

REPORT OF: CHIEF FINANCIAL OFFICER
TO: ACCOUNTS AND AUDIT COMMITTEE
DATES: 25th July 2019

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EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2018/19

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 2018/19 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 2018/19 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 audit 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 2018/19 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 Policy and Resources Committee (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 Internal Audit 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 (AGS) 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 and updated in March 2017. 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 CIPFA Local Government Application Note (LGAN) checklist against which local authorities can self-assess compliance, this is done annually, and we can report ongoing compliance, the checklist is available on request.

External Audit

12. Grant Thornton, the Council's External Auditor, have not yet completed their audit of the Council's accounts for 2018/19 as at the day of writing this report. The vast majority of it has been completed, however, with regular liaison meetings occurring between Financial Services staff and Grant Thornton auditors throughout the process. The audit undertaken by Grant Thornton is not designed to test all internal controls or identify all areas of control weakness, however, if as part of their testing they identify any control weaknesses, they report these to the Council.
13. Based on the discussions with Grant Thornton as at today (23/07/19) 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 from Grant Thornton which is presented elsewhere on this agenda.
14. In respect of their assessment of the internal audit service in 2016/17, Grant Thornton concluded in their report to the Committee in March 2017 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.

15. In 2018/19 there is no equivalent assessment and conclusion, however, external audit have not identified Internal Audit as an area that is high risk and therefore requiring additional inspection and scrutiny.

Audit Manager's Opinion – System of Internal Control

16. Annually, the Audit 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 Annual Governance Statement (AGS) the overall opinion expressed by the Internal Audit Manager for 2018/19 states that:-

*"Internal Audit reports on the effectiveness of governance, risk management and internal control arrangements. In giving this opinion, it should be noted that no assurance can be absolute, the Internal Audit Manager has concluded that **substantial assurance** can be taken that arrangements in place to secure governance, risk management and internal control within those areas audited, are suitably designed and applied effectively. This opinion is reflective of the high number of substantial or full assurance opinions provided."*

Where there has been a level of non-compliance with controls and/or a Limited or None Assurance given then recommendations have been made and Internal Audit has worked with Management to agree a timescale for implementation of these. Three audit reviews were subject to a Limited Assurance opinion, namely, Sundry Debtors, Critical Application review - Uniform (IDOX) and GDPR. The GDPR report has been considered by the Information Governance Working Group and the Corporate Governance Group.

These three reports have also been reported to Management Team with the subsequent detailed actions plans being returned for Management Team inspection in August 2019.

Performance Indicators

17. A range of local performance indicators were established to measure the performance of Internal Audit. A summary of the performance indicators for 2018/19 is provided in the Internal Audit Opinion Report elsewhere on this agenda.

Client Satisfaction

18. After the completion of each individual audit assignment, the Audit 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
19. The Auditee is required to rank performance on each criterion giving an overall assessment score. In 2018/19, the average score for all questionnaires was 92.0% satisfaction compared to a Key Performance Indicator (KPI) target of 90%.

The Accounts and Audit Committee

20. 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.
21. The Accounts and Audit Committee has Terms of Reference approved by the Council and has met regularly during the 2018/19 financial year, with the exception of the planned January meeting was cancelled due to bad weather condition. The business due to be reported in January was added to the March Committee meeting agenda. 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.
22. Attendance statistics for the Committee are shown in the table below:-

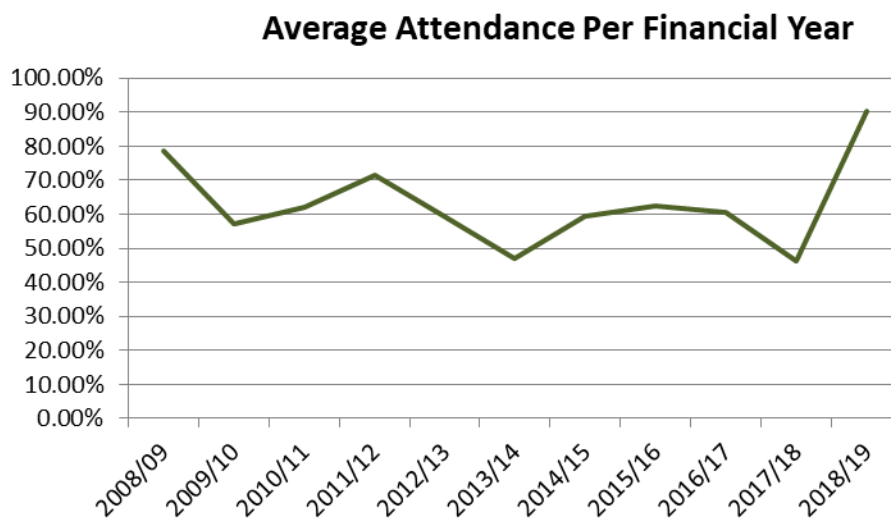
Year	Date of Meeting	Attendance
2008/09	26th June 2008	85.7%
	25th Sept 2008	71.4%
	15th Jan 2009	85.7%
	24th March 2009	71.4%
2009/10	29th June 2009	57.1%
	29th Sept 2009	57.1%
	27 th Jan 2010	57.1%
	24 th March 2010	57.1%
2010/11	28 th June 2010	71.4%
	28 th Sept 2010	42.9%
	19 th Jan 2011	71.4%
	30 th March 2011	Meeting Cancelled
2011/12	20th July 2011	57.1%
	28th Sept 2011	100.0%
	18th Jan 2012	71.4%
	28th March 2012	57.1%
2012/13	9 th July 2012	50.0%
	26 th Sept 2012	50.0%
	30 th Jan 2013	87.5%
	18 th March 2013	50.0%

2013/14	15th July 2013	50.0%
	25th Sept 2013	62.5%
	29th Jan 2014	37.5%
	31st March 2014	37.5%
2014/15	23 rd July 2014	87.5%
	29 th Sept 2014	62.5%
	28 th Jan 2015	50.0%
	24 th March 2015	37.5%
2015/16**	22 nd July 2015	50.0%
	28 th Sept 2015	85.7%
	27 th Jan 2016	57.1%
	22 nd March 2016	57.1%
2016/17	28 th July 2016	71.4%
	28 th Sept 2016	57.1%
	25 th Jan 2017	71.4%
	21 st March 2017	42.9%
2017/18	31 st July 2017	71.4%
	28 th Sept 2017	28.6%
	25 th Jan 2018	42.9%
	20 th March 2018	42.9%
2018/19	26 th July 2018	100.0%
	27 th Sept 2018	100.0%
	28 th January 2019	Meeting Cancelled
	18 th March 2019	71.4%

*** 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 and the graph below, the level of attendance in 2018/19 significantly improved after fluctuating over the previous years, with 2017/18 experiencing the lowest average attendance rate for the financial year when compared to the records above starting with 2008/09.

Graph to compare the average attendance rate per financial year since 2008/09



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.
25. On a related issue, as some of the current Accounts and Audit Committee are new to the role, further work to help the Committee identify and address any training requirements will be undertaken.

Summary

26. 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.
27. There are a number of documents that provide the supporting evidence to this conclusion which include the following:-
 - The agreed Annual Internal Audit plan prepared using a risk based approach.
 - The Annual Governance Statement contained within the Statement of Accounts (elsewhere on this agenda).
 - Our External Auditor's reports providing expert and independent inspection and scrutiny.
28. 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 2018/19.

IMPLICATIONS

Policy

29. There are no policy implications arising directly from the recommendations of this report.

Financial

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

Legal

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

Risk Management

32. There are no risk management implications arising directly from the recommendations of this report.

Health and Safety

33. There are no health and safety issues arising directly from the recommendations of this report.

Sustainability:

34. There are no sustainability issues arising directly from the recommendations of this report.

Community Safety:

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

Equality and Diversity:

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

APPENDICES

None.