

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	The Audit Committee
Report of:	Strategic Director Finance & Legal
Date of Meeting:	21st June 2016
Subject:	Annual Review of the Effectiveness of the Systems of Internal Audit
Wards Affected:	All
1. Purpose of Report	
<p>1.1 The purpose of this report is to assist Members in meeting the requirement of the Accounts and Audit Regulations 2015 for the Council to conduct an annual review of the effectiveness of its systems of internal audit, and for a committee of the Council to consider the findings from that review. The review outlined in this report covers the 2015/16 financial year.</p>	
2. Recommendations	
<p>2.1 Members are asked to consider the findings from the review detailed in this report and the conclusion reached that the systems of internal audit are adequate and effective and meet their objectives.</p>	

3. BACKGROUND

- 3.1 It is a requirement of the Accounts and Audit Regulations 2015 that the Council conducts an annual review of the effectiveness of its systems of internal audit, and that a committee of the Council considers the findings from that review.
- 3.2 At the meeting of the Audit Committee held on 19th December 2006, Members agreed a mechanism for discharging this responsibility. It was agreed that a holistic approach would be adopted, and that the former Director of Finance (now the Strategic Director Finance & Legal), would bring together and consider, in a report for the committee, a number of measures that are already in place.
- 3.3 These measures include:
- The view of the Assistant Director, Audit & Risk Management on the adequacy and effectiveness of the internal audit service and a review of quality, performance and customer feedback on the internal audit service as detailed in the Birmingham Audit Annual Report.
 - The view of the Council's External Auditors.
 - The day to day overview of the service I have as the line manager for the Assistant Director, Audit & Risk Management.
 - The 'oversight' of the Internal Audit function from the Audit Committee as they consider the development and delivery of the audit plan and the quality of the audit work that is delivered.

4. THE REVIEW

- 4.1 The review outlined in this report covers the financial year 2015/16.
- 4.2 The purpose, authority and responsibilities of Birmingham Audit are set out in the Internal Audit Charter. The 2015/16 charter was approved by the Audit Committee.
- 4.3 Birmingham Audit must be independent and report at a level within the Council that enables it to fulfil its responsibilities. This organisational independence is effectively achieved in that the Assistant Director of Audit and Risk Management, reports to the Strategic Director Finance and Legal on a day to day management basis and on a functional basis to the Audit Committee.
- 4.4 The Birmingham Audit Annual Report 2015/16 is being considered elsewhere on the agenda for this meeting. It shows that the target for the delivery of the internal audit plan was met with 97% of audits completed - against a target of 95%. It also shows that the service retained its ISO9001:2008 quality assurance accreditation and its ISO27001:2013 information security accreditation and continued to receive positive feedback from its customers.

However, the service has now ceased the formal ISO9001 accreditation. Quality processes have now been incorporated into the Information Security Manual, and the ISO27001 accreditation. This has reduced costs and the administration time associated with maintaining and updating two separate manuals whilst maintaining robust processes.

- 4.5 The annual audit plan is prepared using a risk based methodology, and in such a way that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). A careful balance has to be struck to achieve the optimum use of resources available and to ensure that the control environment is adequately covered. Potential areas for audit are identified from various sources including corporate and directorate risk registers and the professional knowledge auditors have of the Council's services, objectives and the risks that may prevent them from being achieved. All potential audit areas are then assessed using a risking model to compile the annual plan. As part of this process the views of other key stakeholders including senior officers throughout the organisation and those of Members are taken into account.

This methodology for compiling the plan has regard for the adequacy of the overall assurance framework. Internal Audit provides a part of the assurance but other internal and external inspections also contribute to the assessment, for example OfSted and External Audit.

All of this assurance (provided by the work of internal audit or through other sources) feeds into the Annual Governance Statement (AGS), which itself is a key focus for planned audit work. The emphasis of internal audit provision is now about reviewing the controls around the risks that may prevent the Council from meeting its objectives. Within this there remains a need to ensure that financial controls are sound and that legislative and regulatory requirements and professional standards are met.

Taking all of the above into account, I am satisfied that the annual audit plan adequately covers the control environment.

- 4.6 In the past External Audit undertook a detailed triennial review of Internal Audit. The last of these was undertaken in 2007/08 with an updated assessment being undertaken in 2009/10. Since then there has been no detailed / formal assessment of Internal Audit by the External Auditors. However, there continues to be regular liaison between Internal Audit and their External Audit colleagues. Plans are shared to ensure the best overall use of audit resources and to avoid duplication of effort. The External Auditor continues to draw on relevant aspects of Internal Audit's work. Within the External Auditor's report outlining their 2015/16 audit plan, considered at the March Audit Committee meeting, they comment:

'Our review of internal audit's work on key financial systems up to January 2016 has not identified any weaknesses which impact on our audit approach'.

- 4.7 The Public Sector Internal Audit Standards (PSIAS) became effective from 1st April 2013, these standards set out the requirements for the professional practice of internal auditing within the public sector. These standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

During 2015/16 the service undertook a full self-assessment to assess their level of compliance with the standards. This identified that their practices were generally in compliance with the PSIAS, and only minor changes were necessary to ensure all requirements were met. The changes have / are in the process of being actioned.

An external assessment against the PSIAS is to be undertaken by Core City peers during the second quarter of 2016/17. The findings from this independent assessment will be reported to the Audit Committee.

- 4.8 Internal Audit has presented reports to the Audit Committee throughout the year. Members of the Audit Committee have also been provided with lists of all internal audit reports issued on a monthly basis and under the agreed protocol are able to request copies of reports. This information has been used to monitor progress against the audit plan and to challenge performance in respect of reducing risk in those areas where audit reports had been given the highest risk rating.
- 4.9 Based on the above, and on my own knowledge of the service through day to day line management of the current Acting Assistant Director, Audit & Risk Management, I am satisfied that the Internal Audit Service is adequate and effective and meets its objectives.

5. Legal and Resource Implications

- 5.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget

6. Risk Management & Equality Analysis Issues

- 6.1 Risk management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the internal audit plan.
- 6.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

7. Compliance Issues

- 7.1 City Council strategies, policies and plans have been complied with

8. Recommendations

- 8.1 Members are asked to consider the findings from the review detailed in this report and the conclusion reached that the systems of internal audit are adequate and effective and meet their objectives.

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