

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 28th September 2017
Report of: Corporate Manager Governance and Audit
Title: Review of the Effectiveness of Internal Audit and Compliance with the Public Sector Internal Audit Standards
Portfolio Holder: Councillor Rachel Bailey

1.0 Report Summary

- 1.1 This report provides the Audit and Governance Committee with an update in relation to the independent Public Sector Internal Audit Standards (PSIAS) external assessment which is scheduled to take place later in the 2017/18 year.

2.0 Recommendation

- 2.1 That the Committee:
- i) is asked to note the forthcoming external assessment of Internal Audit against PSIAS and its scope and to agree that the Council's Chief Executive is appointed as sponsor of the assessment.

3.0 Reasons for Recommendation

- 3.1 This aligns with the Audit and Governance Committee's terms of reference, work programme, and overall responsibility for governance, ensuring the efficiency and effectiveness of Internal Audit arrangements on an ongoing basis.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications

- 7.1 The Internal Audit team must be appropriately resourced to comply with statutory and best practice requirements. There are no direct financial implications arising from the report, other than the commitment required from the Council's Internal Audit team to participate in peer reviews as part of the agreement with the North West Chief Audit Executive Group. This commitment has been included in internal audit planning process for 2017/18.

8.0 Legal Implications

- 8.1 Section 151 of the Local Government Act 1972 requires Councils “to make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2015 establishes a specific responsibility for the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Audit Standards or guidance”.
- 8.2 Undertaking an external assessment provides independent assurance on Internal Audit’s compliance with the Standards.

9.0 Risk Management

- 9.1 Failure to consider the effectiveness of the Council’s system of internal audit, and the Internal Audit opinion on the Council’s control environment, could result in non-compliance with the requirements of the Accounts and Audit Regulations 2015.

10.0 Background

- 10.1 Internal Audit is required to comply with the PSIAS which were introduced with effect from 1 April 2013. As part of the PSIAS, the Head of Internal Audit must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of Internal Audit activity. The QAIP should be designed to enable an evaluation of Internal Audit’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics, all of which form part of the PSIAS. The QAIP should also assess the efficiency and effectiveness of Internal Audit activity and identify opportunities for improvement.
- 10.2 Performance against the QAIP is reported to Committee through the Internal Audit Update reports, with additional specific reports as necessary, for example, where changes to the Internal Audit Charter have been required. As previously reported to Committee, a self assessment against
- 10.3 One of the key requirements of the QAIP set out within the PSIAS is for an external assessment to be carried out on Internal Audit at least every five years. Such an external assessment would be focused on appraising and expressing an opinion on Internal Audit’s conformance with the PSIAS’ Definition of Internal Auditing and Code of Ethics and include recommendations for improvement where appropriate. All local authorities should have had their first external assessment by 31 March 2018.
- 10.4 As previously reported to Committee, the North West Chief Audit Executives’ Group (NWCAEG) has initiated a “peer review” process, to be developed, managed and operated by the constituent authorities. Pilot reviews have been undertaken and the main programme of reviews is now underway. Internal Audit’s Principal Auditors will be undertaking reviews of other participating authorities. It is currently anticipated that the external assessment of Internal Audit for Cheshire East Council will take place in the last quarter of 2017/18.
- 10.5 The scope of the assessment is set out in the NWCAEG Memorandum of Understanding (MoU). This has been included for Member’s information in Appendix 1. The assessment will involve a review of supporting documentation and a survey of key stakeholders at the Council. This will

include the Chief Executive, Director of Finance and Procurement as Section 151 Officer, Monitoring Officer, the Chair of the Audit and Governance Committee, other Corporate Leadership Team attendees and a sample of auditees.

- 10.6 The assessment will be carried out by two independent Heads of Internal Audit or their delegated representatives, who will have declared that they have no conflict of interests in undertaking the assessment. It is proposed that the Council's Chief Executive acts as sponsor for the external assessment.
- 10.7 The results of the external assessment will be reported back to the Audit and Governance Committee. The assessment report will be supported by an action plan, which will address any significant comments and recommendations identified by the review. Any significant areas of non-conformance with the Standards will be reported in the Internal Audit Annual Report and will also be reflected in the Annual Governance Statement.

11.0 Access to information

The background papers relating to this report can be inspected by contacting the report writers:

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