

HEADING **Review of the Effectiveness of the System of Internal Audit**

Submitted by: Audit Manager

Portfolio Finance and Resources

Ward(s) affected All

Purpose of the Report

For members to consider the findings of the annual review of the effectiveness of the system of Internal Audit for 2013/14.

Recommendations

That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2013/14, together with the action plan be agreed.

Reasons

That members agree with the findings of the review which concludes that the system of Internal Audit for 2013/14 can be relied upon when considering the Annual Governance Statement.

1. **Background**

- 1.1 In accordance with the Accounts and Audit Regulations 2011 the Council is required to undertake an annual review of the effectiveness of its system of Internal Audit.
- 1.2 A self-assessment against a checklist for compliance against the Public Sector Internal Audit Standards (PSIAS) has been completed by the Audit Manager in order to demonstrate this.
- 1.3 The PSIAS came into effect on 1 April 2013 and were produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) to ensure a consistent set of standards for Internal Auditors irrespective of the sector in which they work. The new standards mean that a few changes will be required to be undertaken in terms of working practices; however the main changes seem to be in relation to the terminology used. CIPFA have produced an application note designed to assist/clarify the standards that have been produced. This guidance note has been applied during the completion of the assessment to ensure that Internal Audit is compliant with the new standards.

2. **Issues**

- 2.1 The results of the self-assessment review undertaken by the Audit Manager are outlined in Appendix A, a summary of the evidence, in the form of a list of contents has been provided at Appendix B. A folder of evidence to support the self-assessment is maintained electronically and can be made available to members on request.

- 2.2 On completing the checklist the Audit Manager is required to indicate whether or not there is compliance with the PSIAS by answering yes 'Y' partial 'P' or no 'N'. Where we have answered 'P' or 'N' these areas have been carried forward to an action plan which identifies areas for improvement. A copy of the Action plan can be found at Appendix C.
- 2.3 The main areas of improvement identified in the action plan that are required in order to demonstrate compliance with the PSIAS relate to the need for an external assessment and the development of a formal Quality Assurance Improvement Programme (QAIP) in relation to the Audit Service. These are areas that are currently being reviewed and developed by the Staffordshire Chief Auditors Group (SCAG).
- 2.4 The PSIAS require that an external assessment is undertaken every 5 years, SCAG are looking at the possibility of the external assessments being completed amongst ourselves. This will be done with the agreement of the Staffordshire Chief Finance Officers Group and a programme and timetable for these are to be discussed at a future meeting of the group.
- 2.5 With regards to the QAIP, a training course which was recently hosted by ourselves here at Newcastle and was attended by members of the SCAG and also Audit Managers from other Midland Authorities, the learning from which will be used to help formulate a QAIP and again via SCAG we are looking to develop this further.
- 2.6 Despite the fact that a detailed action plan has been completed in order to demonstrate full compliance with the PSIAS, it is felt that overall the internal review shows that the system of Internal Audit is operating effectively and therefore can be relied upon when considering the Annual Governance Statement for 2013/14. The areas identified in the action plan will seek to further improve and develop the audit service.

3. **Options Considered** (if any)

Not to complete a self assessment would be in breach of the legislation already outlined in the background.

4. **Proposal**

The completed checklist against the PSIAS and the action plan for improvement have been included as Appendices to this report.

5. **Reasons for Preferred Solution**

The adoption of 'good practice' processes and procedures inevitably contributes to reducing risks and liabilities to the Council. Internal Audit plays an important role in this regard and clearly its systems and processes should be effective.

6. **Outcomes Linked to Corporate Priorities**

An effective system of Internal Audit means that the Authority can place reliance on the assurances of the systems of internal control. If controls are operating effectively the potential for fraud and corruption is reduced. There is also an assurance that resources are being used efficiently and effectively as the Council transforms to achieve excellence.

7. **Legal and Statutory Implications**

Under the Accounts and Audit Regulations 2011 the Council is required to undertake an annual review of the effectiveness of its system of Internal Audit.

8. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

9. **Financial and Resource Implications**

There are no financial implications identified from this proposal; the Action Plan will be resourced as part of the work plan for the Audit Manager.

10. **Major Risks**

- 10.1 If the Authority does not maintain an effective system of Internal Audit; reliance cannot be placed on the adequacy of the internal controls operating throughout the Authority.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

Appendix A - Completed Self-Assessment Checklist against the PSIAS
Appendix B - Key to Evidence for Self Assessment
Appendix C - Action plan for 2014/15.

14. **Background Papers**

File of evidence compiled against the PSIAS