



Haringey Council

Agenda item:

[No.]

Audit Committee

On 12 May 2008

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

Forward Plan reference number (if applicable): **N/A**

Report of: **Head of Audit and Risk Management**

Wards(s) affected: **All**

Report for: **Non-key decision**

1. Purpose

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. Recommendations

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

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

Report Authorised by: **Chief Financial Officer**

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3. Local Government (Access to Information) Act 1985

3.1 List of background documents:

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

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

4. Background

- 4.1 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.
- 4.2 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.
- 4.3 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.
- 4.4 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.
- 4.5 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.

5. Existing Processes and Sources of Assurance

- 5.1 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.
- 5.2 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

5.3 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 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).

6. The Independent Review

6.1 In order to comply with the Accounts and Audit Regulations, arrangements were made between the London Borough of Haringey (LBH), the London Borough of Waltham Forest (LBWF) and the Royal Borough of Kensington and Chelsea (RBKC) 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.

6.2 The approach was developed with reference to appropriate standards and available guidance and a Terms of Reference for the review was agreed.

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

6.4 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).

6.5 RBKC issued a report on their findings, which is attached at Appendix A. The report details the work undertaken and, although no high priority recommendations were made, identifies some areas for improvement in order to fully meet the CIPFA Code of Practice and Accounts and Audit Regulations.

6.6 In order to address these, an action plan has been drawn up and is attached at Appendix B for approval.

7. Recommendations

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

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

London Borough of Haringey
Review of the Effectiveness of the System of Internal
Audit
FINAL AUDIT REPORT

April 2008

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

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. 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 a statement on internal control (SIC) each year with the authority's financial statements.
3. 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 the process for preparing the SIC:
 - **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.
4. To comply with these requirements arrangements have been made with the London Borough of Haringey and Waltham Forest Council, 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 for 2007/2008 have been arranged as follows:

Council	Reviewed By
London Borough of Haringey	Royal Borough of Kensington and Chelsea
Waltham Forest Council	London Borough of Haringey
Royal Borough of Kensington and Chelsea	Waltham Forest Council

5. 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.
6. 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 visited Haringey's Audit department and 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
7. A detailed 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. A small number of areas for development were identified as part of this review and recommendations were made to address these issues. These are summarised below:
 - The terms of reference should be regularly reviewed and presented to Audit Committee for approval.
 - Audit staff should formally declare conflicts of interest annually.
 - Relations with other regulators and inspectors should be defined.
 - The Head of Audit 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.

Appendix A

CIPFA Code of Practice - Standards

2006 Code standard	Evidence of Achievement	Areas for development
<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 Code of Practice were approved by the Audit Committee on 26 April 2007. It is planned to review the terms of reference and re-present them to the Audit Committee during 2008/2009.</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>The terms of reference should be regularly reviewed and presented to Audit Committee for approval.</p>

2006 Code standard	Evidence of Achievement	Areas for development
<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.</p> <p>2.2 The Head of Audit has direct access to those charged with governance, members and officers as necessary.</p> <p>2.3 Reports are in the Head of Audit's own name to both management and the Audit Committee.</p> <p>2.4 No conflict of interests between operational responsibilities and audit was found.</p> <p>2.5 Although auditors are required to declare conflicts of interests as part of the audit planning process, audit staff are not required to make formal declarations of interest.</p>	<p>Audit staff should formally declare conflicts of interest.</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.</p> <p>3.2 Internal Audit has established an environment of trust, confidence and confidentiality.</p> <p>3.3 Staff rotation is part of normal processes.</p> <p>3.4 The Head of Audit ensures that staff have sufficient knowledge of the organisation and specific audit area in order to fulfil the scope of audit work.</p>	

2006 Code standard	Evidence of Achievement	Areas for development
<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 Audits 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 Audit Committee carries out an annual review of their own remit and effectiveness.</p> <p>4.4 The Head of Audit has the facility to meet privately with the Committee.</p>	

2006 Code standard	Evidence of Achievement	Areas for development
<p>5. Relationships</p> <ul style="list-style-type: none"> •With management •With other internal auditors •With external auditors •With other regulators and inspectors •With elected Members 	<p>5.1 Good working relationships have been defined and established with management, external audit and elected members.</p> <p>5.2 Relationships with other regulators and inspectors have not been as well explored.</p>	<p>Relations with other regulators and inspectors should be defined.</p>
<p>6. Staffing, Training and Development</p> <ul style="list-style-type: none"> •Staffing •Training and CPD. 	<p>6.1 Internal Audit are appropriately staffed to achieve their objectives and comply with the Code standards.</p> <p>6.2 Individual training and development plans have been agreed through the appraisal process and are being delivered.</p> <p>6.3 Professional staff are required to complete CPD.</p>	

2006 Code standard	Evidence of Achievement	Areas for development
<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 complies with the Code of Practice and has been formally approved by the Audit Committee. It is reviewed annually, and specifies the resources and skills required for it's delivery.</p> <p>7.2 The Audit Plan has been prepared in accordance with the strategy and was approved by the Audit Committee. The corporate risk register has been used as the basis of the plan. The Head of Audit has also carried out a risk assessment.</p> <p>7.3 Stakeholders were consulted on the plan.</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 were in place.</p>	

2006 Code standard	Evidence of Achievement	Areas for development
<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 e.g. Anti-Fraud strategy and Whistle-blowing policy.</p>	

2006 Code standard	Evidence of Achievement	Areas for development
<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 Issues are referred as necessary, to ensure that risk registers are up-dated.</p> <p>10.5 An annual report to support the Statement on Internal Control 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>	

2006 Code standard	Evidence of Achievement	Areas for development
<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, however the effectiveness of the service as a whole is not formally appraised.</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 feedback forms are issued with each final report and are summarised in the annual report.</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>The Head of Audit 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.</p>

Appendix B

INTERNAL AUDIT REVIEW OF EFFECTIVENESS 2007/08 – ACTION PLAN

Recommendation	Response	Responsibility & Implementation Date
<p>The terms of reference should be regularly reviewed and presented to Audit Committee for approval.</p>	<p>Agreed. The Terms of Reference were last reviewed and approved in April 2007, but will be reviewed on an annual basis and presented to the Audit Committee for formal approval.</p>	<p>Head of Audit July 2008</p>
<p>Audit staff should formally declare conflicts of interest (or provide a NIL return).</p>	<p>Agreed. A formal declaration, or a NIL return, will be provided and retained for review. The Internal audit manual will be updated to reflect this requirement.</p>	<p>Head of Audit June 2008</p>
<p>Relations with other regulators and inspectors should be defined.</p>	<p>Agreed. The relationships with other regulators and inspectors will be formally defined in a protocol and will be included in the audit manual.</p>	<p>Head of Audit August 2008</p>
<p>The Head of Audit 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.</p>	<p>Agreed. A formal review of the Internal Audit Service as a whole will be undertaken and the outcome presented to Audit Committee.</p>	<p>Head of Audit October 2008</p>