part of its own Terms of Reference. In order to facilitate this, an independent review of internal audit's services is completed on an annual basis to ensure compliance with relevant statutory requirements and best practice guidance.

5. Other options considered

5.1 Not applicable

6. Summary

6.1 The internal audit service makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the authority. This report provides an independent assessment of internal audit's compliance with statutory and best practice requirements.

7. Head of Legal Services Comments

7.1 The Report from Havering Council outlines no major issues regarding non compliance. The sole action point regarding a review of our audit process by the Head of Audit is a required and ongoing process already timetabled in by the Head of Audit. That commitment is to continue to be met and in so doing the sole action point coming from this April 2009 Peer Review will also be met.

8. Chief Financial Officer Comments

8.1 The Chief Financial Officer notes the contents of the report and the positive outcome of the independent review of the effectiveness and overall compliance of the internal audit team and has no further comments to make.

9. Head of Procurement Comments

9.1 Not applicable

10. Equalities and Community Cohesion Comments

10.1 This report deals with how internal audit is provided and managed across all areas of the council. Improvements in managing risks and controls will improve services the Council provides to all sections of the community.

11. Consultation

11.1 No external consultation was required or undertaken in the production of this report.

Consultation is undertaken with respective service managers, Assistant Directors and Directors in the production of the annual internal audit plan, risk registers and internal audit reports and follow up programmes, which is in accordance with the requirements of the CIPFA code of practice and the Accounts and Audit Regulations.

12. Service Financial Comments

12.1 There are no direct financial implications arising from this report. The work within internal audit to comply with the CIPFA Code of Practice and Accounts and Audit Regulations is part of the contract with Deloitte and Touche which was awarded following a competitive tendering exercise in compliance with EU regulations from 1 April 2007. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget. The remainder of the audit work is undertaken by in-house staff which are funded by the revenue budget.

13. Use of appendices

13.1 Appendix A – Independent report on the review of effectiveness of internal audit.

14. Local Government (Access to Information) Act 1985

14.1 List of background documents:

The following background documents were used in production of this report:

- Accounts and Audit (amendment) (England) Regulations 2006.

15. Background

15.1 Regulation 4 of the Accounts and Audit Regulations (2003) required audited bodies to conduct a review at least once a year of the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year with the authority's financial statements.

15.2 The Accounts and Audit (Amendment) (England) Regulations 2006 came into force on 1 April 2006. Whilst many of the amendments clarify or correct elements of the 2003 Regulations, and all are relevant in relation to the operation of the internal audit function, two of the amended regulations in particular have an impact on the process for preparing the AGS, namely:

- Regulation 4 – requires the findings of the review of the system of internal control to be considered by a committee of the relevant body, or by members of the body meeting as a whole.

- Regulation 6 – requires bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in regulation 4.

15.3 The requirement to review Internal Audit does not specify what the review should consist of, nor does it state who should undertake this task. However, as the Audit Committee has responsibility for approving the Annual Governance Statement (AGS), it is considered appropriate that this Committee should have responsibility for approving how the new responsibility under Regulation 6 is discharged.

15.4 This report provides the Audit Committee with references to existing procedures, sources of information and measures in place in order to assist in being able to reach a conclusion on the adequacy and effectiveness of the Internal Audit Service.

15.5 In order to assess compliance with the amended regulations, Haringey's Internal Audit service was independently reviewed. The review was based on the revised CIPFA Code of Practice for Internal Audit in Local Government which was issued in December 2006 and covered the requirements of the Accounts and Audit Regulations.

16. Existing Processes and Sources of Assurance

16.1 The Council's Constitution contains the relevant statutory requirements for Internal Audit, and identifies the s151 Officer. Responsibilities of managers in relation to the management of risk and fraud are also included within the Constitution.

16.2 Audit and Risk Management follow the CIPFA Code of Practice for Internal Audit in Local Government 2006 which covers the following areas:

- Scope of Internal Audit
- Independence
- Ethics
- Audit Committees
- Relationships
- Staffing, Training and Continuing Professional Development
- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness

16.3 In addition, members may gain assurance on the effectiveness of the system of internal audit from a number of other sources, including:

- The Constitution (overall governance arrangements)
- Management Structure (Directors Annual Assurance Statements)
- Audit Committee (terms of reference)
- Audit Commission (CPA and Use of Resources reviews)

- External Audit reports (Annual Audit and Inspection Letter)
- Annual Internal Audit Report
- Training provided (e.g. briefing sessions for Audit Committee).

17. The Independent Review

17.1 In order to comply with the Accounts and Audit Regulations, arrangements were made to carry out reciprocal peer group reviews of compliance with the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.

17.2 Previously, Haringey Council has undertaken peer reviews with the Royal Borough of Kensington and Chelsea and Waltham Forest Council. For the review of 2008/09's work, the review process was extended to include a total of eight London boroughs: Havering; Redbridge; Tower Hamlets; Kensington and Chelsea; Waltham Forest; Barking and Dagenham; Newham; and Haringey.

17.2 The approach for the peer review was developed with reference to appropriate standards and available guidance. A Standard assessment template and guidance was used, based on the CIPFA Code and Accounts and Audit Regulations and a Terms of Reference for the review was agreed. This ensured that the approach for all authorities was consistent.

17.3 In order to reach an opinion, the Internal Audit function at Haringey was compared against the requirements of the CIPFA Code of Practice. A visit to Haringey's Internal Audit department was made by the London Borough of Havering and evidence of compliance against the CIPFA Code of Practice checklist was reviewed.

17.4 Based on the review undertaken, the Haringey's Internal Audit function was found to comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

17.5 The London Borough of Havering issued a report on their findings, which is attached at Appendix A. The report details the work undertaken and no high priority recommendations were made. One recommendation was made in order to fully meet the CIPFA Code of Practice and Accounts and Audit Regulations.

17.6 In order to address the one recommendation made an action plan was included within the reports at Appendix A. The recommendation has been agreed and is included below for approval.

Rec No	Recommendation	Management Response
1	The Head of Audit & Risk Management should arrange to review the quality, performance and effectiveness of the service as a whole. The results should be reported to management and the Audit Committee.	Agreed.
Rep Ref	Responsible Officer	Target Date
2.2.11	Head of Audit & Risk Management	31 st December 2009



Havering
LONDON BOROUGH

Internal Audit

2nd Floor

Mercury House, Mercury Gardens
Romford RM1 3SL

Telephone: 01708 433733

Fax: 01708 432604

email: vanessa.bateman@havering.gov.uk

Audit Reference: Peer Review 09

Date: 5th May 2009

Memo

From: Vanessa Bateman, Interim Audit Services Manager LB Havering.

To: Anne Woods, Head of Audit & Risk Management LB Haringey.

AUDIT REPORT: Review of the Internal Audit Service: London Borough of Haringey

I have recently carried out a review of your Internal Audit Service, in accordance with agreed terms of reference, to ascertain how well its working practices comply with the "CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006". I am pleased to report that there was no major issues of concern to report.

Please find attached a copy of their audit report including management action plan.

I feel that this review has been of benefit hopefully to both authorities particularly in providing further assurance in demonstrating the effectiveness of the Internal Audit function and evidencing such as part of the Annual Governance Statement process.

I should like to take this opportunity to thank you for your assistance with this process. If you have any queries on this matter, please contact me on the above number.

Vanessa Bateman

Interim Audit Services Manager



Havering
LONDON BOROUGH

PEER REVIEW 2009

Vanessa Bateman

Date: 28th April 2009

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1. Introduction to Peer Review

1.1 Introduction

1.1.1 The Accounts and Audit (Amendment) (England) Regulations 2006 states that:

(a) An authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.

(b) The authority shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit.

1.1.2 Circular 03/2006 provided by the Department for Communities and Local Government states that the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 would be acceptable as the appropriate professional guidance to determine what is "proper practice".

1.1.3 In order to ensure that a robust review of the internal audit service has been carried out, it has been agreed that in addition to the internal reviews carried out, peer reviews would be carried out ensure that an external review has also taken place. For the 2009 review LB Haringey and LB Havering will complete the external reviews of each others self assessment.

1.2. Scope

1.2.1 The aim of the audit was to meet the following three objectives:

Objective 1: To determine and assess the performance and effectiveness of the internal audit function against professional and local standards.

Objective 2: To identify good practice and make recommendations for ensuring that the Authority's internal audit function is continuously seeking to improve its service and adds value as well as contributes to the organisations strategic objectives / priorities and the effectiveness of and internal control framework.

Objective 3: To provide independent assurance to members, management and the authority's residents, key partners / stakeholders as to the effectiveness of internal audit and the internal control framework.

1.2.2 The "Check List – Compliance with the Code of Practice for Internal Audit 2006" formed the basis of the review. The LB Haringey provided me with a duly completed checklist and accompanying evidence pack.

2. Management Summary

2.1 Background

LB Haringey had previously completed the self assessment and peer review process in liaison with the Royal Borough of Kensington & Chelsea and Waltham Forest Council.

This years review was undertaken by referring to an evidence file provided by the Head of Audit & Risk Management and by considering the recommendations, and evidence of completion, arising from the previous review.

2.2 Summary of Findings

2.2.1 Scope of Internal Audit

The 2008 recommendation in this area relating to the regular review of the Terms of Reference for Internal Audit had been implemented and evidence was provided.

2.2.2 Independence

Evidence was provided regarding formal declarations of conflicts of interest which addressed the 2008 recommendation in this area.

2.2.3 Ethics for Internal Auditors

No issues were identified within this area.

2.2.4 Audit Committees

No issues were identified within this area.

2.2.5 Relationships

It was noted that the relationships with other regulators and inspectors had been defined in the team's procedures shortly after the last peer review.

2.2.6 Staffing, Training and Continuing Professional Development

No issues were identified within this area.

2.2.7 Audit Strategy and Planning

No issues were identified within this area.

2.2.8 Undertaking Audit Work

No issues were identified within this area.

2.2.9 Due Professional Care

No issues were identified within this area.

2.2.10 Reporting

No issues were identified within this area.

2.2.11 Performance, Quality & Effectiveness

One action in this area remains outstanding and although some preparations had been made a review of the quality, performance and effectiveness of the service as a whole is yet to be completed and reported to management and the Audit Committee.

2.3 Audit Opinion

A score of 379 has been achieved out of a possible 382 which places the review in the 'Full Compliance' category, meaning the standard has been achieved.

This report contains one medium priority recommendation.

3. Management Action Plan

Rec No	Recommendation	Management Response
1	The Head of Audit & Risk Management should arrange to review the quality, performance and effectiveness of the service as a whole. The results should be reported to management and the Audit Committee.	Agreed.
Rep Ref	Responsible Officer	Target Date
2.2.11	Head of Audit & Risk Management	31 st December 2009