

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT AND STANDARDS COMMITTEE	21 SEPTEMBER 2017	6
REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT			

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The report presents the findings of the annual self-assessment exercise undertaken by the Head of Internal Audit in relation to the conformance of internal audit with the Public Sector Internal Audit Standards (PSIAS). The self-assessment compared existing arrangements with those specified in the PSIAS.

RECOMMENDATIONS

1. The Committee notes the findings of the review on the effectiveness of internal audit and confirms the conclusion that there is full conformance with the Public Sector Internal Audit Standards.
2. The Committee notes the progress in implementing enhancements to internal audit arrangements outlined in the Improvement Plan adopted following the external assessment of internal audit in December 2016.

SUMMARY OF PREVIOUS DECISIONS

A report to the March 2017 Audit and Standards Committee advised that the external assessment of internal audit had concluded that Fylde Council conformed to the requirements of the Public Sector Internal Audit Standards. The Improvement action plan in relation to a number of minor observations and advisory points arising from the assessment was also presented.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (Value for Money)	√
Delivering the services that customers expect of an excellent council (Clean and Green)	
Working with all partners (Vibrant Economy)	
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	
Promoting Fylde as a great destination to visit (A Great Place to Visit)	

REPORT

Introduction

1. Internal Audit's Quality Assurance and Improvement Program (QAIP) is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:
 - Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS), Definition of Internal Auditing and Code of Ethics;
 - Operates in an efficient and effective manner;
 - Is adding value and continually improving internal audit operations
2. The Head of Internal Audit (HIA) is ultimately responsible for the QAIP, which covers all types of Internal Audit activities. The QAIP must include both internal and external assessments.
3. Internal assessments are both ongoing and periodic, while external assessments must be undertaken at least once every five years. The first external assessment of internal audit took place in December 2016.

Internal Assessment

Ongoing Reviews

4. The arrangements for ongoing assessments are unchanged. The reviews are conducted through:
 - **Supervision of engagements** - all audit engagements are supervised by the HIA to ensure that objectives are achieved and quality is maintained
 - **Documented review of working papers** - the HIA/Senior Auditor review all working papers for each engagement and appropriate evidence of supervision is documented and retained
 - **Audit policies and procedures used for each engagement** - standard audit policies and procedures are applied to ensure compliance with applicable planning, fieldwork and reporting standards
 - **Feedback from customer surveys on individual engagements** - all auditees were asked for their views on the work of the Internal Audit Service as part of the regular satisfaction surveys that are issued at the conclusion of each audit. There was generally a consistent response that effectiveness was good, or better
 - **Analysis of key performance indicators** - a suite of performance indicators for Internal Audit has been established to measure Internal Audit's effectiveness and efficiency
 - **All draft and final reports and recommendations are reviewed** - all reports and action plans are reviewed and approved by the HIA

Periodic Reviews

5. Periodic assessments are designed to assess conformance with Internal Audit's Charter, the PSIAS, Definition of Internal Auditing, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. As previously reported to the committee, periodic assessments will be conducted through:
 - **Annual self-assessment of conformance with the PSIAS** - The Head of Internal Audit has assessed the effectiveness of Internal Audit using the recommended checklist contained within CIPFA's Local Government Application Note (attached at Appendix A). A small number of minor amendments were included when the PSIAS were re-issued in March 2017 and these are highlighted in the checklist in yellow. Where the wording of the evidential commentary has been amended to reflect current practice, this is highlighted in blue. One area of minor non-conformance and two of partial conformance have been identified but no actions are available to address these. The slight divergence from the standards is inconsequential. Therefore the internal audit service remains compliant with the PSIAS. These areas are set out in a self-assessment document for reference (attached at Appendix B). There is no improvement action plan for 2017/18 arising from this exercise.

- **Review of internal audit key performance indicators by the HIA on a quarterly basis** - the quarterly review of key performance indicators has been maintained and the outturn for 2016/17 was reported to the June meeting of the Audit and Standards Committee. There were no significant matters to take into account.
- **Half-yearly activity and performance reporting to the Audit and Standards Committee and senior management** – the HIA presents an interim and annual report on internal audit activity and performance to the Audit and Standards Committee. The last annual report was presented to June 2017 meeting.

External Assessment

6. External assessments appraise and express an opinion about Internal Audit's conformance with the PSIAS, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate.
7. An external assessment must be conducted every 5 years by a qualified, independent assessor from outside the Council. The assessment may be in the form of a full external assessment, or a self-assessment with independent external validation.
8. In January 2015 the former Audit Committee approved the approach whereby periodic external assessments of Internal Audit will take the form of a self-assessment subsequently validated by suitably qualified individuals or teams from members of the Lancashire District Councils Audit Group on a reciprocal basis across a 5 year cycle.
9. Fylde's external peer review by two Lancashire Heads of Audit took place in December 2016. The review team concluded that Fylde Council's internal audit service conformed to the requirements of the PSIAS.

Reporting

10. Results of internal assessments are reported to the Audit and Standards Committee on an annual basis. Similarly, external assessment results are reported to the Committee and senior management at the earliest opportunity following receipt of the external assessor's report. The report of the external assessment was presented to the March 2017 meeting of the Audit and Standards Committee.
11. Both internal and external assessment reports will be accompanied by a written action plan, where appropriate, in response to any findings contained in the report. The action plan arising from the external assessment contains some minor observations suggesting how internal audit could continue to improve the service delivered (attached at Appendix C).
12. The Head of Internal Audit will implement appropriate follow-up actions to ensure that recommendations made in the report and the action plans developed are implemented within a reasonable timeframe. Outcomes will be reported to the Audit and Standards Committee.

IMPLICATIONS	
Finance	<p>The Accounts and Audit Regulations 2015 require the Council to ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures the financial and operational management of the authority is effective and includes effective arrangements for the management of risk.</p> <p>The report also contributes towards the production of the Annual Governance Statement published each year, which explains the processes and procedures in place to enable the Council to carry out its functions effectively.</p>
Legal	No specific implications
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	No specific implications

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BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Public Sector Internal Audit Standards Applying the IIA International Standards to the UK Public Sector	2017	PSIAS March 2017 Document

Attached Documents

Appendix A	PSIAS Checklist 2017
Appendix B	Annual Self-Assessment of Conformance 2017
Appendix C	QAIP Improvement Action Plan 2017