

REPORT OF THE CHIEF FINANCE OFFICER
AND
THE HEAD OF INTERNAL AUDIT

TO THE AUDIT & ACCOUNTS COMMITTEE

WEDNESDAY 24th MARCH 2021

TITLE: Review of the Effectiveness of Internal Audit

RECOMMENDATIONS: That Members note this report as part of their monitoring role and the requirement to evaluate whether the internal audit service complies with the Public Sector Internal Audit Standards.

EXECUTIVE SUMMARY: This report sets out the assessment of the adequacy and effectiveness of the council's internal audit service.

Self-assessment of the service against the Public Sector Internal Audit Standards has been undertaken on an annual basis since 2013 and in November 2017 an external assessment of the service was undertaken against the standards and the CIPFA Local Government Application Note questionnaire.

The Local Government Application Note questionnaire was updated by CIPFA during 2019/20 and the latest version has been used for this year's self-assessment.

BACKGROUND DOCUMENTS:

- Internal Audit Charter
 - Quality Assurance & Improvement Programme
 - Public Sector Internal Audit Standards and LGAN
 - PSIAS code of practice checklist
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KEY DECISION: No

DETAILS:

1.0 Background

The Public Sector Internal Audit Standards (PSIAS) introduced from 1 April 2013 (amended 2017), are designed to create consistency for the practice of internal audit across the public sector and establish the basis for its quality assurance. The standards are based on the Chartered Institute of Internal Auditors international standards and the requirements of the PSIAS for internal audit in Local Government are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015.

The Audit and Accounts Committee provides the council with assurance about the quality and reliability of both the financial and non-financial information it receives. The Committee must satisfy itself that the key business risks within the council are being adequately managed through a sound framework of internal controls. The Committee needs to know that the right systems are in place, that they are being monitored and that information they receive about them is reported to them at the right level of detail.

The primary responsibility for providing assurance on the adequacy of governance, risk management and controls rests with management. It is management's job to provide leadership and direction to employees in respect of risk management, and to control the organisation's overall risk-taking activities in relation to the agreed level of risk appetite.

However, the Committee also needs independent assurance to validate management assurance and reflect the wider picture. An independent internal audit function will, through a risk-based approach to its work, provide assurance to the Audit & Accounts Committee and senior management.

The assurance provided by internal audit, based upon the work performed, provides an independent and objective assessment of both how well the organisation is managing risk and whether the measures put in place to mitigate risk are working effectively.

2.0 Public Sector Internal Audit Standards – Assessment of Internal Audit Quality Assurance and Improvement Programme (QAIP)

The PSIAS require the Head of Internal Audit to develop and maintain a QAIP to enable the internal audit activity to be assessed against the standards.

The PSIAS contain the requirement that the QAIP must include both internal and external assessments of internal audit. The internal assessment should be both ongoing and periodical through self-assessment or by other persons within the organisation with sufficient knowledge of internal audit practices.

The external assessments should be undertaken at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The external assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. The next External Assessment is due in 2022/23.

External Assessment of Internal Audit

The North West Heads of Internal Audit group established a process of peer review to undertake the necessary external assessments in a cost effective way. The group developed an approach and methodology that was used by the North West authorities who took part.

The external assessment of the internal audit service was undertaken during November 2017, the assessment was an independent external validation of the self-assessment. The external assessment of internal audit noted that the internal audit service conforms to the PSIAS and the CIPFA Local Government Application Note questionnaire.

An action plan was developed to address any partially compliant areas against the standards. The updated action plan is attached at Appendix A to this report.

Self-Assessment of Internal Audit

A self-assessment of the service has been completed using the checklist for assessing performance attached to the PSIAS local government application note. The exercise concluded that service continues to conform to the PSIAS and the CIPFA Local Government Application Note questionnaire.

As part of the ongoing assessment of the service we continue to report key performance indicators to the Committee. We also issue client satisfaction surveys after each audit review.

3.0 Conclusion

Based on my assessment of internal audit, the service can provide the vital role of assessing that the council has appropriate risk management processes, governance arrangements and a sound system of internal control.

The progress that I have been reporting to the Section 151 officer and the Audit and Accounts Committee at their meetings; supports my key objective to provide an overall Head of Internal Audit opinion on these arrangements for 2020/21.

This will be based on the work undertaken by internal audit and will take into account the framework of assurance in place that supports the internal control environment and the Annual Governance Statement; and the CIPFA guidance on the opinion for 2020/21.

KEY COUNCIL POLICIES: None noted

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS: None noted

ASSESSMENT OF RISK: Low

A key requirement for the Audit and Accounts Committee in order for the Committee to meet its Terms of Reference is to assess the adequacy of the internal audit service. A key requirement in producing the Annual Governance Statement is to be

able to place reliance on the Opinion and Annual Report of the Head of Internal Audit.

LEGAL IMPLICATIONS Supplied by: Nicky Smith Senior Solicitor

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs. The Accounts and Audit Regulations 2015 also require authorities to ensure that they have a sound system of internal control which:

- a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- b) ensures that the financial and operational management of the authority is effective; and
- c) includes effective arrangements for the management of risk.

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance.

In that regard, the Public Sector Internal Audit Standards (CIPFA/IIA) requires an authority’s chief audit executive to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The quality assurance and improvement programme must include both internal and external assessments. Internal assessments include the ongoing monitoring of the performance of the internal audit activity and periodic self-assessment or assessment by other persons within the organisation with sufficient knowledge of internal audit practices

FINANCIAL IMPLICATIONS Supplied by: N/A

PROCUREMENT IMPLICATIONS Supplied by: N/A

HR IMPLICATIONS Supplied by: N/A

CLIMATE CHANGE IMPLICATIONS Supplied by: N/A

OTHER DIRECTORATES CONSULTED: N/A

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WARDS TO WHICH REPORT RELATES: N/A