

## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

<b>Report to:</b>	<b>The Audit Committee</b>
<b>Report of:</b>	<b>Director of Finance</b>
<b>Date of Meeting:</b>	<b>30<sup>th</sup> June 2015</b>
<b>Subject:</b>	<b>Annual review of the effectiveness of the systems of internal audit</b>
<b>Wards Affected:</b>	<b>All</b>
<b>1. Purpose of Report</b>	
<p>1.1 The purpose of this report is to assist members in meeting the requirement of the Accounts and Audit Regulations (Amendments) 2011 for the City Council to conduct an annual review of the effectiveness of its systems of internal audit, and for a committee of the City Council to consider the findings from that review. The review outlined in this report covers the 2014/15 financial year.</p>	
<b>2. Recommendations</b>	
<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 (Amendments) 2011 that the City Council conducts an annual review of the effectiveness of its systems of internal audit, and that a committee of the City Council considers the findings from that review.
- 3.2 At the meeting of the Audit Committee held on 19<sup>th</sup> December 2006, members agreed a mechanism for discharging this responsibility. It was agreed that a holistic approach would be adopted, and that the Director of Finance 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 of 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 2014/15. The Birmingham Audit Annual Report 2014/15 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 and 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 Standard and continued to receive positive feedback from its customers.
- 4.2 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 therefore 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 both corporate and directorate business and service plans, corporate and directorate risk registers and from the professional knowledge auditors have of the council's services, objectives and the risks that may prevent them from being achieved. All of these potential audit areas are then assessed using a risking formula in order to compile the annual plan. As part of this process the views of other key stakeholders including the external auditor, 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. Examples are through internal health and safety inspections and that provided by external sources such as OfSted or CSCI.

All of this assurance (provided by the work of internal audit or through other sources) feeds into the Annual Governance Statement, 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.

- 4.3 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 place reliance on relevant aspects of Internal Audit's work. Within the External Auditor's report outlining their 2014/15 audit plan, being considered elsewhere on the agenda for this meeting, they comment:

"We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention."

and

"Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. Our review of internal audit work has not identified any weaknesses which impact on our audit approach."

- 4.4 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. 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.

- 4.5 Based on the above, and on my own knowledge of the service through day to day line management of the 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 (Amendments) 2011. 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.

.....  
Jon Warlow  
Director of Finance

**Contact officer:** Jon Warlow, Director of Finance  
**Telephone No:** 303 2950  
**e-mail address:** [Jon.Warlow@birmingham.gov.uk](mailto:Jon.Warlow@birmingham.gov.uk)