

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO  
AUDIT & RISK COMMITTEE**

**Date 4 July 2016**

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

**Submitted by:**              Audit Manager

**Portfolio**                      Finance IT and Customer

**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 2015/16.

**Recommendations**

**That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2015/16, 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 2014/15 can be relied upon when considering the Annual Governance Statement.

1.        **Background**

- 1.1        In accordance with the Accounts and Audit Regulations 2015 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 have been made available electronically to members via the member's intranet site, together with a copy of all the evidence in support of the self-assessment. A copy of the full assessment is referenced as Appendix A and can be viewed by clicking on the link at the end of this report. A copy of the list of evidence that has been produced has been provided at Appendix B.
- 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 review of the action plan for 2015/16 has been undertaken and this can be found at Appendix C. There are some actions that are still on going, where this is the case these have been carried forward to a revised and updated action plan for the current financial year 2016/17. The revised action plan for 2016/17 can be found at Appendix D.
- 2.3 One of the main areas of improvement identified in the action plan that is required in order to demonstrate compliance with the PSIAS relates to the need for an external assessment. This is an area of work that the Staffordshire Chief Auditors Group (SCAG) has been considering. A proposal was presented to the Staffordshire Chief Finance Officers Group (SCFOG) meeting on the 5 June 2015 with a view to undertaking a collaborative approach by procuring an independent external assessor to complete all the reviews for the Staffordshire authorities. The benefits of this being that the approach would be consistent, demonstrate a true independent assessment, and enable best practice to be shared. This proposal was agreed by SCFOG with the proviso that they agree and sign off a specification for this procurement. The specification was approved by SCFOG at their September 2015 meeting. A procurement exercise was undertaken during May 2016 and is now in the final stages of completion. Once the process has been finalised a full report in relation to this will be presented to a subsequent meeting of this committee.
- 2.4 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 2015/16. 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 has been made available electronically for members and the action plan resulting from this has been included as an appendix 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.

7. **Legal and Statutory Implications**

Under the Accounts and Audit Regulations 2015 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 - [Self Assessment](#) – (please press on the link for this appendix). A hard copy is also available in the Member's Room

Appendix B Key to Evidence for Self Assessment

Appendix C – Progress against Action plan for 2015/16

Appendix D- Action Plan for 2016/17.

14. **Background Papers**

File of evidence compiled against the PSIAS