



AGENDA ITEM: 9

AUDIT AND GOVERNANCE COMMITTEE:

27 January 2015

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

**Contact for further information: Mr M.Coysh (Extn. 2603)
(E-mail: mike.coysh@westlancs.gov.uk)**

SUBJECT: EXTERNAL REVIEW OF INTERNAL AUDIT

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To seek Members' views on the commissioning of an external review of internal audit.

2.0 RECOMMENDATION

2.1 That consideration be given to the means of securing the external review and whether any commitment in principle to the Lancashire Districts peer review process should be made at this time.

3.0 BACKGROUND

3.1 The Public Sector Internal Audit Standards (the Standards) require the Audit Manager to have in place a Quality Assurance and Improvement Programme (QAIP). This programme must include provision for the evaluation of internal audit's compliance with the Definition of Internal Auditing, the Standards and the Code of Ethics.

3.2 The Standards require regular in-house evaluation with an external assessment by a suitably qualified assessor from outside the organisation every five years. The standards came into force in 2013 so the first external review will need to have been completed by 31/3/2018 at the latest. There is no pressing need to complete an external review at this time although it would be prudent to have completed it well in advance of the deadline.

- 3.3 Three possible routes to satisfy the requirements of the PSIAS have been identified to date.
- Review by the Chartered Institute of Internal Auditors UK. (CIIA)
 - Review by peer group.
 - Review by a commercial provider of accountancy and audit services.
- 3.4 As external review was a new requirement for local government there were no pre-existing providers of “off the shelf” public sector external assessments and as few authorities have undergone external assessment as yet there is no track record of reviews for comparison purposes.
- 3.5 Review by the CIIA would satisfy all the requirements of the Standards. The review would be demonstrably independent and avoid any obvious sources of conflict of interests. Costs for this option are not known at this time.
- 3.6 Review by peer group could satisfy all of the requirements of the Standards. While this process would meet the criteria for independence it may be harder to dispel any perception of this. Proper specification of the review will avoid any conflict of interests. While costs are not known at this time this is likely to have the lowest direct financial costs but the time overhead could be greater than with other methods.
- 3.7 Review by a commercial provider of accountancy services could satisfy all the requirements of the Standards. With due care in selecting a provider the independence requirement can be met and with proper specification of the review any conflicts of interest avoided. Costs for this option are not known at this time.
- 3.8 It was intended to research options thoroughly during 2015 as the market for these services matured, report the options to this Committee make any necessary budget provision and commission the review in 2016 for completion by mid 2017.

4.0 CURRENT DEVELOPMENTS

- 4.1 Meetings of the Lancashire District Councils Audit Group (LDCAG) have discussed the new requirement for external review on a number of occasions. The group considered the merits of setting up a peer review process for Lancashire Authorities and a sub group was set up to explore the feasibility of this approach.
- 4.2 The sub group reported back to the last meeting of the LDCAG outlining a peer review process which could meet the requirement based on a tripartite arrangement whereby no authority would assess those responsible for their own review.
- 4.3 The development of such a proposal beyond this outline stage would require a commitment of resources by group members and at the last LDCAG meeting it was decided that “.....before this can be taken forward each authority needs to clarify if they are interested in being involved in tri partite reviews. This will require agreement from senior management and audit committees before an

approach as to how to conduct the peer review can be developed. Members of the group are to report back to the sub-group by January 2015 following their next audit committee meeting confirming whether they wish to participate.”

5.0 CONCLUSIONS

- 5.1 There are a number of organisations capable of providing this assessment but at this stage there is little concrete information to put before Committee
- 5.2 LDCAG are considering commissioning a peer review process. They have identified a need to clarify likely uptake before committing resources to developing the approach further.
- 5.3 It is appropriate to afford members the opportunity to consider this external assessment route while there is an opportunity to secure involvement.

6.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

- 6.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

7.0 FINANCIAL AND RESOURCE IMPLICATIONS

- 7.1 There are no significant financial or resource implications arising from this report at this time. Commissioning of an external assessment may require a suitable budget provision in due course.

8.0 RISK ASSESSMENT

- 8.1 A review of Internal Audit in accordance with the Public Sector Internal Audit Standards is required to ensure that the Council complies with statutory requirements. This must have been completed by 31/3/2018

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.