



AUDIT AND GOVERNANCE COMMITTEE:
30 May 2023

Report of: Corporate Director of Transformation, Housing & Resources

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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 assessment 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.
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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 annual 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 This committee delegated authority to the Head of Finance, Procurement & Commercial Services and the Corporate Compliance and Governance Manager on 25 October 2022 to procure the external assessor for the 2023 external review. Following a procurement exercise, 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 April 2023 and is attached at Appendix 1.

4.0 SUMMARY OF FINDINGS

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

- Mission Statement
- Core Principles
- Code of Ethics
- Attribute Standard 1000 - Purpose, authority and responsibility
- Attribute Standard 1100 - Independence and objectivity
- Attribute Standard 1200 - Proficiency and due professional care
- Attribute Standard 1300 - Quality assurance and improvement programme (QAIP)
- Attribute Standard 2000 - Managing the internal audit activity
- Attribute Standard 2100 - Nature of work
- Attribute Standard 2200 - Engagement planning
- Attribute Standard 2300 - Performing the engagement
- Attribute Standard 2400 - Communicating results
- Attribute Standard 2500 - Monitoring progress
- Attribute Standard 2600 - 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; not making efforts to comply with; or is failing to achieve many/all of the individual Standards, elements of the Code of Ethics, or the Local Government Application Note. These deficiencies will usually have a significant adverse impact on Internal Audit's effectiveness and its potential to add value and are likely to represent significant opportunities for improvement to Internal Audit. Some identified deficiencies may be beyond the control of Internal Audit and may result in recommendations to Senior Management or the Board of the organisation.

Partially conforms to the Standards - The Internal Audit Service is endeavouring to deliver an effective service however, they are falling short of

achieving some of their objectives and/or generally conforming to a majority of the individual Standards, elements of the Code of Ethics, or the Local Government Application note and at least partial conformance to the others. There will usually be significant opportunities to improve the delivery of effective internal audit, and enhance conformance to the Standards, elements of the Code of Ethics, and/or the Local Government Application Note. The Internal Audit Service may be aware of some of these opportunities and the areas they need to develop. Some identified deficiencies may be beyond the control of Internal Audit and may result in actions for Senior Management or the Board of the organisation to address

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 individual Standard, the element of the Code of Ethics, and the Local Government Application Note in all material respects. This means that there is general conformance to a majority of the individual Standards, elements of the Code of Ethics, or the Local Government Application note, and at least partial conformance to the others.

- 4.2 The external assessor concluded that "It is our opinion that the self-assessment for the West Lancashire Borough Council's Internal Audit Service is accurate, and we therefore conclude that the Internal Audit Service **GENERALLY CONFORMS** to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note".
- 4.3 The Internal Audit Service received no High, Medium or Low actions, however, there were six advisory actions which classified as *"issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice."*

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 activity identified in this report are included in existing budget provisions.

7.0 RISK ASSESSMENT

- 7.1 This report summarises the outcome of the external assessment of the Internal Audit Services compliance with the Public Sector Internal Audit Standards. Internal Audit's work is a key source of assurance to this Committee in relation to

the risk management, control and governance processes the Council has in place to secure its objectives.

8.0 HEALTH AND WELLBEING IMPLICATIONS

8.1 There are no health and wellbeing implications arising from this report.

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

1. External Quality Assessment of Conformance to the Public Sector Internal Audit Standards – Final Report