

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND PERFORMANCE MANAGEMENT COMMITTEE

6 JUNE 2011

1. **REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**

Report of the Treasurer

RECOMMENDED

That the review of the effectiveness of Internal Audit be approved.

2. **PURPOSE OF REPORT.**

This report is submitted for member comment and approval.

3. **BACKGROUND**

3.1 The Accounts & Audit (England) Regulations 2011 state at paragraph 6 (3) that “the relevant body shall, at least once in each year, conduct a review of the effectiveness of internal audit” The regulations go on to say that the findings of this review be considered by a committee of the relevant body, or by the members of the relevant body as whole, as part of the wider consideration of an organisation’s system of internal control. At the Fire Authority, the Audit and Performance Management Committee performs this role.

3.2 In reviewing the effectiveness of internal audit, the following have been taken into consideration:

- The process by which the control environment and key controls have been identified.
- The process by which assurance has been gained over controls.
- The adequacy and effectiveness of the remedial action taken where there are deficits in controls.
- The operation of the Audit and Performance Management Committee and the internal audit function to current codes and standards.

- An assessment against the five principles contained in the new CIPFA document “The Role of the Head of Internal Audit”.

3.3 The process by which the control environment and key controls have been identified

The control environment and key controls of the Authority are identified through the risk management system. Risks to the achievement of the Authority’s priorities are identified and mitigated within the control environment through the use of a risk register.

Internal Audit’s review of the risk management arrangements as part of their 2010/11 planned work concluded that the controls within the system, provided substantial assurance that risks material to the achievement of the Authority’s objectives were being adequately managed and controlled.

3.4 The process by which assurance has been gained over controls

Assurance is gained through a variety of sources, such as the work of both the Internal and External Auditors (the Audit Commission). The Internal Audit function report on a quarterly basis to the Audit and Performance Management Committee, and for 2010/11 produced an Annual Internal Audit Report, which gave the following opinion:

“Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the authority by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Authority has adequate and effective governance, risk management and internal control processes”.

3.5 The adequacy and effectiveness of the remedial action taken where there are deficits in controls

Where deficits in internal control are identified, both internal and external audit will make recommendations that are entered onto an action plan. Management are then responsible for identifying what remedial action will be undertaken, who by and by when. Internal audit will then follow up all key recommendations (made by both themselves and the external auditors) and report back on any non-

compliance to the Audit and Performance Management Committee.

3.6 The operation of the Audit and Performance Management Committee and the internal audit function to current codes and standards

Internal Audit

In reviewing the internal audit function, the following have been taken into consideration:

- Internal audit's performance against a set of performance indicators.
- The views of the Audit and Performance Management Committee obtained from their self assessment exercise.
- The external auditors comments from their latest Annual External Audit Report.
- The internal audit self assessment checklist included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- Ongoing dialogue held with key officers throughout the Authority on the role internal audit plays.
- A discussion with the Audit Services Manager and review of key internal audit documents.

(a) Internal audit's performance against performance indicators approved by the Audit and Performance Management Committee

Internal Audit have achieved their performance indicators and the full details of this can be found in their Annual Internal Audit Report.

(b) The views of the Audit and Performance Management Committee obtained from their self assessment exercise

The Audit and Performance Management Committee self assessment exercise included the updating of a previously completed self assessment checklist. A number of questions on this checklist related to the internal audit service. The committee's answers to the questions relating to the internal audit service were very positive. A copy of the self assessment checklist can be made available upon request.

(c) The external auditors comments from their Annual External Audit Report

In their latest report on the internal audit function, the External Auditor's for the Authority concluded that Internal Audit complied with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

(d) The internal audit self assessment checklist included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

A review of the self assessment checklist completed by Audit Services taken from the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, has been undertaken, and this indicated that the standards included in the code were being met. A full copy of the completed checklist can be made available upon request.

(e) Ongoing dialogue held with key officers throughout the Authority on the role internal audit plays

At various points throughout the year the work of internal audit has been discussed with key officers and generally they feel that this work and in particular the recommendations they make, add benefit in improving the overall effectiveness of the Authority and help in the achievement of it's objectives.

(f) A discussion with the Audit Services Manager and review of key internal audit documents

Audit Services have continued to provide assistance in a number of key corporate areas and has also contributed to the effectiveness of the system of internal audit and to the benefit of the Authority in general, in particular:

- Assistance in the ongoing development and training of the Audit and Performance Management Committee and in hosting the committee's self assessment exercise and skills audit
- Attendance at each committee meeting
- Presenting quarterly progress reports of work to the committee
- The continued expansion of raising fraud awareness activities
- Joint working with the external auditors
- The preparation of Annual Risk Based Audit Plans

- The Preparation of an Annual Internal Audit report giving a clear opinion on internal control, governance and risk management arrangements
- Having specialist staff in the areas of IT, contracts, fraud and risk management

Audit and Performance Management Committee

The Audit and Performance Management Committee operate within a Terms of Reference based on the model provided by CIPFA in their “Audit Committees – Practical Guidance for Local Authorities” guidelines.

These guidelines recommend that Audit Committees measure their effectiveness by measuring their performance against a self assessment checklist. In year the committee undertook a self assessment exercise in order to consider it’s effectiveness. The workshop, attended by members of the committee, concentrated on the completion of a CIPFA self assessment checklist provided in their “Toolkit for Local Authority Audit Committees”. Members felt the committee had fulfilled its terms of reference in almost all categories. They also identified a limited number of actions which could improve their performance in the future.

3.7 Assessment of the five principles contained in CIPFA’s ”Role of the Head of Internal Audit”.

This document includes five principles for the Head of Internal Audit:

- Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.
- Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and the Audit Committee.
- Must lead and direct an internal audit service that is resourced to be fit for purpose.
- Must be professionally qualified and suitably experienced.

Underpinning each of these 5 principles is a series of governance requirements, core responsibilities and personal skills and

professional standards. As part of this review the current arrangements have been assessed against these requirements and found to be in compliance.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to and/or do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The Accounts & Audit Regulations 2011 state at paragraph 6 (3) that “the relevant body shall, at least once in each year, conduct a review of the effectiveness of internal audit” The regulations go on to say that the findings of this review be considered by a committee of the relevant body, or by the members of the relevant body as whole, as part of the wider consideration of an organisations’ system of internal control. At the Fire Authority, the Audit and Performance Management Committee performs this role.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

7. **BACKGROUND PAPERS**

CIPFA’s – The Role of the Head of Internal Audit
Audit and Performance Management Committee – Self Assessment Checklist

Stuart Kellas
Treasurer