

AUDIT AND GOVERNANCE COMMITTEE

28 May 2010

ANNUAL REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT

Report of the Director of Financial Resources and Chief Solicitor

1. Purpose of Report

- 1.1 The purpose of this report is to set out the findings of the annual review of the effectiveness of internal audit, as required by the Accounts and Audit Regulations 2003 (as amended 2006).

2. Description of Decision

- 2.1 The Audit and Governance Committee is asked to consider the findings of the annual review.

3. Background

- 3.1 The methodology for the review was approved by the Audit and Governance Committee in March 2007 and is as follows:
- Internal Audit Services undertake an annual self-assessment, based upon a checklist within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the CIPFA Code);
 - The self assessment is then independently reviewed by the Council's external auditors, who carry out whatever testing they deem appropriate to verify the findings of the self-assessment;
 - The Director of Financial Resources and the Chief Solicitor jointly consider the findings of both the self-assessment and the Audit Commission review, and report their findings to the Audit and Governance Committee.
- 3.2 The findings of the annual review will also be fed into the process for the production of the Annual Governance Statement.

4. Findings of the 2009/2010 Review

4.1 The checklist in the CIPFA Code has been used to undertake the annual self-assessment by the head of internal audit. The self-assessment concludes that the Council's internal audit arrangements continue to comply with the CIPFA Code.

4.2 The Audit Commission have separately reviewed the effectiveness of the internal audit arrangements by reference to the CIPFA Code, the self-assessment and a review of a sample of audit files. The Audit Commission's conclusion is as follows:

'We found that there continue to be robust arrangements in place to comply with the Code's standards. Our detailed review of files did not highlight any significant non-compliance with IAS's Quality System or the Code.'

A copy of the letter from the Audit Commission setting out the above findings is attached at Appendix 1.

4.3 Whilst the service complies with the CIPFA Code a small number of recommendations for further improvement were made as a result of the Audit Commission's review. They are set out in the table below along with the actions that will be taken to address them.

Recommendation	Response	Timescale
1. The Audit and Counter Fraud Manager should codify the rotation policy for Audit Managers in the Quality System.	The Quality Manual will be updated to reflect the rotation policy in place in relation to Audit Managers.	June 2010
2. The Audit and Counter Fraud Manager should ensure that the Working Paper Review Checklist is consistently completed in MKI files, so as to provide clear evidence of review to third parties.	Working Paper Review Checklists for each draft report issued will be checked when the monthly performance reports are produced to ensure they are complete.	May 2010
3. The Audit and Counter Fraud Manager should undertake a more formal review of the complex investigation work and decide on actions to be taken as a result. The Audit and Counter Fraud Manager should ensure these actions, together with the revisions of the Quality System already identified, are implemented.	The results of reviews which have already taken place in relation to the management of complex investigations will be documented. The issues highlighted will be taken into account when developing an updated Investigations Chapter of the Quality Procedures Manual.	December 2010

4. The Audit and Counter Fraud Manager should monitor the time taken by each auditor to complete audit work and take action if necessary.	Time taken to complete audits by both Auditors and Reviewers will be separately monitored during fortnightly Section Management Team Meetings.	May 2010
5. The Audit and Counter Fraud Manager should ensure that all requests for budget revision are submitted and approved (or not) in a timely manner, and that decisions are clearly recorded.	This relates to time budgets for audit assignments. Staff will be reminded of the need to complete budget revision requests appropriately and this will be checked during the production of the monthly performance reports.	May 2010

4.4 Having considered the detailed self-assessment, the findings of the Audit Commission's independent review and our cumulative knowledge of the internal audit arrangements in place we consider that they are effective and meet the required standards. The recommendations made will be implemented as outlined above.

5. Recommendations

5.1 It is recommended that the Committee considers the outcome of the review of the effectiveness of the internal audit arrangements.

Background Papers

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.



21 April 2010

Paul Davies
Head of Audit and Procurement
(Audit & Procurement)
City Treasurer's Department
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SUNDERLAND
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Dear Paul

Review of the effectiveness of Internal Audit Services

We have carried out a review of the effectiveness of Internal Audit Services (IAS) for 2009/10. The review included:

- an assessment of the IAS Quality System against the 2006 CIPFA Code of Practice for Internal Audit (the Code); and
- a detailed review of six Internal Audit Services' files, of which five were planned audits and one an unplanned fraud investigation.

We found that there continue to be robust arrangements in place to comply with the Code's standards. Our detailed review of files did not highlight any significant non-compliance with IAS's Quality System or the Code.

We will provide you with a detailed report of our findings and conclusions shortly.

Yours sincerely

Gavin Barker
Senior Audit Manager

