

AUDIT COMMITTEE

Review of the Effectiveness of Internal Audit 17 September 2014

Report of the Internal Audit Manager

PURPOSE OF REPORT

To advise Members of the outcome from a self-assessment review against Public Sector Internal Audit standards as a contribution to the annual review of Internal Audit effectiveness, and to seek endorsement for a Quality Assurance and Improvement Programme

This report is public

RECOMMENDATIONS

- (1) That the Internal Audit Manager's conclusions from the self-assessment exercises are accepted as evidence that Internal Audit is operating effectively and the Committee can therefore place reliance on Internal Audit's reports and work when considering the overall effectiveness of the Council's governance arrangements.
- (2) That the draft Internal Audit Quality Assurance and Improvement Programme (QAIP) presented at Appendix C is noted and endorsed.

1.0 Background

- 1.1 The Accounts & Audit (England) Regulations 2011 include a requirement that local authorities undertake an annual review of the effectiveness of their internal audit and that this should form a part of the overall review of governance.
- 1.2 Internal Audit in local government is required to be established and operate in accordance with 'proper practices' as set out in the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN) (CIPFA 2013). The PSIAS require the Internal Audit Manager to maintain a 'Quality Assurance and Improvement Programme' (QAIP) which includes periodical internal and external assessments of compliance with the Standards. Furthermore, standard 1322 of the PSIAS requires the council to consider disclosing any significant deviations in its annual Governance Statement.
- 1.3 In addition to compliance with professional standards, it has been normal practice to assess internal audit's performance against an internally developed set of "characteristics of effectiveness".

2.0 Report

2.1 Compliance with the PSIAS and LGAN

- 2.1.1 A report was presented to the Audit Committee on 22nd January 2014 setting out the results from an initial self-assessment against the 334 lines included in the PSIAS/LGAN. At that point, the exercise identified 288 points where compliance was achieved (or which were not applicable to our situation). Non-compliance was identified in 17 instances and partial compliance (where we do comply but it is felt that there is scope to raise standards) in 29 instances.
- 2.1.2 An action plan to address the instances of non-compliance or partial compliance was also presented, which Members noted.
- 2.1.3 The self-assessment has now been updated to reflect progress over the past six months, with the following outcomes:
- a) Of the 334 lines in the PSIAS/LGAN, compliance is achieved (or is not applicable to our situation) in 306 instances (previously 288);
 - b) Non compliance is demonstrated in 2 instances (previously 17 instances); these being in relation to arrangements for the Internal Audit Manager's appraisal;
 - c) Partial compliance is now demonstrated in 26 instances (previously 29), many of these being previously non-compliant, reflecting the position that action is ongoing to review arrangements in a number of areas.
- 2.1.4 Appendix A sets out an update on those areas assessed as falling short of full compliance in the previous review of the PSIAS and an revised set of actions.
- 2.1.5 One of the most significant areas of progress is in that relating to the development of a Quality Assurance and Improvement Programme (QAIP), and the associated requirements for periodic external assessments of the Internal Audit service. Members will recall that this matter was raised at the June meeting of the Committee, and work is continuing to consider and develop options which will be brought to the Committee in due course.

2.2 Other Aspects of Effectiveness

- 2.2.1 Whilst compliance with professional standards is clearly important in operating a robust service, it is just one in a wide range of factors in effectiveness, defined as the extent to which the service delivered meets the organisation's expectations and adds value. As in previous years, a self-assessment, relating to "characteristics of effectiveness" (including compliance with proper practices) has been undertaken and is attached at Appendix B. Elected Members should also consider their own perceptions and experiences, through the Audit Committee, relating to the work and output of internal audit.

2.3 Summary

- 2.3.1 The annual review of Internal Audit's effectiveness is used to inform the Audit Committee's consideration of the annual governance review and the contents of the Annual Governance Statement (presented elsewhere on this agenda).
- 2.3.2 From the information presented in this report, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the Governance Statement.

2.3.3 For future years it is proposed that a statement on compliance with the PSIAS/LGAN and progress with associated action plans will be incorporated in the Internal Audit Manager's annual report to Audit Committee (scheduled for consideration at its June meeting).

2.4 Quality Assurance and Improvement Programme (QAIP)

2.4.1 In terms of the QAIP itself, a document has been drafted (attached at Appendix C) based on best practice published by the Institute of Internal Auditors. This draws together those practices which have been established to deliver quality and continuous review and improvement in internal audit work. Members are asked to consider, comment on and endorse this document.

3.0 Details of Consultation

3.1 None specifically undertaken.

4.0 Options and Options Analysis (including risk assessment)

4.1 In terms of the review of Internal Audit's effectiveness, the options available to the Committee are to:

- a. Accept the results of the self-assessment against the PSIAS/LGAN, the self-assessment on indicators of effectiveness and the overall conclusion presented in §2.3.1; or
- b. Adopt an alternative view to that presented in the report.

4.2 Option a) is the preferred option. This will inform the Audit Committee in its consideration of the annual governance review, presented elsewhere on the agenda.

5.0 Conclusion

5.1 The legislative requirement for an annual review of the effectiveness of internal audit is at present primarily informed by self-assessment reviews undertaken by officers. The results of these reviews provide elected members with information to inform their consideration of both Internal Audit's effectiveness and the Council's overall governance arrangements and Annual Governance Statement.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)
Not applicable
FINANCIAL IMPLICATIONS
None directly arising from this report
SECTION 151 OFFICER'S COMMENTS
The Section 151 Officer has been consulted and has no further comments
LEGAL IMPLICATIONS
None directly arising from this report
MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Public Sector Internal Audit Standards

Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)

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