



Haringey Council

Agenda item:

Audit Committee

On 24 **June** 2010

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

Report authorised by: Director of Corporate Resources

J Pearce 16/6/10

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

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Wards(s) affected: All

Report for: Information

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.
- 1.2 To advise Members of the outcome of the independent review of Haringey's internal audit service.

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.

3. Recommendations

- 3.1 That the Audit Committee notes the findings of the review which confirms that Haringey's internal audit service fully complies with the CIPFA Code of Practice.
- 3.2 That the Audit Committee notes the action taken to address the recommendation made.

4. Reason for recommendation(s)

- 4.1 The Audit Committee is responsible for reviewing the effectiveness of the internal

audit 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 and the outcome reported to the Audit Committee 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 Head of Legal Services has been consulted in the preparation of this report, and in noting the findings of the peer review of the Council's internal audit service conducted by the Royal Borough of Kensington and Chelsea, coupled with the action plan put in place to meet the one low priority action point identified, confirms that there are no legal implications which arise out of the report or its recommendations.

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, Directors and Assistant Chief Executives 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 CIPFA Code of Practice for Internal Audit in Local Government which was issued in December 2006 and incorporated all 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 as the principal Council officer responsible for ensuring that the authority has an effective internal audit function. 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 (Director's 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 For the review of the Council's audit function in 2009/10, the review process was undertaken by four London boroughs: Camden; Enfield; Kensington and Chelsea; and Haringey. It is intended to rotate the reviewing responsibilities for authorities in future years.

Authority	Reviewed by
Haringey	Kensington and Chelsea
Kensington and Chelsea	Enfield
Camden	Haringey
Enfield	Camden

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 four 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 review of Haringey's Internal Audit function was made by the Royal Borough of Kensington and Chelsea and evidence of compliance against the CIPFA Code of Practice checklist was reviewed.

17.4 Based on the review undertaken, 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 Royal Borough of Kensington and Chelsea issued a report on their findings in May 2010, which is attached at Appendix A. The report details the work undertaken and no high priority recommendations were made. One low priority recommendation was made in order to fully meet the CIPFA Code of Practice and Accounts and Audit Regulations. A separate report on this agenda (annual audit report) contains the information which demonstrates how this recommendation has been addressed.

***London Borough of Haringey
Peer Review of Internal Audit***

FINAL AUDIT REPORT

May 2010

Report circulated to: Anne Woods– Head of Audit and Risk Management

Prepared by: Steve Armstrong –Audit Manager
Royal Borough of Kensington and Chelsea

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EXECUTIVE SUMMARY

1. The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires that a "relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices". These regulations also require that provision for Internal Audit must be made in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.
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, two of the amended regulations in particular have an impact on this review:
 - **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.
3. To comply with these requirements arrangements have been made with a group of London Councils, 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. The reviews affecting the London Borough of Haringey 2009/10 have been arranged as follows:

Council	Reviewed By
London Borough of Haringey	Royal Borough of Kensington and Chelsea
Royal Borough of Kensington and Chelsea	London Borough of Enfield
London Borough of Camden	London Borough of Haringey
London Borough of Enfield	London Borough of Haringey

4. This report details the results of the review carried out by the Royal Borough of Kensington and Chelsea of the effectiveness of the London Borough of Haringey's system of internal audit.
5. In order carry out this review Internal Audit at the London Borough of Haringey was compared against the requirements of the CIPFA Code of Practice for Internal Audit. The reviewer compared evidence of compliance against the CIPFA Code of Practice checklist. The Code of Practice comprises the following eleven standards and the checklist addressed all of these detail to ensure compliance:

- Scope of Internal Audit
 - Independence
 - Ethics for Internal Auditors
 - Audit Committees
 - Relationships
 - Staffing, Training and Continuing Professional Development
 - Audit Strategy and Planning
 - Undertaking Audit Work
 - Due Professional Care
 - Reporting
 - Performance, Quality and Effectiveness
6. The outcome of the assessment of effectiveness from 2008/09 was taken into account, and this review included a follow up of last years recommendations together with re-testing key areas of evidence and assessing any changes.
7. A summary of the findings of the review are attached at Appendix A. No high priority recommendations were made as part of this review. **The London Borough of Haringey's system of internal audit was found to be compliant with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.**
8. One low priority area for development was identified as part of this review and a recommendation was made to address the issue: an action plan is attached at Appendix B. The recommendation is summarised below:
- The review of the effectiveness of Internal Audit should be presented to Audit Committee.

CIPFA Code of Practice - Standards

2006 Code standard	Evidence of Achievement	Areas for development / comments
<p>1. Scope of Internal Audit</p> <ul style="list-style-type: none"> •Terms of reference •Scope •Responsibilities in respect of: <ul style="list-style-type: none"> -Other organisations -Fraud and corruption 	<p>1.1 Terms of reference reflecting the current CIPFA Code of Practice were approved by the Audit Committee in June 2009. The terms of reference are reviewed annually and put to Audit Committee for approval.</p> <p>1.2 The scope of audit work takes into account risk management processes and wider internal control.</p> <p>1.3 The terms of reference define audit responsibilities in relation to fraud and consultancy work.</p>	<p>No issues were identified within this area.</p>

London Borough of Haringey Peer Review of Internal Audit – May 2010

2006 Code standard	Evidence of Achievement	Areas for development / comments
<p>2. Independence</p> <ul style="list-style-type: none"> • Organisational independence • Status of Head of Internal Audit • Independence of individual internal auditors • Independence of internal audit contractors • Declaration of interest 	<p>2.1 Internal Audit is independent of the activities it audits. 2.2 The Head of Audit has direct access to those charged with governance, members and officers as necessary. 2.3 No conflict of interests between operational responsibilities and audit was found. 2.4 Formal declarations of interest are in place for all in-house staff and the Deloitte manager. The internal audit partners (Deloitte) require there staff to complete similar declarations.</p>	<p>No issues were identified within this area.</p>
<p>3. Ethics</p> <ul style="list-style-type: none"> • Integrity • Objectivity • Competence • Confidentiality 	<p>3.1 Staff are regularly reminded of their ethical responsibilities and the main principles have been defined in the Audit Manual. 3.2 Internal Audit has established an environment of trust, confidence and confidentiality.</p>	<p>No issues were identified within this area.</p>

London Borough of Haringey Peer Review of Internal Audit – May 2010

2006 Code standard	Evidence of Achievement	Areas for development / comments
<p>4. Audit Committee</p> <ul style="list-style-type: none"> • Purpose of the Audit Committee • Internal Audit's relationship with the Audit Committee 	<p>4.1 The Audit Committee approves and monitors Internal Audit's terms of reference, strategy and plan and monitors progress.</p> <p>4.2 The Head of Audit attends Audit Committee meetings, reports on the outcome of internal audit work, identifies necessary changes to the audit plan, and presents an annual report and opinion or assurance on the internal control and risk management framework.</p> <p>4.3 The Head of Audit has the facility to meet privately with the Committee.</p>	<p>No issues were identified within this area.</p>

London Borough of Haringey Peer Review of Internal Audit – May 2010

2006 Code standard	Evidence of Achievement	Areas for development / comments
5. Relationships <ul style="list-style-type: none"> •With management •With other internal auditors •With external auditors •With other regulators and inspectors •With elected Members 	5.1 Good working relationships have been defined and established with management, external audit and elected members. 5.2 Relationships with other regulators and inspectors have been defined.	No issues were identified within this area.
6. Staffing, Training and Development <ul style="list-style-type: none"> •Staffing •Training and CPD. 	6.1 Internal Audit are appropriately staffed to achieve their objectives and comply with the Code standards. 6.2 Relevant staff are required to complete CPD.	No issues were identified within this area.

London Borough of Haringey Peer Review of Internal Audit – May 2010

2006 Code standard	Evidence of Achievement	Areas for development / comments
<p>7. Audit Strategy and Planning</p> <ul style="list-style-type: none"> •Strategy •Planning •Adherence to the Standard 	<p>7.1 The Audit Strategy is reviewed and presented to Audit Committee annually and is compliant with the requirements of the CIPFA Code of Practice.</p> <p>7.2 The Audit Plan is prepared in accordance with the strategy and is approved by the Audit Committee. The corporate risk register is used as the basis of the plan. The Head of Audit also carries out a risk assessment.</p> <p>7.3 Stakeholders are consulted on the plan.</p>	<p>No issues were identified within this area.</p>
<p>8. Undertaking Audit Work</p> <ul style="list-style-type: none"> •Planning •Approach •Recording Audit Assignments 	<p>8.1 An appropriate audit brief is prepared and agreed with management for each audit.</p> <p>8.2 A risk-based approach is used and issues are discussed with management as they arise.</p> <p>8.3 Standards of working papers are specified and checked as part of the file review.</p> <p>8.4 Adequate document retention and access policies are in place.</p>	<p>No issues were identified within this area.</p>

London Borough of Haringey Peer Review of Internal Audit – May 2010

2006 Code standard	Evidence of Achievement	Areas for development / comments
<p>9. Due Professional Care</p> <ul style="list-style-type: none"> • Responsibilities of the individual auditor • Responsibilities of the Head of Internal Audit • Head of Internal Audit reviews all audit files and reports. • Appraisal and training 	<p>9.1 All internal auditors are aware of their individual responsibilities for due professional care, and arrangements are in place to monitor this.</p> <p>9.2 Work is assigned so as to avoid potential conflicts of interest.</p> <p>9.3 Procedures and policies are in place for the disclosure of fraud, corruption or improper conduct.</p>	<p>No issues were identified within this area.</p>

London Borough of Haringey Peer Review of Internal Audit – May 2010

2006 Code standard	Evidence of Achievement	Areas for development / comments
<p>10. Reporting</p> <ul style="list-style-type: none"> •Reporting on audit work •Annual reporting 	<p>10.1 Standards have been set-out for audit reports, and each report gives an opinion on the control environment and risk exposure.</p> <p>10.2 Draft reports are discussed with management and action plans agreed in response to recommendations made.</p> <p>10.3 Assurances are sought from managers on delivery of agreed actions and an escalation procedure has been defined and is used as appropriate.</p> <p>10.4 An annual report to support the Annual Governance Statement is presented to the Audit Committee. The report includes the opinion on the control environment and any qualifications to that opinion. The work on which the opinion is based is set out in the report and significant issues are highlighted. The report compares the actual work undertaken with that planned.</p>	<p>No issues were identified within this area.</p>

London Borough of Haringey Peer Review of Internal Audit – May 2010

2006 Code standard	Evidence of Achievement	Areas for development / comments
<p>11. Performance, quality and effectiveness</p> <ul style="list-style-type: none"> •Principles of performance, quality and effectiveness •Quality assurance of audit work •Performance and effectiveness of the internal audit service 	<p>11.1 Policies and procedures are defined in the audit manual.</p> <p>11.2 The Head of Audit has adequate arrangements in place to assess the performance and effectiveness of each audit, and to measure performance of the quality of the internal audit process and the internal control environment. Internal audit continue to monitor performance standards and targets.</p> <p>11.3 Audits are assigned according to the skills, experience and competencies required for the work. Audit work is appropriately supervised and monitored throughout.</p> <p>11.4 A performance management and quality assurance programme is in place.</p> <p>11.5 Client satisfaction surveys are issued with each final report and are reported by the Head of Audit to Audit Committee.</p> <p>11.6 Arrangements have been made for periodic reviews to ensure compliance with the Code of Practice and the audit manual and processes.</p>	<p>A recommendation from the last peer review regarding undertaking a review of the effectiveness of the internal audit service as a whole remains in progress. The review has been undertaken however it has not yet been reported to Audit Committee.</p>

Audit: London Borough of Haringey Peer Review of Internal Audit

Client: Head of Audit and Risk Management **ACTION PLAN** **Date:** May 2010

Report Ref.	Recommendation	Agreed Action	Implem. Date	Responsible Officer
11	The review of the effectiveness of Internal Audit should be presented to Audit Committee. (Low Priority)	Agreed The effectiveness review details will be included in the annual report by the Head of Audit to the Audit Committee at the next meeting.	July 2010	Head of Audit and Risk Management

Appendix B

Audit: London Borough of Haringey Peer Review of Internal Audit

ACTION PLAN

Client: Head of Audit and Risk Management

Date: May 2010

Priority Rating:

HIGH	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
MEDIUM	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
LOW	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.