

**South Lakeland District Council**  
**Audit Committee**  
**Thursday, 22 April 2021**  
**Review of Effectiveness of Internal Audit**

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<b>Portfolio:</b>	Not applicable
<b>Report from:</b>	Helen Smith – Finance Lead Specialist (Section 151)
<b>Report Author:</b>	Helen Smith – Finance Lead Specialist (Section 151)
<b>Wards:</b>	(All Wards)
<b>Forward Plan:</b>	Not applicable

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**1.0 Expected Outcome**

1.1 To provide the Audit Committee with assurance following a review of the effectiveness of the Council's system of Internal Audit.

**2.0 Recommendation**

**2.1 It is recommended that the Audit Committee consider and endorse the conclusion that the Council has an effective system of internal audit in place that complies with the principles of the Public Sector Internal Audit Standards.**

**3.0 Background and Proposals**

3.1 The Accounts and Audit Regulations 2015 include a requirement for the Council to conduct a review of the effectiveness of its system of internal control at least once a year. The internal audit function is a key element of internal control.

3.2 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 conclude the review.

3.3 The Council's internal audit service is provided by TIAA Ltd under a contract which commenced on 1<sup>st</sup> April 2016.

3.4 In considering its effectiveness, it is worthwhile defining what the Council's system of internal audit is. 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'*

3.5 The key components of the Council's system of Internal Audit include:

- An independent and objective Internal Audit function comprising appropriately experienced and qualified staff;
- A three-year rolling programme of reviews of core finance and governance reviews;

- An agreed Annual Internal Audit plan prepared using a risk based approach;
  - The Audit Committee which is independent of 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 both the Assistant Director (Resources) and the internal audit manager to report directly to management and Members where there are circumstances that require this to happen.
- 3.6 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 previous provider's Annual Internal Audit report which was considered by this Committee at its last meeting.
- 3.7 As noted in the Internal Audit progress report, elsewhere on this agenda, during 2020/21 the Finance Lead Specialist agreed a revised timetable for internal audit reviews to reflect Covid-19 on the availability of Council staff and resources. As a result there was no audit testing carried out in the first quarter of the financial year and the majority of testing was carried out in early 2021. Although staff have not been on site from either internal audit or the majority of areas audited, audits have been carried out virtually. Internal audit were available to advise on an ad-hoc basis when required.

#### **Public Sector Internal Audit Standards**

- 3.8 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national Public Sector Internal Audit Standards (PSIAS), based upon the mandatory elements of the global CIIA's International Professional Performance Framework were developed.
- 3.9 The PSIAS came into force on 1st April 2013 and consist of the following:
- Definition of Internal Auditing;
  - Code of Ethics; and
  - Standards for the Professional Practice of Internal Auditing.
- In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011.
- 3.10 To enable TIAA to continue to comply with the Public Sector Internal Audit Standards we are required every five years (standard 1312) to have an external quality assurance review of our working processes. TIAA elected to conduct this external validation after three years rather than five. The subsequent report from 2016 confirmed full compliance with the standards; some minor matters were noted which have been updated in our improvement plan and currently being addressed.

#### **Audit Charter**

- 3.11 It is a requirement of the PSIAS that the Council has an Internal Audit Charter which has been approved by senior management and the Audit Committee. The Charter, originally approved by Audit Committee at its meeting of July 2016 and referred to annually as part of the Internal Audit annual plan process, sets out the arrangements for the delivery of the Internal Audit service to South Lakeland District Council.

#### **Head of Internal Audit Opinion 2019/20**

- 3.12 In their Internal Audit Annual Report 2019/20 which was presented to the Audit Committee in September 2020, the Internal Audit Manager requested that Members note:

- The progress achieved in 2019/20 in delivering the Audit Plan and the outcomes of completed audit reviews;
- The Audit Manager's opinion of reasonable assurance on the Council's overall systems of governance, risk management and internal control for the year ended 31st March 2020;
- The Audit Manager's declaration of Internal Audit independence as required by the mandatory PSIAS;
- The Audit Manager's declaration of conformance with the mandatory PSIAS.

It is expected that the Audit Manager will be able to give similar assurances in July 2021 in relation to 2020/21.

### **Performance Indicators**

3.13 TIAA has a range of performance indicators, which for 2020/21 include client satisfaction monitoring. These are reported on throughout the year and form part of the Internal Audit Annual Report for 2020/21.

### **4.0 Consultation**

4.1 This review of effectiveness of Internal Audit is considered by Audit Committee annually.

### **5.0 Alternative Options**

5.1 The review of internal audit effectiveness is a key requirement of the Accounts and Audit Regulations 2015. There are no alternative options.

### **6.0 Links to Council Priorities**

6.1 An effective Internal Audit service supports the delivery of the Council Priorities as set out in the Council Plan by providing independent assurance over the arrangements in place across the Council to deliver priorities and objectives.

### **7.0 Implications**

#### **Financial, Resources and Procurement**

7.1 There are no direct financial implications to this report. The Internal Audit service has been delivered within its approved budget.

#### **Human Resources**

7.2 There are no direct staffing implications arising from this report.

#### **Legal**

7.3 There are no legal implications arising from this report.

#### **Health, Social, Economic and Environmental**

7.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? No

7.5 If you have not completed an Impact Assessment, please explain your reasons: this report relates to a review of corporate governance and is considered to have no Health, Social, Economic and Environmental impacts.

#### **Equality and Diversity**

7.7 Have you completed an Equality Impact Analysis? No

7.8 If you have not completed an Impact Assessment, please explain your reasons: this report relates to a review of corporate governance and is considered to have no Equality and Diversity impacts.

## Risk

Risk	Consequence	Controls required
Internal Audit coverage does not address the high risk areas of Council activity. Non-delivery of the agreed Audit Plan. Unplanned work which arises in year which requires audit attention.	The Council does not receive adequate assurance over the internal control environment. The Council would be more vulnerable to risk. Potential breach of the statutory requirement to maintain an adequate and effective system of internal control.	Risk based annual audit planning. Regular progress reporting to senior management and Audit Committee each quarter. A degree of flexibility in the Plan to accommodate unplanned work.

## Contact Officers

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## Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Assessment of Compliance with Role of Head of Internal Audit

## Background Documents Available

Name of Background document	Where it is available
CIPFA: The role of the head of internal audit in public service organisations	<a href="https://tinyurl.com/ydyk7x9p">https://tinyurl.com/ydyk7x9p</a>

## Tracking Information

Signed off by	Date sent	Date Signed off
Legal Services	N/A	N/A
Section 151 Officer	N/A	N/A
Monitoring Officer	N/A	N/A
CMT	N/A	N/A

Circulated to	Date sent
Lead Specialist	Report author
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	N/A
Ward Councillor(s)	N/A
Committee	22/04/2021
Executive (Cabinet)	N/A
Council	N/A