

Report of:	Head of Governance
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Portfolio Leader:	
Key Decision:	No
Report Track:	Audit & Governance only

Audit & Governance Committee
25th June 2019
Review of the Effectiveness of Internal Audit

1 Purpose of Report

- 1.1 For members of the Audit & Governance Committee to consider the findings of the annual review of the effectiveness of internal audit.

2 Recommendations

- 2.1 That Members:
- (i) note the findings of the annual review of the effectiveness of internal audit for 2018-19;
 - (ii) note that Internal Audit generally conforms to the Public Sector Internal Audit Standards, is operating effectively and can be relied upon when considering the Annual Governance Statement for 2018-19.

3 Key Issues and Reasons for Recommendation

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require the Council to undertake a periodic review of the effectiveness of its internal audit and demonstrate conformance. The Quality Assurance & Improvement Programme states that this will be an annual review for the Shared Internal Audit function.
- 3.2 The review has comprised:
- i. the Chief Internal Auditor has conducted a self-assessment of the section in relation to compliance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and

- ii. reference to the External Quality Assessment (EQA) carried out by Cipfa in November 2016. The outcome of this review was presented to the Audit Committee in March 2017.

3.3 The review concluded that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS/LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes

4 Relationship to Corporate Priorities

4.1 This report supports the Council's Corporate Priorities as follows:

- (i) The system of internal control is a key element of the Council's corporate governance arrangements which cut across all corporate priorities.

5 Report Detail

5.1 The Chief Internal Auditor has prepared a self-assessment against conformance of the Public Sector Internal Audit Standards and Local Government Application Note (PSIAS/LGAN as well as updating the self-assessment against the Role of the Head of Internal Audit document. The assessment this year has been a light touch review as revised versions of the Local Government Application Note and Role of the Head of Internal Audit documents have recently been issued. These will be reviewed later in the year to ensure all changes have been picked up for the 2019-20 year.

5.2 For the areas of partial conformance the effectiveness of the section was not considered to be seriously affected; a small number of the areas partial compliance with PSIAS/LGAN is considered to be acceptable due to local circumstances.

5.3 PSIAS/LGAN require any significant non-conformance with the Standards to be disclosed in the Annual Audit Report. One area of significant non-conformance with the standards was identified and this relates to PSIAS 1110 Organisational Independence. The standards require that the "Chief Audit Executive" reports functionally to the Board and indicate that this includes the Audit Committee Chair and Chief Executive commenting on the PDR and the Audit Committee setting remuneration for the "Chief Audit Executive".

5.4 This is not a common practice in Local Government where Members do not routinely get involved in detailed employment matters. There are sufficient other safeguards to the independence of Internal Audit currently in place within the Council such as allowing the Chief Internal Auditor the unfettered right of access to the Audit Committee Chair and Chief Executive to raise any concerns. It is

therefore considered that this area of non-conformance does not compromise the effectiveness of Internal Audit.

5.5 For the areas of partial conformance the effectiveness of the section was not considered to be seriously affected; a small number of areas of partial conformance with PSIAS/LGAN is considered to be acceptable due to local circumstances.

5.6 Summaries of the reviews of compliance are attached as follows:

- (i) the Public Sector Internal Audit Standards and the Local Government Application Note - attached at Appendix 1; and
- (ii) the Cipfa paper on the Role of the Head of Internal Audit in Public Service Organisations - attached at Appendix 2.

5.7 In addition to the compliance with professional standards the section has also reviewed:

- (i) the performance of the service ie the delivery of the audit plan; and
- (ii) the quality of the service

More information on the performance of the Service is contained in the Annual Internal Audit Report.

5.8 The External Auditors have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.

5.9 The review has also consider the outcome and progress made in implementing the recommendation contained in the External Quality Assessment which was carried out in November 2016 and which was reported to the Committee in March 2017.

5.10 From the review a small number of actions have been identified and these are contained in an Improvement Plan which is attached as Appendix 3.

5.11 Overall, the review of the effectiveness of Internal Audit for 2018-19 has shown that Internal Audit is operating effectively and generally conforms to the PSIAS. Therefore the work of the Internal Audit Section can be relied upon when considering the Annual Governance Statement for 2018-19.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

None

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1 - Summary of Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note

Appendix 2 – Summary of Compliance with Cipfa’s paper on the Role of the Head of Internal Audit.

Appendix 3 – Improvement Plan

Previous Consideration

None

Background Papers

Files available from the Chief Internal Auditor

**SUMMARY OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND LOCAL GOVERNMENT
APPLICATION NOTE (LGAN) – 2018-19**

Conformance with the Standard	Y	P	N	Comments
Mission of Internal Audit				
The PSIAS sets out the Mission of Internal Audit as "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."	✓			The working practices of the Internal Audit function are in accordance with this mission.
Definition of Internal Auditing				
The PSIAS defines Internal Audit as - "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."	✓			Internal Audit has adopted the PSIAS definition and this is included in the Audit Charter
Core Principles for the Professional Practice of Internal Audit				
<p>The PSIAS sets out the Core Principles as follows.</p> <ul style="list-style-type: none"> • Demonstrates integrity. • Demonstrates competence and due professional care. • Is objective and free from undue influence (independent). • Aligns with the strategies, objectives, and risks of the organisation. • Is appropriately positioned and adequately resourced. • Demonstrates quality and continuous improvement. • Communicates effectively. • Provides risk-based assurance. • Is insightful, proactive, and future-focused. • Promotes organisational improvement. 	✓			The section complies with these principles in general. Documented safeguards have been put in place to protect the independence of Audit as the Chief Internal Auditor took on non-audit responsibilities from 1 st April 2017. These safeguards were approved by Audit Committee in June 2018 and were put into effect for the review of Insurance during the 2018-19 year.

Conformance with the Standard	Y	P	N	Comments
Code of Ethics				
<p>The Code of Ethics contained in PSIAS applies to all Internal Auditors working in the Public Sector in addition to any requirements placed on them by other professional bodies. It is aimed at promoting an ethical culture across the profession of Internal Audit and is seen as essential in ensuring the trust placed in Internal Auditors to provide objective assurance about the organisation's risk management, control and governance arrangements.</p> <p>The Code of Ethics covers the following areas:</p> <ul style="list-style-type: none"> • Integrity • Objectivity • Confidentiality • Competency <p>Public Sector Internal Auditors are also required by PSIAS to have regard to the "Seven Principles of Public Life" as defined by the Committee on Standards in Public Life which cover:</p> <ul style="list-style-type: none"> • Selflessness • Integrity • Objectivity • Accountability • Openness • Honesty • Leadership 	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>Internal Audit complies with the Code of Ethics and a copy of this has been issued to all members of the team.</p>

Conformance with the Standard	Y	P	N	Comments
Attribute Standards				
1000 – Purpose, Authority and Responsibility				
<p>The purpose, authority and responsibility of the internal audit activity must be formally defined in an audit charter. The internal audit charter is a formal document setting out:</p> <ul style="list-style-type: none"> • internal audit's position within the organisation; • its reporting lines; • access to personnel, information and records; • the scope of internal audit activities • define what the term "board" means (It is anticipated that the Audit Committee will generally fulfil the duties assigned to the board for the Council.) <p>The charter must be periodically reviewed and presented to senior management and the board.</p>	✓			The current Charter was approved by the Audit Committee in June 2018 when it was updated to build in safeguards for the audit of areas where the Chief Internal Auditor has operation responsibility outside of audit.

Conformance with the Standard	Y	P	N	Comments
1100 – Independence & Objectivity				
<p>Internal Audit activity must be independent and internal auditors must be objective in performing their work. This comes from the position of Internal Audit in the organisation and ensuring that Internal Audit management has unrestricted access to the Audit Committee and Senior Managers should this be necessary. Internal Auditors should also not be compromised in their work by personal views or having operational responsibility for other areas. Any impairments or potential to independence or objectivity must be reported to appropriate parties.</p> <p>Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:</p> <ul style="list-style-type: none"> • approving the internal audit charter; • approving the risk based internal audit plan; • approving the internal audit budget and resource plan; • receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters; • approving decisions regarding the appointment and removal of the chief audit executive; • approving the remuneration of the chief audit executive; and • making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations. <p>Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.</p>		✓		<p>The Terms of Reference for the Audit Committee reflect their role in approving the Audit Charter.</p> <p>The Chair of the Audit Committee does not have a role in the appointment of the "Chief Audit Executive" or contribute feedback to the PDR. This is outside the scope of normal Council operations and is the only major area of non-conformance with PSIAS. However the Head of Governance who manages the Chief Internal Auditor is directly managed by the Chief Executive and any concerns from the Chief Executive/Managing Director relating to Internal Audit would be raised with her.</p>

Conformance with the Standard	Y	P	N	Comments
1200 – Proficiency & Due Professional Care				
<p>The Internal Audit Team should have the correct knowledge, skills and competencies for the work that it carries out and to ensure they enhance knowledge and skills through Continuing Professional Development. The PSIAS specifically requires the “Chief Audit Executive” to hold a relevant professional qualification. Due professional care must be taken to ensure appropriate work is undertaken to identify risks, support findings and meet the objectives of all work undertaken.</p>	✓			<p>The Chief Internal Auditor and one of the Senior Auditors are Cipfa Qualified and we have 1 ACCA qualified member in the team. The annual PDR process ensures members of the team follow CPD requirements. The Council is currently registered as CPD Accredited body with Cipfa, ACCA and AAT.</p> <p>Where external support is required this is done via the appointment of suitably qualified contractors.</p> <p>Working practices are defined and have been clarified further with the development of the new methodology.</p> <p>A competency framework has been produced and is used to inform the PDR process.</p>

Conformance with the Standard	Y	P	N	Comments
1300 – Quality Assurance and Improvement Programme				
<p>A quality assurance and improvement programme is designed to:</p> <ul style="list-style-type: none"> • allow an assessment of Internal Audit's activity against the PSIAS requirements; • to assess the efficiency and effectiveness of Internal Audit's activity; • identify opportunities for improvement. <p>This requires both internal and external assessments to be performed. The PSIAS requires an independent external assessment to be carried out at least once every five years. Both internal and external assessments have to be carried out by individuals or organisations who have sufficient knowledge of Internal Audit standards and operation.</p> <p>The outcome of the review must be reported to the Board and Senior Management as part of the Internal Audit Annual Report which must disclose any areas of non-conformance with PSIAS. Where these are significant they should be considered for inclusion in the Annual Governance Statement.</p>	✓			<p>A QAIP was approved by the Audit Committee in June 2015.</p> <p>The section had its EQA in November 2016 which stated that there were no areas of non-compliance which would affect the scope or operation of the section. The Report and Action Plan was presented to both Audit Committees in March 2017.</p>

Conformance with the Standard	Y	P	N	Comments
Performance Standards				
2000 – Managing the Internal Audit Activity				
<p>The Chief Audit Executive must effectively manage the internal audit activity to ensure it adds value to the organisation.</p> <p>This includes the development of a risk based audit plan to inform the Annual Audit Opinion. The Plan should be presented to Senior Management and the Board for approval. The Chief Audit Executive should ensure the resources available to the team are sufficient, appropriate and effective to deliver the audit plan and that any limitations which may impact on the plan or the annual audit opinion are reported to the Board.</p> <p>Where possible the work of Internal Audit should be coordinated with other providers of assurance to ensure appropriate coverage and minimise duplication.</p> <p>Internal Audit's activity must be reported to Senior Management and the Board. This should include performance in delivering the audit plan, significant risks or control issues identified and any other relevant matters.</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>The team follow a risk based plan which is approved by Leadership Team and the Audit Committee</p> <p>A detailed assurance map has not been developed due to time and resources pressures. An overview of other assurance providers is obtained where possible.</p> <p>Performance is reported quarterly to the Head of Governance and the Audit Committee</p>
2100 – Nature of Work				
<p>Internal Audit's activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.</p>	<p>✓</p>			<p>The Internal Audit team provide recommendations as part of their work which will improve the Council's governance framework. In addition ad hoc advice and consultancy is provided in relation to changes in systems.</p>

Conformance with the Standard	Y	P	N	Comments
2200 – Engagement Planning				
<p>A plan/brief should be prepared for each piece of audit work carried out to include the scope, objectives, timing and resource allocation. The scope should be sufficient to contribute to the annual audit opinion. Sufficient and appropriate resources should be identified for each review to achieve the intended objectives of the review.</p>	✓			<p>Internal Audit has defined procedures which include producing and agreeing a brief for each assignment. The annual audit plan is produced to provide adequate coverage to inform the annual audit opinion</p> <p>The revised working practices have shifted the focus of audit work to further improve testing of key risks for areas under review. However limitations in the Council's Risk Management Process have limited the Sections ability to rely on risk registers. Therefore Internal Audit has to perform its own risk identification process as part of each audit.</p> <p>Supervision of engagements is more continuous throughout the audit rather than all being at the end of the work.</p>
2300 – Performing the Engagement				
<p>Internal Auditors should identify sufficient, reliable, relevant and useful information to achieve the objectives of the review. Conclusions should be based on the results of appropriate analysis and evaluation of the evidence and sufficient information documented to allow the testing to be repeated.</p>	✓			<p>All assignments are completed in line with agreed working practices and are subjected to a file review process to verify that the conclusions and recommendations made are supported by sufficient evidence derived from appropriate audit testing.</p>

Conformance with the Standard	Y	P	N	Comments
2400 – Communicating Results				
Results of audit work should be reported and where the section issues an opinion or conclusion it must be supported by sufficient relevant information. Communications must be accurate, clear, concise and timely and issued to appropriate parties. In the Public Sector an annual audit report containing an audit opinion must be issued so that it can be used by the organisation to inform its Annual Governance Statement.	✓			See 2300 above
2500 – Monitoring Progress				
The results of audit work should be monitored to identify that management actions are being effectively implemented or that management accepts the risks of not taking action.	✓			All action plans are agreed by management or acceptance of risks relating to non-implementation is obtained. Internal Audit follow-up areas which are not deemed to be effective to monitor the progress made in implementing the agreed recommendations. The Audit reports refer to the Council's risk management framework/risk appetite when providing audit opinions and classifying recommendations.
2600 – Communicating the Acceptance of Risks				
When the Chief Audit Executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Chief Audit Executive must discuss the matter with senior management. If the Chief Audit Executive determines the matter has not been satisfactorily resolved they should communicate the information to the board.	✓			A process is in place where such matters would be discussed initially with the relevant member of Leadership Team. Areas where management are accepting a significant risk without some action would be reported to the Audit Committee for consideration. However it is noted that the need for this rarely occurs.

SUMMARY OF COMPLIANCE WITH THE CIPFA PAPER ON THE ROLE OF HEAD OF INTERNAL AUDIT – 2018-19

Adherence to the Standard	Yes	Partial	No
1. The Head of Internal Audit (HIA) in a Local Authority plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.			
Chief Internal Auditor's (CIA) role in governance and how it fits with other key officers (s151, Head of Paid Service & Monitoring Officer) is defined in the Job Description	✓		
Managers do not always adequately consult with Internal Audit on changes to systems or new projects/initiatives to ensure adequate governance arrangements are in place. However most major changes in processes are consulted on.		✓	
The Council have a number of policies in place relating to conduct of employees and governance arrangements. However a number of these are in need of updating and more work needs to be done to promote compliance with the policies across the Council.		✓	
HIA does promote good governance, behaviour and high standards across the authority.	✓		
There is a corporate requirement to report suspected or confirmed frauds to Internal Audit	✓		
2. The HIA in a Local Authority plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.			
Internal Audit is separate to External Audit. IA has defined terms of reference which cover key relationships as well as reporting arrangements. The CIA has arrangements for providing an opinion on the governance arrangements which feeds into the Annual Governance Statement but the HIA is not responsible for writing the AGS. The HIA has operation responsibilities for Insurance, Risk Management and Health Safety (the latter at CCDC only) safeguards have been put in place to ensure that the HIA's conflicts of interest in these areas are managed effectively.	✓		
The Council does not have a clear system to prompt reviews of key policies on a periodic basis. This means that policies which ensure and promote good governance are not always regularly reviewed and updated.		✓	
HIA has responsibility and the remit to review the Council's control environment and governance arrangements including risk management and significant partnerships, the result of audit work is reported and an annual opinion provided. The HIA liaises with External Audit to share knowledge and maximise the use of resources but EA do not direct the work of IA.	✓		
The HIA is able to report in their own name without fear or favour. The HIA works well with other key officers to bring key issues to the attention of the Leadership Team & Audit Committee to ensure significant recommendations are implemented.	✓		

Adherence to the Standard	Yes	Partial	No
3. The HIA in a Local Authority must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.			
HIA functions are generally carried out by the Chief Internal Auditor although some aspects are shared with the Head of Governance. Both these officers are sufficiently senior and independent within the Council's structure to allow the HIA role to be carried out effectively. Internal Audit have unfettered right to documents and to seek explanations.	✓		
The Chief Internal Auditor is managed by the Head of Governance who is part of the Leadership Team. Both officers work to raise the profile of Internal Audit.	✓		
The Council has an audit committee which operates in line with best practice. The terms of reference for the Committee and IA set out the relationships of the Chief Internal Auditor to the committee.	✓		
The Audit Strategy and Audit plan are discussed with the Leadership Team and the Audit Committee prior to being finalised.	✓		
4. The HIA in a Local Authority must lead and direct an internal audit service that is resourced and fit for purpose.			
Internal Audit aims to meet the needs of the council and external stakeholders. IA has established an appropriate quality assurance framework and the team are always looking for ways to develop the effectiveness of the service. The IA team aim to lead by example with high standards including integrity, objectivity, openness, competence and confidentiality.	✓		
Where resources/skills are lacking in-house (eg IT Audit) the section looks to bring in outside expertise. During the Audit Plan process the CIA assesses resources against the need to carry out a satisfactory level of audit work to inform the annual opinion. Adequate recruitment procedures exist to select appropriate employees/suppliers to deliver internal audit work. The skills and needs of the team are assessed and training is sought to maintain/develop appropriate skills.	✓		
5. The HIA in a Local Authority must be professionally qualified and suitably experienced.			
The Chief Internal Auditor is Cipfa qualified and suitably experienced Internal Auditor to effectively perform the role. The CIA adheres to professional and Internal Audit standards.	✓		
The Chief Internal Auditor has sufficient knowledge of the Internal Audit and regulatory environment as well as an awareness of the full range of the Council's activities and processes.	✓		

IMPROVEMENT PLAN FOR INTERNAL AUDIT – 2018-19

Source	Actions	Person Responsible for Implementation	Timescale
LGAN/Role of Head of Audit Document	New editions of the Local Government Application Note and the Cipfa Role of the Head of Internal Audit documents have been issued – these need to be reviewed to ensure all changes can be picked up to ensure compliance for the 2019-20 Review of Audit.	Chief Internal Auditor	December 2019