AUDIT COMMITTEE

28 June 2017

Annual Review of Internal Audit's Compliance with Professional Standards

Report of Internal Audit & 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 and Assurance Manager's (IAAM) 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. The areas of partial compliance and agreed action is presented at Appendix A.

(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 and 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 IAAM to maintain a 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 (AGS).

2.0 Report

2.1 Compliance with the PSIAS and LGAN

2.1.1 A report was presented to the Audit Committee on 29 June 2016 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 317 points where compliance was achieved (or which were not applicable to our situation). Partial compliance was identified in 17 instances and there were no areas of non-compliance.

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 318 instances (previously 317);

   b)   Partial compliance is now demonstrated in 16 instances (previously 17), 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 action plan.

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 IAAM's Annual Report (presented elsewhere on this agenda).and ultimately the annual governance review and the contents of the AGS (to be considered at the September meeting).

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 AGS.

2.2.3 Areas of partial compliance have been identified where further work is required to reach full compliance, namely:

   a)   the introduction of internal audit performance targets;

   b)   continue to develop a fully risk based audit plan;

   c)   strengthening the council's risk management framework; and

   d)   mapping other streams of assurance that may be used to form the overall audit opinion.

An action plan has been formulated of the areas of partial compliance and these will be reviewed / addressed during the year.

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. Lancaster's scheduled involvement in the agreed peer review programme arranged through the Lancashire District Councils' Chief Auditors Group 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 The self-assessment referred to in paragraph 2.1.2 will be used as the basis of the peer review team's external assessment and the results of the external assessment will be reported to the Audit Committee in due course.

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 June 2016, has been updated to reflect the progress made in agreeing arrangements for external assessments and the 2017/18 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)

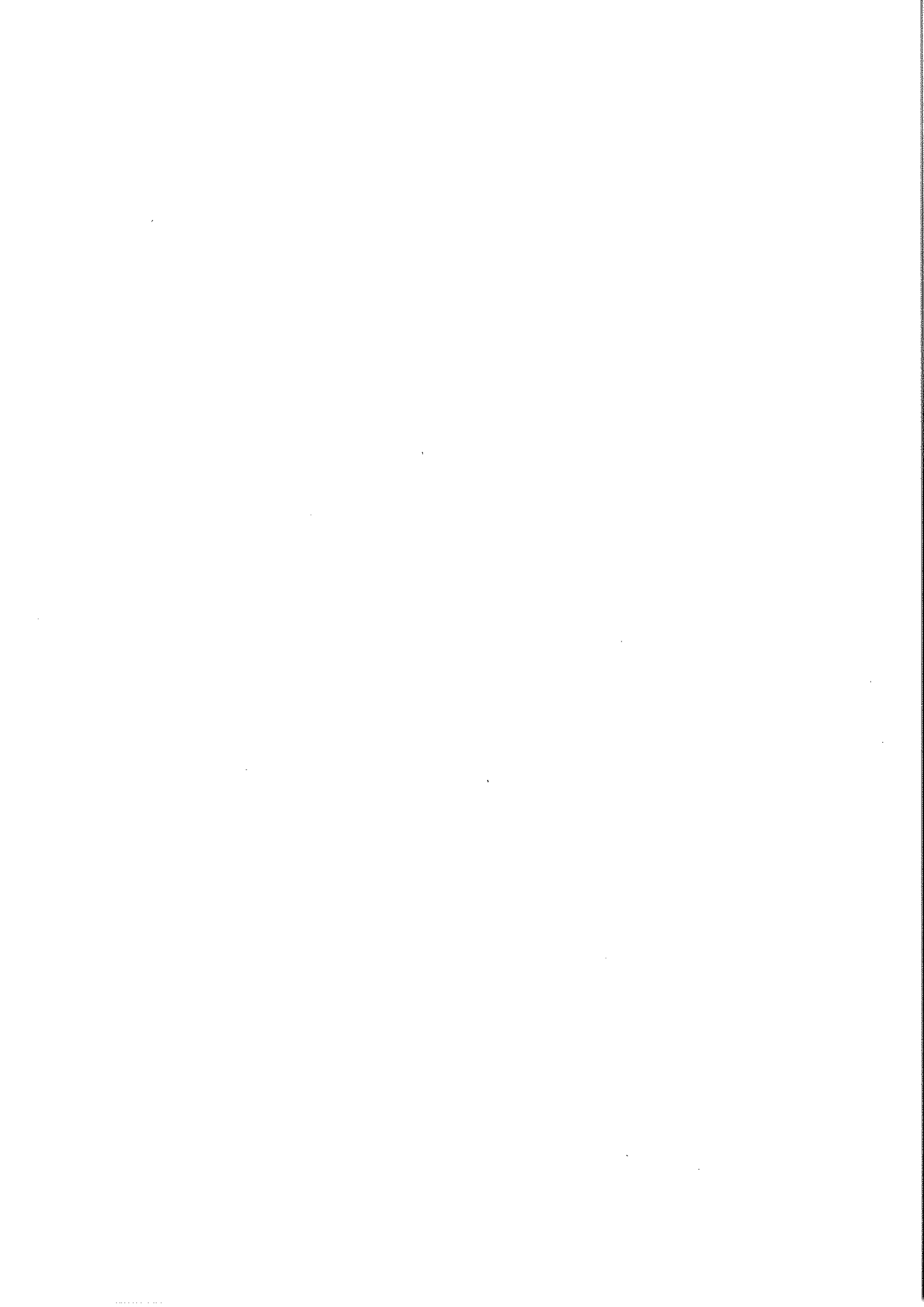4.1 In terms of the review of Internal Audit's effectiveness, the options available to the Committee are to:

    a. Accept the results of the self-assessment against the PSIAS/LGAN and the overall conclusion presented in paragraph 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 (to be considered at the September meeting).

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 AGS.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) Not applicable
FINANCIAL IMPLICATIONS
SECTION 151 OFFICER'S COMMENTS
LEGAL IMPLICATIONS
MONITORING OFFICER'S COMMENTS

BACKGROUND PAPERS Public Sector Internal Audit Standards (PSIAS) Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)	Contact Officer: Joanne Billington **Telephone:** 01524 582028 **E-mail:** jbillington@lancaster.gov.uk **Ref:** aud/comm/audit/170614IAReview

Internal Audit - PSIAS Self-Assessment Update and Action Plan, May 2017

Ref	Conformance with the Standard	Assessment	Update May 2017	Action Required	By Whom	By When
3	Attribute Standards					
3.4	1300 Quality Assurance and Improvement Programme					
	1311 Internal Assessments					
LGAN	Does ongoing performance monitoring include comprehensive performance targets?	Partial	No change from last update	Situation to be reviewed again and options for future performance monitoring to be presented to Audit Committee.	Internal Audit & Assurance Manager	31/03/2018
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	Partial	No change from last update			
4	Performance Standards					
4.1	2000 Managing the Internal Audit Activity					
	2010 Planning					
	Does the risk-based plan take into account the organisation's assurance framework?	Partial	No change from last update	Consider whether/how the assurance framework can be further developed/defined. Include any conclusions/proposals in the future IA strategic and annual plans.	Internal Audit & Assurance Manager	31/03/2018
LGAN	Does the risk-based plan set out the:					
	b) Respective priorities of those pieces of audit work?	Partial	No change from last update	Consideration will be given to whether/how to incorporate a statement of priorities	Internal Audit & Assurance Manager	31/03/2018
	2030 Resource Management					
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?	Partial	The absence of a comprehensive corporate risk information source means that audit needs assessments start from a relatively low position.	Develop this part of the risk-based plan as the corporate assurance framework and risk management strategy themselves develop.	Internal Audit & Assurance Manager	31/03/2018
	2050 Coordination					
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Partial	No change from last update	Consideration will be given to ways in which wider assurance can be obtained. Development of an Assurance Framework is being taken forward alongside the programme to develop strategic and service planning and performance and risk management. (see also section 2120 - Risk management below)	Internal Audit & Assurance Manager	31/03/2018
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	Partial	No change from last update			
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans?	Partial	No change from last update	The Council has recently been appointed a new external audit team from KPMG. Consideration will be given to re-establishing regular or appropriately scheduled meetings.	Internal Audit & Assurance Manager	30/09/2017
	2060 Reporting to Senior Management and the Board					
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	Partial	No change from last update	See comments and actions in section 2120 - Risk Management, below		

Ref	Conformance with the Standard	Assessment	Update May 2017	Action Required	By Whom	By When
4.2	**2100 Nature of Work**					
	2110 Governance					
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	Partial	No change from last update	The current positioning on IT governance will be reviewed in consultation with the CO(Resources) and ICT Mgr in developing the next round of IA strategic and annual plans	Internal Audit & Assurance Manager	31/03/2018
LGAN	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?	Partial	No change from last update			
	2120 Risk Management					
	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that:					
	b) Significant risks are identified and assessed?	Partial	Developments in this area are impacted by the extent of organisational change in recent years. These issues will be considered in developing the next IA strategic and annual plans.	The council's corporate risk management strategy is under review and being developed alongside a corporate programme to refresh and strengthen strategic and service planning and performance management.	Internal Audit & Assurance Manager	31/03/2018
	c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?	Partial	Developments in this area are impacted by the extent of organisational change in recent years. These issues will be considered in developing the next IA strategic and annual plans.	Attention and involvement in this process is necessary to ensure that risk management is fully considered and embedded in new arrangements.		
	d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?	Partial				
4.5	**2400 Communicating Results**					
	2450 Overall Opinion					
	Does the communication identify the following:					
	c) The consideration of all related projects including the reliance on other assurance providers?	Partial	Developments in this area are impacted by the extent of organisational change in recent years. These issues will be considered in developing the next IA strategic and annual plans.	Develop the use of/references to other sources of assurance in the IA Annual Report in line with the establishment of a corporate assurance framework.	Internal Audit & Assurance Manager	31/03/2018
	d) The risk or control framework or other criteria used as a basis for the overall opinion?	Partial	Developments in this area are impacted by the extent of organisational change in recent years. These issues will be considered in developing the next IA strategic and annual plans.	Develop the use of references to the risk and control framework in the IA Annual Report as a clearer corporate risk management strategy is implemented.	Internal Audit & Assurance Manager	31/03/2018

Internal Audit Quality Assurance & Improvement Programme (QAIP) 2017/18

Introduction

Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of Lancaster City Council that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS) and associated Local Government Application Note (LGAN), Definition of Internal Auditing and the Code of Ethics;

- Operates in an efficient and effective manner; and

- Is adding value and continually improving Internal Audit's operations.

The Internal Audit and Assurance Manager is ultimately responsible for the QAIP, which covers all types of Internal Audit activities. In accordance with the PSIAS, the QAIP makes provision for both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

Internal Assessment

Internal Assessment is made up of both on-going reviews and periodic reviews.

On-going Reviews

On-going review is maintained through:

- Audit policies and procedures used for each engagement including the Internal Audit Manual to ensure compliance with applicable planning, fieldwork and reporting standards;

- Assignments managed and recorded using the established electronic Audit Management System;

- An appropriate level of supervision of all engagements;

- Weekly team update meetings on progress with assignments;

- Regular, documented review of work papers during engagements.

- Seeking and reviewing post-completion feedback from audit clients for individual audit assignments;

- All draft and final reports and action plans reviewed and approved by the Internal Audit Manager.

Periodic Reviews

Periodic reviews are designed to assess conformance with Internal Audit's Charter, the PSIAS/LGAN, Definition of Internal Audit, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of the Council and its other stakeholders. Periodic reviews will be conducted through:

- Monthly one-to-one meetings between each member of the Internal Audit team and their line manager;
- Activity and performance reporting to each scheduled meeting of the Audit Committee; and
- Annual self-assessment of conformance with the PSIAS/LGAN.

Any resultant action plans will be monitored by the Internal Audit Manager in line with the Audit Committee reporting cycle.

External Assessment

External assessments will appraise and express an opinion about Internal Audit conformance with the PSIAS/LGAN, Definition of Internal Audit and Code of Ethics and include recommendations for improvement as appropriate.

Ten of the authorities involved in the Lancashire District Chief Auditors Group have now agreed upon arrangements for a 'peer review' process to meet this requirement. A memorandum of understanding has been agreed and signed by the participating bodies for the 'Peer Review' process setting the methodology for the assessment.

A schedule for assessments has been drawn up and agreed between the participants. This schedule provides for the external assessment of Lancaster City Council's internal audit function to be carried out in October 2017.

Reporting

Internal Assessments: the outcomes and conclusions from internal assessments will be reported to the Audit Committee on an annual basis; normally as part of the Internal Audit and Assurance Manager's Annual Report.

External Assessments: the results of external assessments will be reported to the Audit Committee at the earliest opportunity following receipt of the external assessor's report. The external assessment report will be accompanied by an action plan in response to significant findings and recommendations contained in the report.

Follow Up: the Internal Audit and Assurance Manager will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.