

Audit & Governance Committee

Date of Meeting: 14 March 2019

Report Title: Internal Audit Interim Report September – December 2018

Senior Officer: Mark Taylor, 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 progress against the Internal Audit Plan 2018/19, revisions to the plan, to summarise work undertaken to the end of December 2018 (see Appendix A) and to present the updated Internal Audit Charter for approval by the Committee (see Appendix B).

2. Recommendations

- 2.1. That the Committee:
 - 2.1.1. Note the internal audit progress report; and
 - 2.1.2. Approve the updated Internal Audit Charter.

3. Reasons for Recommendations

- 3.1. The Committee receives regular reports on Internal Audit's performance to support the effectiveness of the internal audit process.
- 3.2. The Internal Audit Charter (Appendix B) has been updated to ensure compliance with the Public Sector Internal Audit Standards.

4. Other Options Considered

- 4.1. Not applicable.

5. Background

- 5.1. The Public Sector Internal Audit Standards (PSIAS) Local Government Application Note states that, "in addition to the annual report, the Chief Audit Executive should make arrangements for interim reporting to the

organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report and hence support a 'no surprises' approach, as well as assist management in drafting the Annual Governance Statement".

- 5.2. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council's objectives.
- 5.3. It should be noted that Internal Audit's risk based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 5.4. A report summarising the work undertaken, the issues identified and the actions required is produced for each review undertaken. The process of reviewing the report from draft to final ensures that the findings are confirmed to be factually accurate, and that the management actions will result in improvements to the control environment. Draft reports are agreed with the appropriate managers, and the Final reports are shared with the relevant Executive Director. The implementation of agreed actions is monitored through the follow up process, and performance in this area is reported regularly to the Corporate Leadership Team and the Committee.
- 5.5. The Public Sector Internal Audit Standards, which define proper practice for public sector internal audit functions were introduced in 2013 and last updated in March 2017. In Internal Audit's self assessment against the Standards it was noted that whilst that the Charter largely fulfils the specific requirements of the PSIAS as outlined in the LGAN, it would benefit from greater clarification regarding the following to ensure full compliance:
 - Definition/nature of consultancy work and assurance work;
 - Responsibility of Board and senior officers in relation to Internal Audit, specifically the appointment, removal, appraisal and remuneration of the Head of Internal Audit and the budget and resource plans for the service;
 - Ensuring that the Charter reflects the current interim arrangements in relation to the management of the Internal Audit Service.

- 5.6. The Audit Charter has been reviewed and updated to address these suggested improvements and is attached as Appendix B to this report.

6. Implications of the Recommendations

6.1. Legal Implications

- 6.1.1. The requirement for an internal audit function flows from Section 151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2015 (Regulation 5) requiring a relevant body to “undertake an adequate and 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”

6.2. Finance Implications

- 6.2.1. There are no financial implications for this report.

6.3. Policy Implications

- 6.3.1. Reporting progress to the Audit and Governance Committee on an interim basis and regular review and updating of the Internal Audit Charter 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. As detailed in the interim report, 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.

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/Cared for Children

- 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. Cheshire East Council Internal Audit Plan 2018/19 – Approved by Audit and Governance Committee 15th March 2018.

8.2. [Public Sector Internal Audit Standards](#)

9. Contact Information

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

Name: Michael Todd/Josie Griffiths

Job Title: Principal Auditors

Email: michael.todd@cheshireeast.gov.uk

josie.griffiths@cheshireeast.gov.uk