

AUDIT

Accounts & Audit (Amendment) (England) Regulations 2006 20 September 2006

Report of Internal Audit Manager

PURPOSE OF REPORT

To seek the Committee's approval for a course of action to meet new statutory requirement that Councils undertake an annual review of the effectiveness of their Internal Audit functions.

This report is public

RECOMMENDATIONS

- (1) That, pending the receipt of practical guidance from CIPFA on the new requirement, an in-principle decision is made to informally pursue the potential for establishing reciprocal, "peer review" arrangements with neighbouring authorities.
- (2) That on the receipt of further clarification or guidance on this matter, the Internal Audit Manager should report back to the Committee on developments, with a view to formalising the approach for future years.

1.0 Introduction

- 1.1 From 1 April 2006 the Accounts and Audit regulations have been amended by the Accounts and Audit (Amendment) (England) Regulations 2006. These include a new requirement under regulation 6 (3) for Councils to 'at least once in each year, conduct a review of the effectiveness of the system of Internal Audit'. New Regulation 6(4) goes on to say – 'The findings of the review referred to in paragraph (3) shall be considered, as part of the consideration of the system of internal control'.

2.0 Proposal Details

- 2.1 Elsewhere on this agenda is the Audit Commission's report into its review of the Council's Internal Audit function as part of the 2005/06 audit. The Audit Commission undertakes such detailed reviews on a three-yearly basis, with brief overview/update reviews in intervening years. The detailed review and report just completed is, in itself, considered sufficient to fulfil the new requirement for the current year (2006/07). In future years, however, when the Audit Commission is not due to carry out a detailed review of Internal Audit's effectiveness, the Council must consider what additional work it will require to be able to gain sufficient assurance as to the effectiveness of Internal Audit.

2.2 CIPFA has indicated that it will seek to provide guidance to authorities on the nature and scope of such reviews; however this has not yet been forthcoming. Any developments will be reported verbally at the meeting. In the meantime, the Committee's in-principle views are being sought.

2.3 A variety of options available are set out and analysed in section 4 of this report. All of these options will be set in the context of Internal Audit developing its strategy/business planning and performance management as recommended by the Audit Commission in the recent review.

3.0 Details of Consultation

3.1 Consultation has been carried out with the Council's External Audit Manager on the nature and extent of annual review likely to be acceptable under the new regulations.

4.0 Options and Options Analysis (including risk assessment)

4.1 The main options identified are:

Option	Cost/Resource Implications	Level of Assurance Provided
a) rely on existing reviews, including the Audit Commission's opinions and ongoing performance reporting by the Internal Audit Manager	None	Lowest, except in years when the Audit Commission undertakes a detailed review.
b) option a) plus an annual internal self-assessment against agreed professional standards/criteria	Internal resource, no additional cost	Some additional assurance, though not independently provided.
c) option a), plus peer review agreed with a neighbouring authority using against agreed professional standards/criteria.	Internal resource in providing peer review to our "partner" authority/authorities	Additional, more independent assurance.
d) option a) plus an annual review commissioned from a private body qualified in undertaking such work (Accountancy firm/consultancy)	Estimated cost in region of £2,000 to £3,000	Fully independent assurance

4.2 With an undertaking being made to strengthen Internal Audit's performance management reporting in line with a new Strategic/Business Plan, it might be expected that any formal external review could be minimised. It is not at this stage clear whether the Audit Commission's annual updates of their reviews of Internal Audit will be sufficient to meet the new requirement.

- 4.3 Within the Lancashire Districts, some trialling of a peer review approach has been undertaken, along with an ongoing process benchmarking exercise to help respective Internal Audit sections identify and compare themselves with good practice elsewhere. As with the Audit Commission's work, it is still uncertain whether, or to what extent, peer reviews between groups of authorities will meet the new requirement. Arrangements with neighbouring authorities have the benefit that each participant will be familiar with the applicability of professional and organisational standards in our particular sector and environment. This "familiarity" could in itself, however, be viewed as providing a barrier to identifying innovative approaches.
- 4.4 It is almost certain that commissioning a review from a private organisation will meet the requirement in terms of the independent assurance that it will provide. It might also be expected that such an approach could also have the benefit of bringing a wider range of experience/knowledge to the exercise, helping identify innovative approaches/solutions, thereby helping develop the effectiveness of the Internal Audit function.

5.0 Officer Preferred Option

- 5.1 Taking account of the above options, the fact that the Council's obligations for 2006/07 have been fulfilled, and the expectation of guidance from CIPFA, the officer preferred option at this juncture is to informally pursue the potential for reciprocal, "peer review" arrangements with neighbouring authorities, whilst monitoring developments.

6.0 Conclusion

- 6.1 The new requirement within the Accounts & Audit Regulations that each authority should undertake an annual review of the effectiveness of its Internal Audit function has been fulfilled for the current year (2006/07) by the Audit Commission's detailed review. Arrangements need to be considered for future years, though an in-principle decision, pending the production of guidance by CIPFA is the proposed route.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not applicable

FINANCIAL IMPLICATIONS

Future financial implications, currently estimated to be in the region of £2,000 to £3,000 would arise should the Committee support in principle the option of commissioning an external annual review of Internal Audit from a private firm. For all other options, resource implications would be handled within existing staffing arrangements.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Accounts & Audit (Amendment) (England)
Regulations 2006

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