

REPORT OF: FINANCIAL SERVICES MANAGER
TO: ACCOUNTS AND AUDIT COMMITTEE
DATES: 31st JULY 2017

Report Author: Vince Green
Tel. No: 01282 661867
E-mail: vince.green@pendle.gov.uk

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2016/17

PURPOSE OF REPORT

1. To provide the Accounts and Audit Committee with various forms of assurance to enable a review of the effectiveness of the Council's system of internal audit to be undertaken.

RECOMMENDATIONS

2. It is recommended that the Accounts and Audit Committee review the effectiveness of the Council's system of internal audit as it applied in 2016/17 using the sources of assurance presented in this report.

REASONS FOR RECOMMENDATION

3. For the Committee to consider and assess the outcomes from a review of the effectiveness of the system of internal audit.

ISSUE

Background

4. Regulation 5 in Part 2 of the Accounts and Audit Regulations 2015 states:

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.

5. The regulations also include the requirement for the Council to conduct a review of the effectiveness of its system of internal control and to prepare an Annual Governance Statement (AGS). The findings of the review should be considered by a Committee of the Council (in Pendle's case, it is this Committee). The AGS for 2016/17 is included in the Statement of Accounts presented for approval elsewhere on this agenda.
6. This report sets out various areas of assurance that have been relied upon when reviewing whether the system of internal audit is effective. The sources of assurance are outlined below.

The System of Internal Audit

7. The definition of Internal Audit is:-

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

8. The key components of the Council's system of Internal Audit as it operated during 2016/17 included:-

- An independent and objective Internal Audit team comprising appropriately experienced and qualified staff;
- A Strategic Internal Audit Plan to guide the medium term planning for the internal audit team;
- An agreed Annual Internal Audit plan prepared using a risk based approach;
- The Accounts and Audit Committee which is independent of the Executive and has, amongst other things, responsibility for monitoring the delivery of the Internal Audit plan and the implementation of audit recommendations;
- The scope for the Audit and Performance Manager to report directly to management and Councillors where there are circumstances that require this to happen.

9. The information provided below outlines various forms of assurance for the Committee when considering the effectiveness of the system of internal audit. This report should be considered in conjunction with the Annual Internal Audit report and Annual Governance Statement presented elsewhere on the agenda for this meeting.

Compliance with Public Sector Internal Audit Standards

10. The work of Internal Audit must be conducted in compliance with Public Sector Internal Audit Standards (PSIAS) which were adopted from April 2013. The PSIAS standards comprise Attribute Standards (ranging from the Purpose, Authority and Responsibility of Internal Audit to having a Quality Assurance and Improvement Programme) and Performance Standards (including Managing the Internal Audit Activity, Audit Planning and Performance and Communicating the results of the work undertaken).
11. Compliance with the PSIAS provides an indication of the effectiveness of the system of internal audit and in recognition of this, there is a checklist against which local authorities can self-assess compliance. A self-assessment was carried out using the checklist and the Council's Internal Audit Service remains compliant in most applicable areas. The notable exception as reported in previous years has been the requirement for there to be an external assessment of Internal Audit which must be undertaken once within a 5 year period.
12. This exception was addressed during 2016/17 when, under collaborative arrangements implemented by the Lancashire District Council's Audit Group (LDCAG), the Internal Audit service was independently reviewed by an external peer team. The outcomes from the review were reported to this Committee in January. The report from the Peer Review team determined that the internal audit service conformed to the standards and commented as follows in their report:

"Within the checklist there are 327 questions on CIPFA LGAN Checklist with the Standards. The Peer Review identified only 4 points for consideration into the service's QAIP (Quality Assurance & Improvement Programme). This is a significant and remarkable level of compliance with the Standards at 99%.

Whilst not specifically covered by the Peer Review there were some specifically positive points of action. The service's benchmarking outcomes indicate an economic and efficient service. The auditors were experienced and knowledgeable on the audit areas which enables this and the audit process is streamlined to achieve tight delivery timescales. The assurance coverage was tailored to the requirements of the organisation.

The internal audit recommendations database or IARD was a particularly good way of ensuring accountability for the timely implementation of recommendations. There was comprehensive management feedback on every audit. The working papers and audit documenting process was lean and enabled the rapid reporting by exception which the service has developed. The impact of the service within the organisation was very positive and all the responders to the questionnaires sent out gave agree (84%) or partially agree (16%) return."

External Audit

13. Grant Thornton, the Council's External Auditor, have not yet completed their audit of the Council's accounts for 2016/17. The audit undertaken by Grant Thornton is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of their testing, they identify any control weaknesses, they report these to the Council.
14. Based on discussions with Grant Thornton at the time of writing this report there were no such control weaknesses that they wished to highlight. Should this position change, details will be reported at the meeting within the Audit Findings Report which is presented elsewhere on this agenda.
15. In respect of their assessment of the internal audit service in 2016/17, Grant Thornton concluded in their report to the Committee in March as follows:

Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.

Audit and Performance Manager's Opinion – System of Internal Control

16. Annually, the Audit and Performance Manager is required to give an opinion on the adequacy of the Council's internal controls based on the work undertaken by Internal Audit during the year. As reported in the Internal Audit Annual Report, the Audit and Performance Manager concluded that:-

"Internal Audit reports on both Corporate Governance and Internal Control arrangements. The Audit & Performance Manager was satisfied through the review of internal control during 2016/17 that internal control in the Council is good, although it is not possible to provide absolute assurance about the overall system of internal control."

17. There were no audits subject to a 'limited assurance' opinion in 2016/17.

Performance Indicators

18. A range of local performance indicators was established to measure the performance of Internal Audit. A summary of the performance indicators for 2016/17 is provided in the Internal Audit Annual report elsewhere on this agenda.

Client Satisfaction

19. After the completion of each individual audit assignment, the Audit and Performance Manager issues a client satisfaction questionnaire to each auditee along with the final audit report. The purpose of the questionnaire is to obtain information from auditees about a range of issues including:-
- Conduct of the Auditor
 - Effectiveness of the Audit
 - Timeliness of Reporting
20. The Auditee is required to rank performance on each criterion giving an overall assessment score. In 2016/17, the average score for all questionnaires was 96.4% satisfaction, an increase on the level achieved in the previous year of 93.2%.

The Accounts and Audit Committee

21. As indicated above, the system of Internal Audit is broader than the role of Internal Audit and also incorporates the work undertaken by the Accounts and Audit Committee.
22. The Accounts and Audit Committee, has Terms of Reference approved by the Council and has met regularly during the 2016/17 financial year. Attendance statistics for the Committee are shown in the table below:-

Date of Meeting	Attendance	Date of Meeting	Attendance
26th June 2008	85.7%	30 th Jan 2013	87.5%
25th Sept 2008	71.4%	18 th March 2013	50.0%
15th Jan 2009	85.7%	15th July 2013	50.0%
24th March 2009	71.4%	25th Sept 2013	62.5%
29th June 2009	57.1%	29th Jan 2014	37.5%
29th Sept 2009	57.1%	31st March 2014	37.5%
27 th Jan 2010	57.1%	23 rd July 2014	87.5%
24 th March 2010	57.1%	29 th Sept 2014	62.5%
28 th June 2010	71.4%	28 th Jan 2015	50.0%
28 th Sept 2010	42.9%	24 th March 2015	37.5%
19 th Jan 2011	71.4%	22 nd July 2015	50.0%
30 th March 2011	Mtg Cancelled	28 th Sept 2015	85.7%
20th July 2011	57.1%	27 th Jan 2016	57.1%
28th Sept 2011	100.0%	22 nd March 2016	57.1%
18th Jan 2012	71.4%	28 th July 2016	71.4%
28th March 2012	57.1%	28 th Sept 2016	57.1%
9 th July 2012	50.0%	25 th Jan 2017	71.4%
26 th Sept 2012	50.0%	21 st March 2017	42.9%

In July 2015 the Council agreed that from 1st August 2015, membership of the Accounts and Audit Committee would reduce from 8 to 5 Councillors plus two independent members.

23. As can be seen from the table above the level of attendance continues to fluctuate with the March meeting having the lowest level of attendance during the last financial year when only 3 out of 7 members attended. Over the year, the Committee considered, amongst other things, reports from Internal and External Audit as well as matters such as the Council's Treasury Management, Corporate Governance and Risk Management activities.

24. The appointment of 2 independent members has brought additional skills and knowledge to the working of the Committee with persons appointed who each have considerable experience of audit and financial management. Further work is required to help the Committee identify and address any training requirements and to provide a framework against which it can assess its own effectiveness.

Summary

25. The Committee will appreciate, there is no one source of assurance that can demonstrate the effectiveness of the overall system of internal audit. As a result, various sources of assurance have been presented in this report which it is considered, when taken together, demonstrate an effective system of internal audit.
26. The Committee is therefore requested to consider and accept the evidence provided here as providing assurance on the overall effectiveness of the Council's arrangements in 2016/17.

IMPLICATIONS

Policy

27. There are no policy implications arising directly from the contents of this report.

Financial

28. There are no financial implications arising directly from the contents of this report.

Legal

29. The Accounts and Audit Regulations 2015 require the Council to maintain an effective Internal Audit function.

Risk Management

30. There are no risk management implications arising directly from the contents of this report.

Health and Safety:

31. There are no health and safety issues arising directly from the contents of this report.

Sustainability:

32. There are no sustainability issues arising directly from the contents of this report.

Community Safety:

33. There are no community safety issues arising from this report.

Equality and Diversity:

34. There are no equality and diversity issues arising from this report.

APPENDICES

None.