

AUDIT COMMITTEE

Annual Review of Internal Audit's Compliance with Professional Standards 29 June 2016

Report of the Internal Audit and Assurance 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 an updated 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 Internal Audit Quality Assurance and Improvement Programme (QAIP) for 2016/17, presented at Appendix B is noted and endorsed.**

1.0 Background

- 1.1 The Accounts & Audit Regulations 2015 include a requirement that local authorities Internal Audit functions take into account public sector internal auditing standards. These standards are those set out in the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN) (CIPFA 2013).
- 1.2 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.

2.0 Report

2.1 Compliance with the PSIAS and LGAN

- 2.1.1 A report was presented to the Audit Committee on 16th September 2015 setting out the most recent results from an initial self-assessment against the 334 lines included in the PSIAS/LGAN. At that point, the exercise identified 310 points where compliance was achieved (or which were not applicable to our situation). Non-compliance was identified in 2 instances and partial compliance (where we do comply but it is felt that there is scope to raise standards) in 22 instances.

- 2.1.2 A further annual self-assessment has now been undertaken in accordance with the QAIP, with the following outcomes:
- a) Of the 334 lines in the PSIAS/LGAN, compliance is achieved (or is not applicable to our situation) in 317 instances (previously 310);
 - b) Partial compliance is now demonstrated in 17 instances (previously 22), reflecting the position that action is ongoing to review arrangements in a number of areas.
 - c) There are no areas where non-compliance has been identified.
- 2.1.3 Appendix A sets out an update on those areas assessed as falling short of full compliance in the review of the PSIAS and a revised set of actions.

2.2 Summary

- 2.2.1 The annual review of Internal Audit's compliance with professional standards is used to inform the Audit Committee's consideration of the Internal Audit & Assurance Manager's Annual Report (presented elsewhere on this agenda) and ultimately the annual governance review and the contents of the Annual Governance Statement. (also referred to elsewhere on this agenda).
- 2.2.2 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 External Reviews

- 2.3.1 The Standards require each Internal Audit service to undergo an independent external review against the standards at least once every five years. In line with proposals reported to Audit Committee in the past, ten of the district councils represented on the Lancashire Auditors' Group have now agreed a programme of peer reviews. These arrangements involve three peer groups organised on a geographical basis in which Lancaster is grouped with Wyre BC and Allerdale BC. Lancaster's scheduled involvement is as follows:
- a) July 2017 - Review of Allerdale BC by Lancaster CC and Wyre BC
 - b) November 2017 - Review of Lancaster CC by Wyre BC and Allerdale BC
 - c) March 2018 – Review of Wyre BC by Lancaster CC and Allerdale BC
- 2.3.2 In each case the reviews will be undertaken by the authorities' head of Internal Audit, with each review planned to take a total of 5 days including two days on-site.

2.4 Assurance and Improvement Programme (QAIP)

- 2.4.1 The QAIP draws together those practices which have been established to deliver quality and continuous review and improvement in internal audit work.
- 2.4.2 The current version of the QAIP, endorsed by the Committee in September 2015, has been updated to reflect the progress made in agreeing arrangements for external assessments and the 2016/17 document is presented as Appendix B. Members are again 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 and the overall conclusion presented in §2.2.2; 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, which is referred to elsewhere on the agenda.

5.0 Conclusion

5.1 The requirement for an annual review of the internal audit's compliance with professional standards 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)
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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	Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/160629IAReview
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Public Sector Internal Audit Standards
Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)