

Audit & Governance Committee

Date of Meeting: 27 September 2018

Report Title: Outcome of the External Assessment of Internal Audit and Compliance with the Public Sector Internal Audit Standards.

Senior Officer: Jan Willis, Interim Executive Director of Corporate Services

1. Report Summary

- 1.1. The purpose of this report is to update the Audit and Governance Committee on the outcome of the external assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS), carried out under the peer review process reported to the Committee in September 2017. A copy of the Final Report including the Action Plan to address required improvement actions is included as Appendix A.

2. Recommendation

- 2.1. That the Committee note the outcome of the external assessment and the action plan provided.

3. Reasons for Recommendation

- 3.1. The Audit and Governance Committee have responsibility for overseeing internal audit arrangements and ensuring efficient and effective arrangements are in place. Receiving the report on the outcome of the external assessment of internal audit against the Standards supports the Committee in fulfilling this responsibility.

4. Other Options Considered

- 4.1. Not applicable.

5. Background

- 5.1. Audit and Governance Committee received a report in September 2017 explaining the requirement under the PSIAS, for an external assessment of the Internal Audit function to be carried out at least every five years. All local authorities should have had this assessment by 31st March 2018.

- 5.2. Self assessment against the Standards, resulting in an action plan, has been carried out each year as part of the review of Internal Audit effectiveness in support of the Annual Governance Statement, and was updated ahead of the external assessment. These have been reported on to the Committee in the Annual and Interim Internal Audit reports.
- 5.3. This Council's assessment was carried out under the peer review process developed and managed by the North West Chief Audit Executive's Group (NWCAEG) and was carried out at the end of January 2018, as an independent external validation of the self assessment. The assessment was undertaken by the Heads of Internal Audit from Wirral and Stockport Councils. Their final report has been subject to an independent moderation process. An action plan has been developed to address the areas of partial and non compliance; this is included within the Final report at Appendix A.
- 5.4. The overall judgment of the assessors was that the service is currently "Partially Compliant" with the Public Sector Internal Audit Standards. The implementation of the actions in the plan will ensure full compliance with the Standards; the Committee will note that a number of the required actions have already been implemented, and that timescales and responsibilities have been established for the remainder.
- 5.5. Standard 1322 requires non-conformance which impacts on the overall scope or operation the internal audit activity to be disclosed by the chief audit executive to senior management and the board (Audit and Governance Committee). Consideration has been given to whether the partial conformance assessment represents such significant non conformance with the Standards as to require this disclosure; the conclusion was that the nature of the items raised in the assessment has not resulted in detriment to the quality of the service being delivered, or to the value being added to the organisation by the service.
- 5.6. This conclusion has been supported by the conclusions of the assessors; "...enabling the Internal Audit team to deliver a function that, whilst maybe not being in full compliance with the Standards, has certainly contributed effectively to the organisation in terms of ongoing assurance and governance. It is worth noting that the service is highly regarded by Chief Officers and other stakeholders alike."
- 5.7. The external assessment has raised concern over the resourcing of internal audit; this is an issue recognised by the Corporate Leadership Team and the Audit and Governance Committee. Should the restructuring of the internal audit function fail to progress, the conclusion on the impact that has, and the decision to non-conformance report in the Annual Opinion report and the Annual Governance Statement would need to be revisited.

- 5.8. Progress on the implementation of the actions will be reported on to Senior Management and to the Audit and Governance Committee through the Internal Audit Interim and Annual reports.

6. Implications of the Recommendations

6.1. Legal Implications

- 6.1.1. 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 ensure that an officer has responsibility for the administration of those affairs.
- 6.1.2. The Accounts and Audit Regulations 2015 state that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective, and 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.
- 6.1.3. Under the Public Sector Internal Audit Standards, the chief audit executive is required to develop and maintain a Quality Assurance and Improvement Programme covering all aspects of Internal Audit activity. This should cover internal and external assessments.
- 6.1.4. Reporting the results of the assessments to the Audit and Governance Committee enables the committee to oversee the independence, objectivity, performance and professionalism of the Internal Audit activity, a function of the Committee which is described in the CIPFA position statement.

6.2. Finance Implications

- 6.2.1. There are no direct financial implications arising from this report.

6.3. Policy Implications

- 6.3.1. Reporting the outcome of internal and external assessments undertaken to the Audit and Governance ensures compliance with the Public Sector Internal Audit Standards and fulfils the Committee's Terms of Reference.

6.4. Human Resources Implications

- 6.4.1. The Principal Auditors are continuing in their acting up arrangements to cover the role and responsibilities of the Head of Internal Audit whilst the restructure progresses. Both have undertaken assessments at other Council's participating in the NWCAEG peer review process.

6.5. Risk Management Implications

- 6.5.1. 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 and the requirements of the Public Sector Internal Audit Standards.

6.6. Rural Communities Implications

- 6.6.1. There are no direct implications for rural communities.

6.7. Implications for Children & Young People

- 6.7.1. There are no direct implications for children and young people.

6.8. Public Health Implications

- 6.8.1. There are no direct implications for public health.

7. Ward Members Affected

- 7.1. All wards affected.

8. Access to Information

- 8.1. "Review of the Effectiveness of Internal Audit and Compliance with the Public Sector Internal Audit Standards" – Cheshire East Council, Audit and Governance Committee, 28th September 2017

9. Contact Information

- 9.1. Any questions relating to this report should be directed to the following officer:

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