



AUDIT AND GOVERNANCE COMMITTEE:

24 July 2018

Report of: Borough Treasurer

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SUBJECT: EXTERNAL REVIEW OF INTERNAL AUDIT

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To advise Members of the outcome of the external review of internal audit's conformance to the Public Sector Internal Audit Standards (the review).

2.0 RECOMMENDATION

2.1 That Members note the review's overall conclusion that West Lancashire Borough Council's Internal Audit Service generally conforms to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note.

3.0 BACKGROUND

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA), the body responsible for setting Standards for Internal Audit in local government across the UK, together with the Standard setters for other public services have adopted a common set of Public Sector Internal Audit Standards (PSIAS).

3.2 These are based on the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework and include its Definition of Internal Auditing, Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

3.3 In creating the PSIAS the mandatory elements of the International Professional Practices Framework have been interpreted or adapted where necessary for the public sector and CIPFA has published a Local Government Application Note to provide sector-specific guidance.

3.4 The Standards define the nature of internal auditing and principles for carrying out internal audit within the UK public sector, establishing a framework for providing internal audit services which add value to the organisation, leading to

improved organisational processes and operations, and also provide the basis for the evaluation of internal audit performance and improvement planning.

- 3.5 The Standards require regular in-house evaluation of internal audit's compliance with the PSIAS with an external assessment by a suitably qualified assessor from outside the organisation every five years.
- 3.6 Following consideration by this Committee CIPFA were commissioned to undertake the external review of the Council's Internal Audit Service which was carried out in February and March of this year.
- 3.7 The final report on the review was released in June and is attached at appendix 1.

4.0 Summary of findings

4.1 The review examined Internal Audit's conformance with the Code of Ethics and each individual element of the Standards grouped under the 11 headings set out below.

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme
- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

4.2 External reviews have one of three outcomes, finding that a service either:

- **Does not conform to the Standards** - The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.
- **Partially conforms to the Standards** - the internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
- **Generally conforms to the Standards** - The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.

4.3 The review concluded:

"From the evidence reviewed as part of the external quality assessment, it is apparent that the Council's Internal Audit Service is a competent and respected

Service. The Service is effective, follows best practice wherever it can, and is willing to adapt to the changing needs of the Council. Recent appointments have strengthened the team and these will enable the Internal Audit Manager to adapt and develop the Service in a way that will ensure it remains effective and aligns with the changing needs of the Council.

Internal Audit is providing an objective risk based internal audit service to the Council, but nonetheless there are opportunities to enhance and develop their operations that they should embrace if they are to maintain their status within the Council, and enhance their conformity to the PSIAS and the LGAN.

During this review, we did not identify any areas of non-compliance with the standards. We have identified one area of partial compliance with the standards, and where the Service generally conforms to the standards, we have identified some minor observations that should be addressed.

On this basis, it is our opinion that West Lancashire Borough Council's Internal Audit Service **GENERALLY CONFORMS** to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note."

- 4.4 Internal audit found the review process positive and would like to record their appreciation for the opportunity afforded them to explore potential enhancements to the service at length with the lead reviewer whose experience, in depth knowledge and insights on current developments in the field proved a useful source of reference for the entire team.
- 4.5 An action plan has been agreed to address the report's recommendations and suggestions for enhancements to the service.

5.0 SUSTAINABILITY IMPLICATIONS

- 5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

6.0 FINANCIAL AND RESOURCE IMPLICATIONS

- 6.1 The financial and resource implications arising from actions identified in this report are included in existing budget provisions with the exception of those relating to potential opportunities to enhance the service. Should these be adopted they will be progressed through the regular budget setting process.

7.0 RISK ASSESSMENT

- 7.1 The results of the external review of internal audit were positive. An action plan has been agreed to further enhance the services conformance with the PSIAS and ensure that it continues to meet the Standards to discharge the Council's statutory duty under the Accounts and Audit Regulations 2015 to undertake an effective internal audit evaluating the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

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.

Appendices

Appendix 1 - Report of the External Quality Assessment of Conformance to the Public Sector Internal Audit Standards - West Lancashire Borough Council