

AUDIT COMMITTEE

21 June 2010

Subject:	Review of the effectiveness of the council's Internal Audit arrangements 2009/10
Director:	Jim McDonald
Decision Issues:	These matters are within the authority of the Committee
Decision type:	Non-key This report is open to the public.
CCC Ward(s):	All
Summary:	<i>This report presents the review of the effectiveness of the council's internal audit arrangements for 2009/10 as required by The Accounts and Audit (Amendment) (England) Regulations 2006.</i>
To Recommend:	That the Audit Committee accept the findings of the review of the effectiveness of the council's internal audit arrangements for 2009/10.
Next stage in process	None, if recommendation agreed.

SUPPORTING INFORMATION

1. Introduction

- 1.1 The Accounts and Audit (Amendment) (England) Regulations 2006 impose on councils the need to undertake a regular review of their internal control arrangements; specific requirements are that:
- The findings of the review of the system of internal control are considered by a committee of the relevant body, or by members of the body meeting as a whole. (Regulation 4 refers).
 - The effectiveness of their system of internal audit are reviewed at least 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 (Regulation 6 refers).
- 1.2 Subsequent guidance issued by the Department for Communities and Local Government indicates that the actions in paragraph 1.1 above do not require the establishment of an audit committee to undertake the exercise, although such a committee would provide an appropriate means through which to consider the findings of the review. In the case of Canterbury City Council this responsibility is within the delegated powers of the Audit Committee.
- 1.3 In line with the CIPFA guidance document 'Delivering Good Governance in Local Government' the council is also obliged to publish an Annual Governance Statement

(AGS) within its Annual Accounts. The draft AGS for Canterbury for 2009/10 will be coming before the Audit Committee at this meeting.

- 1.4 The AGS reflects the council's overall governance arrangements and the effectiveness of these, based on evidence and assurances gained from a number of different sources, which includes information from the East Kent Audit Partnership (EKAP). The review of the effectiveness of the council's internal audit arrangements is therefore very important in order to add credence to the assurances gained from the findings of the Audit Partnership.
- 1.5 It should be noted that this review is primarily about effectiveness, not process. In essence the need for the review is to ensure that the opinion in the annual report of the internal auditors may be relied upon as a key source of evidence for the Annual Governance Statement.
- 1.6 This report presents the findings of the review of the effectiveness of the internal audit arrangements for Canterbury City Council for 2009/10.

2.0 Review of the effectiveness of the internal audit function.

- 2.1 The internal audit function is performed by the East Kent Audit Partnership (EKAP) which provides internal audit services to the councils of Dover, Shepway and Thanet, as well as to Canterbury. As a result of this collaborative approach the partnership is able to be robustly resourced and provide a mechanism for promulgating best practice to the East Kent authorities that use its services.
- 2.2 The auditors are independent to the management of the council and have direct access to the Chair of the Audit Committee if required. They provide a regular update to the Committee at each of the quarterly meetings, and attend any special meetings that may be convened during the year.
- 2.3 As at 31 March 2010 the Internal Auditors completed 260.94 days of review, which was spent undertaking 22 audits. The EKAP undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report which is presented to this Committee elsewhere on the agenda.
- 2.4 The East Kent Audit Partnership have met as a team and considered the CIPFA Checklist for compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006. The results of this self-assessment showed that the internal audit function is 97% compliant with the Code against a target of 97% compliant with the Code against a target of 97%, which no identified actions to improve the score.
- 2.5 As part of EKAP's quality monitoring arrangements Councillors should be aware that following the completion of each audit, a satisfaction questionnaire is provided to the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self assessment.
- 2.6 The EKAP Audit Manager and Head of EKAP regularly meet with the Section 151 Officer to monitor performance against the Audit Plan, but also to discuss any matters arising in relation to the performance of the Audit Partnership. The Section 151 Officer, the Director of Finance, is pleased to be able to provide Councillors with assurance that in his opinion the Partnership operates to high

professional standards, fostering an excellent working relationship with management without fettering the independence needed to be able to take a sufficiently independent perspective.

- 2.7 In addition to which, feedback from the audits and any other matters arising from the work of the partnership are considered a regular meetings that are held between the Section 151 Officers of each of the partnering councils and the auditors to manage any issues arising from the process. These meetings provide an additional opportunity to assess whether the internal audit function is operating in an effective manner and is compliant with the requirements of the CIPFA code.
- 2.8 Finally, the Audit Commission undertakes a comprehensive review of the work of the internal audit partnership against the CIPFA Code of Practice every three years. This review was undertaken in November 2009. In summary the Audit Commission found that the EKAP 'provides an adequate and effective review of the accounting records and systems of internal control', and acknowledged that the action plan items from the 2006/07 review have all been implemented. It advised that the Internal Audit is compliant with the CIPFA Code and that the quality of the work completed is on a standard that the Audit Commission would be able to place reliance on when carrying out their own work and working papers are of good quality.
- 2.9 Given the consistency of evidence of a quality internal audit service and the assessment outcomes referred to above it is believed that the council has an effective internal audit function in place providing confidence in the context of their contribution to the council's Annual Governance Statement.

3. Relevant Council Policy/Strategies/Budgetary Documents

Audit Charter and Strategy 2010 and Audit Plan.

4. Consultation planned or undertaken

None

5. Options available with reasons for suitability

- 5.1 That Councillors accept the findings of the review of the effectiveness of the council's internal audit arrangements.
- 5.2 That Councillors do not accept the findings of the review and the effectiveness of the council's internal audit arrangements.

6. Reasons for supporting option recommended, with risk assessment

The review, together with the other reports on this agenda indicate an effective Internal Audit service.

7. Implications

- (a) Financial Implications - none
- (b) Legal Implications

The Accounts and Audit Regulations 2003 (SI 2003/533) have been amended by The Accounts and Audit (Amendment) (England) Regulations 2006. Regulation 4 of the 2006 regulations requires that the findings of the review of the system of internal control shall be considered by a committee of the council, or by the members of the relevant body meeting as a whole, and following that consideration, shall approve a statement on internal control, prepared in accordance with proper practices in relation to internal control.

Regulation 6 requires that the council shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit. The findings of the review must be considered, as part of the consideration of the system of internal control referred to in regulation 4, by the committee or meeting referred to in that paragraph.

Other implications

The council is required, at least once in each year, to conduct a review of the effectiveness of its internal audit function, and this report details the review that has been undertaken and its outcomes.

8. Conclusions

The council has effective internal audit arrangements.

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Version 1
Date 20.5.10