

## TRAFFORD COUNCIL

**Report to:** Accounts and Audit Committee  
**Date:** 20 March 2013  
**Report for:** Information / Decision  
**Report of:** Audit and Assurance Manager

### Report Title

**Annual Review of the Effectiveness of Internal Audit**

### Summary

The purpose of the report is to provide members with details of the annual review of the effectiveness of the Council's internal audit function. The review is a requirement in accordance with the Accounts and Audit Regulations 2011. The report also includes information in respect of the new Public Sector Internal Audit Standards to be introduced from 1 April 2013.

### Recommendation

The Committee is asked, on the basis of the evidence provided, to support the conclusion that Trafford Council continues to operate adequate and effective arrangements for Internal Audit.

### Contact person for access to background papers and further information:

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### **Background Papers:**

Audit and Assurance update reports  
Internal Audit self assessment – March 2013  
Accounts and Audit Regulations 2011  
Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government (2006)  
Public Sector Internal Audit Standards (issued December 2012)

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## 1. Introduction

- 1.1 The Accounts and Audit Regulations 2011 require that the Council should, at least once a year, "...conduct a review of 'the effectiveness of its internal audit'". The results of the review should be considered by members as part of the Annual Governance Statement. The Department for Communities and Local Government stated that the audit committee 'would provide an appropriate means through which to carry out the review of internal audit as it has a role in monitoring internal audit but is independent from it'.

## 2. Scope of the Review

- 2.1 In terms of a review of Internal Audit, this report focuses on performance relating to the Audit and Assurance Service. Arrangements relating to internal audit are wider than this encompassing the operation of the Accounts & Audit Committee and it could also potentially include the operation of the Council's system of internal control. Assurance is gathered on these areas through the annual Internal Audit Opinion and the Annual Governance Statement both of which will be considered by the Committee in June 2013 and therefore have not been incorporated into this report. In addition, the Accounts and Audit Committee 2012/13 report will also be considered in June, which will detail the work of the Committee. **This report therefore focuses on the review of the Internal Audit function provided by the Audit and Assurance Service in 2012/13.**

## 3. Review of Internal Audit

- 3.1 The key sources referred to as part of this review are:
- Self Assessment review against the CIPFA Code of Practice for Internal Audit in Local Government.
  - Review of performance as detailed in updates issued to the Accounts and Audit Committee through 2012/13.

### **CIPFA Code of Practice for Internal Audit in Local Government**

- 3.2 As part of ongoing review processes, on an annual basis, the Audit and Assurance Service conducts a self assessment against the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government. Details are reported to the Accounts and Audit Committee on an annual basis. A self assessment was completed in March 2013. (It should be noted that as from 1 April 2013, as Internal Audit will be subject to a new set of standards – the Public Sector Internal Audit Standards, future self

assessments will be conducted against the new standards. This is referred to in more detail in section 4).

3.3 The CIPFA self assessment checklist requires a yes/no response against 192 items reflecting all the requirements of the Code. Areas include:

- The scope of internal audit work
- Audit independence
- Ethics for internal auditors
- Audit Committee
- Relationships with Management and Members
- Staffing / Due Professional Care
- Strategy and Planning
- Undertaking audit assignments / Reporting
- Performance / Quality Assurance

3.4 The results of the March 2013 exercise (see Table 1) show that Trafford internal audit is 98.5% compliant with the Code (including those areas that are not applicable). Partial compliance is in respect of only 1.5% of the items (3 areas).

(For the most recent benchmarking exercise undertaken on this within the Greater Manchester Chief Internal Auditor's Group, of the seven councils that completed this self assessment in 2011, the average level of compliance was 96.5% including not applicable responses).

3.5 The results of the analysis are summarised below and the results are similar to findings reported in the previous year.

**Table 1: Trafford Council – Compliance with CIPFA Code of Practice for Internal Audit.**

	March 2013	
	Nos.	%
Compliant	<b>184</b>	<b>96*</b>
Partially Compliant	<b>3</b>	<b>1.5</b>
Non compliant	<b>0</b>	<b>0</b>
Not applicable	<b>5</b>	<b>2.5</b>
Overall	192	100

\* Note: As a percentage of overall standards, taking out non applicable areas, compliance is 98.5%.

- 3.6 The 3 areas out of the 192 standards where Trafford Council is partially compliant are the same as reported in 2011/12 and are shown in the appendix. It is not considered that these areas are a matter of concern based on current arrangements, and other authorities typically face similar issues in completing these areas of the self assessment. Where issues relate to aspects of audit independence, it is not considered that partial compliance currently gives rise to concern as suitable arrangements have been established to ensure the independence of the Service.

### **Communication / Performance Reporting**

- 3.7 The Audit and Assurance Service provides a quarterly update to CMT and the Accounts and Audit Committee on its work undertaken in addition to the Annual Internal Audit Report. Quarterly updates on work in 2012/13 have been provided to the Accounts and Audit Committee in September 2012, November 2012 and February 2013. Prior to this the 2011/12 Annual Internal Audit Report was reported to CMT and the Accounts and Audit Committee in June 2012. The Internal Audit Plan for 2013/14 is due to be presented to the Accounts and Audit Committee in March 2013.
- 3.8 The update reports include progress against the audit plan and list details of all audit reports issued where an audit opinion has been given. The reports also detail the impact of audit work both in terms of acceptance of recommendations made and subsequent implementation. Details for 2012/13 of the percentage of recommendations accepted and implemented (through findings from follow up reviews) will be included in the Annual Internal Audit Report. Up to the end of quarter 3 in 2012/13, 94% of audit recommendations had been accepted (against a service target of 95%).
- 3.9 Following each audit review, a client survey is sent to the relevant manager to provide feedback on the audit process. Results for the whole of 2012/13 will be detailed in the Annual Internal Audit Report. In the Audit and Assurance update provided as at the end of December 2012, 100% of responses were recorded as "Satisfactory or above" with 98.5% shown as "Very Good or Good".
- 3.10 In addition to undertaking internal audit reviews through the year and providing advice on internal control issues, Audit and Assurance has continued to support the organisation in a number of other roles (details of which will be reflected in the 2012/13 Annual Internal Audit Report). Key work has included:
- Facilitating the production of the Annual Governance Statement
  - Regular review and update of the Strategic Register.
  - Review and update of the Council's Risk Management Policy Statement and Strategy and ongoing work in providing guidance and raising

awareness (detailed in a separate report to the Accounts and Audit Committee in March 2013)

- Review and update of the Council's Anti-Fraud and Corruption Strategy and ongoing work to undertake investigations, support the Council in contributing to the National Fraud Initiative and also in raising awareness and addressing the associated risks of fraud and corruption. (detailed in reports to the Accounts and Audit Committee in November 2012 and March 2013).

- 3.11 The Audit and Assurance Service has continued to regularly liaise with the External Auditors (Audit Commission and then Grant Thornton) during 2012/13 and final audit reports issued by the Service have been shared. Areas for development highlighted by external audit findings, both across the Council and for Audit and Assurance to action, are discussed on an ongoing basis with the external auditors as required.
- 3.12 In order to share good practice and maintain awareness of key developments, the Audit and Assurance Manager continues to attend quarterly meetings of the Greater Manchester Chief Internal Audit Group and the Service also contributes to a number of other local internal audit groups. The Service also subscribes to the CIPFA Better Governance Forum to receive updates / guidance on latest developments relevant to internal audit work.

#### **Internal Audit Terms of Reference and Strategy**

- 3.13 The Internal Audit Terms of Reference and Strategy were last reviewed and updated in March 2012. The Strategy sets out how the internal audit service will be provided and includes reference to ongoing developments to ensure it continues to provide an effective service. The Strategy takes into account expected standards as set out in the CIPFA Code of Practice and other related guidance from CIPFA including the "Role of the Head of Internal Audit". As referred to in Section 4, the Terms of Reference and Strategy will be reviewed in 2013/14, in line with the introduction of the Public Sector Internal Audit Standards.

#### **4. Public Sector Internal Audit Standards**

- 4.1 In May 2011, CIPFA and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national Public Sector Internal Audit Standards (PSIAS), based upon the mandatory elements of the global CIIA's International Professional Performance Framework have been developed and were issued in December 2012.
- 4.2 The PSIAS replace the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006. The new

Standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide assurances to the organisation and for producing the Annual Governance Statement.

4.3 The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector,
- set basic principles for carrying out internal audit in the UK public sector,
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

4.4 The PSIAS includes the following areas:

- Ethics (incorporating integrity, independence, objectivity, confidentiality and competency).
- Purpose, authority and responsibility of Internal Audit.
- Standards (including planning, undertaking and managing audit assignments, monitoring, communication, due professional care, quality assurance and improvement).

4.5 Overall, it appears that most of the content within the Standards reflects a continuation of existing best practice. The Audit and Assurance Service currently regularly reports on compliance with the CIPFA Code of Practice in Internal Audit in Local Government. Most requirements set out in the PSIAS are reflected to some degree in the CIPFA standards. **One significant new requirement with the implementation of PSIAS is the need for an external assessment of Internal Audit to take place at least every five years.**

4.6 CIPFA is issuing guidance in April 2013 to assist local authorities in the implementation of these new standards. This will be reviewed by the Audit and Assurance Service when made available and any actions required will be reflected as part of service planning for 2013/14. This will include review and update of the existing Internal Audit Terms of Reference and Strategy and associated audit procedures and protocols.

4.7 The Audit and Assurance Service will take into account CIPFA guidance and will liaise with other local authorities in the Greater Manchester Chief Internal Audit Group to share best practice in respect of implementing the standards, including ensuring a process of external review is established.

- 4.8 Local Authorities will be expected to report on compliance with these standards by June 2014. Audit and Assurance will report details of compliance with the standards as part of the 2013/14 Annual Internal Audit Report.
- 4.9 Full details of the PSIAS can be found using the following link:  
<http://www.cipfa.org/Policy-and-Guidance/Standards/Public-Sector-Internal-Audit-Standards>
- 4.10 Finally, it should be noted that future arrangements for reporting the annual review of internal audit will be reviewed in light of the new standards. It is expected that for the next review in 2013/14, this will include the results of an external review.

## 5. Conclusion

- 5.1 Based on the details provided in this report, and taking into account information provided throughout 2012/13, including the quarterly update reports, **the Committee is asked to support the conclusion that Trafford Council continues to operate adequate and effective internal audit arrangements.**

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<b>Standard</b>	<b>Appendix</b> <b>CIPFA Code : Areas of Partial Compliance</b>
Is Internal Audit free from any non-audit [operational] duties?	The main areas where there is an operational role relate to conducting financial appraisals of contractors, contribution to retrieving information from ICT systems in respect of Freedom of Information requests and the issue of controlled stationery. If any activity in relation to this were to give rise to any significant concerns in respect of independence this would need to be raised by Internal Audit, initially with the Director of Finance.
Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	<p>The Service's Code of Conduct and Values includes details regarding independence. This Code includes reference to considering the issue of involvement of audit staff in consultation. In 2012/13, Audit and Assurance staff signed a declaration form concerning independence, conduct and values.</p> <p>Consideration of this issue is taken into account as part of audit planning. It is difficult, however, in some areas, e.g. staff may be consulted during the development of systems given their particular knowledge and experience and may also need to be in a position to subsequently audit them.</p>
Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	<p>There is regular liaison between the Audit and Assurance Manager and the External Auditors, Grant Thornton. Grant Thornton receive copies of all final audit reports and Internal Audit updates to the Accounts and Audit Committee.</p> <p>A formal ongoing dialogue has not been established with agencies other than the External Auditors but would be considered if needed. For example, Internal Audit has continued to have contact with Mersey Internal Audit Agency (PCT auditors) when considering audits in respect of multi agency working arrangements.</p> <p>It is expected that the work carried out by external agencies other than the External Auditor will be taken into account as part of planning individual audits to ascertain relevant information and also to inform and support the production of the Authority's Annual Governance Statement.</p>