

REPORT FROM: CHIEF EXECUTIVE

TO: ACCOUNTS AND AUDIT COMMITTEE

DATES: 10th NOVEMBER 2020

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EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

PURPOSE OF REPORT

1. To provide the Accounts and Audit Committee with various forms of assurance to allow 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 2019/20 using the sources of assurance presented in this report;

REASONS FOR RECOMMENDATION

3. That the Accounts and Audit Committee undertake a formal review of the effectiveness of the system of internal audit.

ISSUE

Background

4. The Accounts and Audit (England) Regulations 2015 include a requirement for the Council to conduct a review of the effectiveness of its system of Internal Audit at least once a year. The Regulations and related guidance are not specific about what form the review of effectiveness should take and neither do they define the extent of the system of internal audit. There is also a lack of clarity about who should conduct the review but they do state that the findings of the review should be considered by a Committee of the Council (in Pendle's case, it is this Committee).
5. For the purposes of the review, this report sets out various areas of assurance that have been relied upon when reviewing whether the system of internal audit is effective. These sources of assurance are presented here to allow the Committee to undertake the review.

The System of Internal Audit

6. Before considering its effectiveness, it is worthwhile defining what the Council's system of internal audit is. As a starting point, the definition of Internal Audit is:-

'an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources'

7. The key components of the Council's system of Internal Audit include:-

- An independent and objective Internal Audit Unit comprising appropriately experienced and qualified staff. Due to changes in staffing in 2019/20, part of the Council's Internal Audit Plan was delivered by the Mersey Internal Audit Agency (MIAA);
- A Strategic Internal Audit Plan to guide the medium term planning for the Internal Audit Unit;
- An agreed Annual Internal Audit plan prepared using a risk based approach;
- The Accounts and Audit Committee which is independent of the Policy and Resources Committee 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 Members where there are circumstances that require this to happen.

8. The information provided below gives various forms of assurance that the Committee should consider when determining whether the system of internal audit is effective. This report should equally be considered in conjunction with the Annual Internal Audit report which was considered by this Committee at its last meeting.

Internal Audit Unit

9. Towards the end of the financial year, the Internal Audit Manager left the employment of the Council. As a consequence, the Council appointed MIAA to work in conjunction with the Internal Auditor to conclude the delivery of the Internal Audit Plan. Inevitably, given the period between the departure of the Internal Audit Manager and the appointment of MIAA, the delivery of the Annual Internal Audit Plan was affected. This matter was reported to the Councillors in the Annual Internal Audit Plan which was considered by the Committee at its meeting in July 2020.
10. As Councillors will be aware, in the light of this change in the Internal Audit Unit, the Policy and Resources Committee agreed that the Council should outsource the provision of the Internal Audit function. The procurement process for this is currently underway and a verbal update on progress with it will be provided at the meeting of the Committee.

Compliance with Public Sector Internal Audit Standards

11. 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).
12. 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. Whilst this was not updated in 2019/20, other than the external assessment of Internal Audit, which must be undertaken every 5 years, it is considered that there have been no material changes in the conduct of the Internal Audit function during the year that have affected compliance with PSIAS.
13. The external assessment of Internal Audit must be undertaken once within a 5 year period. As indicated, this is now overdue but given the Council's decision to outsource the provision of its Internal Audit function, this matter has been put on hold pending the conclusion of the procurement process and the appointment of an external provider.
14. Councillors should note that as an interim measure, and as reported to the last Committee, MIAA have been retained for the provision of Internal Audit function in the current (2020/21) financial year.

External Audit

15. Grant Thornton, the Council's External Auditor, have not yet concluded their audit of the Council's Statement of Account for 2019/20 as at the time 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's Audit Team 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.
16. Based on the discussions to date with Grant Thornton, no such control weaknesses have been highlighted. Should this position change, details will be reported at the meeting as part of the Grant Thornton's Audit Findings Report which is expected to be presented elsewhere on the Agenda for this meeting. .

Internal Audit Manager's Opinion – System of Internal Control

17. Annually, the Head of Internal Audit 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. In the absence of the Head of Internal Audit, the Council commissioned the Mersey Internal Audit Agency to review the provision of Internal Audit and to provide the Internal Audit Manager's Opinion. As reported in the Annual Internal Audit Report, which was considered by this Committee in July 2020, MIAA concluded that:-

*'Our overall assurance opinion for the period 1st April 2019 to 31st March 2020 is **Substantial**; while there is a basically sound system of control, there are weaknesses which may put the system objectives at risk.'*

18. There was only one audit which received a limited assurance. This was the audit of s106 Agreements which has been considered by the Council's Management Team and appropriate actions put in place to resolve the matters identified.

Client Satisfaction

19. Ordinarily, after the completion of each individual audit assignment, the Internal 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
20. The Auditee is required to rank performance on each criteria giving an overall assessment score.
21. For 2019/20, it would appear that no questionnaires were issued and so it is not possible to determine Client Satisfaction with the Internal Audit function. As the Internal Audit Manager no longer works for the Council, it is not possible to establish why this was the case.
22. Looking ahead, it is a requirement for any successful tenderer for the contract to provide the Internal Audit function for the Council to survey audit clients at the end of the each audit.

The Accounts and Audit Committee

23. As indicated above, the system of Internal Audit is broader than the role of the Internal Audit Unit and incorporates the work undertaken by the Accounts and Audit Committee.
24. The Accounts and Audit Committee, has Terms of Reference approved by the Council, met regularly during the 2019/20 financial year. Attendance statistics for the Committee are shown in the table below:-

Date of Meeting	Attendance
2017/18	
31 st July 2017	71.4%
28 th September 2017	28.6%
25 th January 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%
2019/20	
30 th July 2019	100.0%
24 th September 2019	80.0%
28 th January 2019	100.0%
12 th March 2020	Meeting Cancelled

25. In addition to Councillors, the Committee also includes two Independent Committee (non-voting) members both of whom were in attendance at each Committee meeting during the year.
26. The Committee considered, amongst other things, reports from Internal and External Audit as well as matters such as the Council's Treasury Management and Risk Management activities. The role of the Accounts and Audit Committee is reflected in its Terms of Reference (ToR) which are consistent with those provided in CIPFA guidance on the role of an Audit Committee. They include the scope for the Accounts and Audit Committee to:-
 - monitor the delivery of the annual audit plan;
 - monitor the implementation of Internal Audit recommendations;
 - review the effectiveness of the Council's Corporate Governance and Risk Management arrangements;

Summary

27. As Councillors will appreciate, there is no one source of assurance that can demonstrate the effectiveness of the system of Internal Audit. As a result, various sources of assurance have been presented in this report which together demonstrate an effective system of internal audit.
28. Councillors are, therefore, requested to review the evidence provided here as the Committee's assessment of the effectiveness of the Internal Audit arrangements.

IMPLICATIONS

Policy

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

Health and Safety:

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

Sustainability:

34. There are no sustainability issues arising directly from the contents 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