

# **MAIDSTONE BOROUGH COUNCIL**

## **AUDIT COMMITTEE**

**17 FEBRUARY 2009**

### **REPORT OF HEAD OF INTERNAL AUDIT & RISK STRATEGY**

**Report prepared by Brian Parsons**

#### **1. REVIEW OF INTERNAL AUDIT**

##### **1.1 Issue for Decision**

1.1.1 The external auditors are required to complete a triennial review of Internal Audit. The review is designed to determine whether the external auditors can place reliance on the work completed by Internal Audit in performing their external audit procedures. The work will also inform the Use of Resources assessment later in the year.

1.1.2 The Audit Committee also needs to be satisfied that it can place reliance on Internal Audit. Members are therefore asked to consider the report of the external auditors and the assurance that it provides on the quality and effectiveness of internal audit.

##### **1.2 Recommendation of the Head of Internal Audit & Risk Strategy**

1.2.1 That the Audit Committee agrees that, on the basis of the external auditor's review of internal audit, the Committee has been provided with a very strong assurance that it can place reliance on the work of Internal Audit.

##### **1.3 Reasons for Recommendation**

1.3.1 The external auditors have carried out a comprehensive review of Internal Audit. In particular they have reviewed compliance with the statutory standards for the delivery of the Internal Audit service which are set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

1.3.2 The attached report contains the results of the review and confirms that Internal Audit is fully compliant in relation to the eleven standards.

1.3.3 The review was based on a comprehensive self assessment by Internal Audit, which included evidence to support all assertions.

### Background

- 1.3.4 It is vital that the external auditors can place reliance on the work of Internal Audit in order to allow best use of audit resources and to then reflect that level of assurance in the external audit fees. It is also vital that Internal Audit operates to the proper standards in accordance with the statutory Code of Practice.
- 1.3.5 The external auditors undertake a triennial review of Internal Audit and in particular, verify compliance with the standards contained in the Code of Practice.
- 1.3.6 The Internal Audit service is provided in partnership with Ashford Borough Council. The partnership has been in place for more than three years and in 2008 the agreement was extended for a further five years. Members will therefore note that the external auditors review was of the Internal Audit Partnership arrangements.
- 1.3.7 The Internal Audit Partnership has led to consistent standards of audit between the two authorities. This has allowed the external audit review to be inclusive, while acknowledging the minor differences between the services provided at each authority. This has also helped to reduce the external audit charges as one, rather than two reviews were carried out. In addition, Internal Audit carried out some preliminary work, including a self assessment and an evidence file in order to further reduce the external auditor's time allocation.

### The Mid Kent Internal Audit Partnership

- 1.3.8 There is a report elsewhere on the agenda which contains a proposal to create a four-way internal audit partnership with Ashford, Swale and Tunbridge Wells. The external auditors report confirms the benefits of working in partnership and provides assurance that a strong and fully compliant service is in place, which provides a strong base for the broader partnership and should help to ensure its success.

### Matters arising from the external auditors review

- 1.3.9 The report makes six recommendations for improvement. None of the recommendations imply any weaknesses in the existing arrangements; rather they seek to make improvements to arrangements which are already of a high standard. The recommendations are accepted and will be implemented by the 31 May 2009.

1.4 Alternative Action and why not Recommended

1.4.1 The review of Internal Audit by the external auditors provides assurance to the Audit Committee that it (and the Council as a whole) can place reliance on the work of Internal Audit. There is no alternative action.

1.5 Impact on Corporate Objectives

1.5.1 Internal Audit is a key contributor to the Council’s governance arrangements, providing an independent appraisal function to assess the adequacy of the controls that have been put in place to manage the risk to the successful delivery of corporate and service objectives. The very positive assessment from the Audit Commission confirms the adequacy and effectiveness of the Internal Audit arrangements.

1.6 Risk Management

1.6.1 The role of internal audit and its impact on the control environment and corporate governance arrangements mean that a failure in the service, through a failure to meet statutory standards, could have strategic implications. The positive assessment from the Audit Commission provides assurance that the risk is being well managed.

1.7 Other Implications

1.7.1

1.	Financial	X
2.	Staffing	
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.7.2 A failure to meet the statutory standards would lead to increased work and higher fees from the external auditor.

1.7.3 The statutory arrangements for internal audit in local government are contained in the Accounts and Audit Regulations. The standards are those prescribed in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

1.8 Background Documents

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

**NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED**

Is this a Key Decision?      Yes            No     

If yes, when did it appear in the Forward Plan? \_\_\_\_\_

Is this an Urgent Key Decision?      Yes            No     

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]