

**Council Report**

Audit Committee – 27<sup>th</sup> April 2016.

**Title**

Internal Audit Conformance with UK Public Sector Internal Audit Standards (PSIAS).

**Is this a Key Decision and has it been included on the Forward Plan?**

No.

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director, Finance and Customer Services.

**Report Author(s)**

Colin Earl, Assistant Director Audit, ICT and Procurement  
Tel: 01709 822004 Email: colin.earl@rotherham.gov.uk

**Ward(s) Affected**

All wards.

**Executive Summary**

This report provides an update on the extent to which Internal Audit conforms with the Public Sector Internal Audit Standards. A recent external review by Price Waterhouse Coopers (PWC) found the service was not fully compliant with the Standards and this was reported to Audit Committee on 25 February 2016.

Internal Audit has implemented a number of developments during and since the PWC review, some of which were recognised in the PWC report following their review. In particular a full programme of audit work was completed in 2015/16, with control weaknesses and corresponding recommendations agreed by Management. A number of these were sensitive areas, demonstrating good value added by Internal Audit with regard to the identification of risk management and control improvement actions identified.

This report identifies the ongoing actions being implemented to improve the audit policies and procedures in response to the PWC report. Provision has been made to carry out further external review of progress during 2016/17.

A separate report has been included on the Audit Committee agenda identifying progress made by Internal Audit on the overall PWC action plan.

**Recommendations**

The Audit Committee is asked to:

1. Note the changes and progress made by Internal Audit since the PWC review.
2. Approve the Action Plan in order to ensure full compliance with Public Sector Internal Audit Standards.

**List of Appendices Included:-**

Appendix 1 – Internal Audit: Assessment of Compliance with UK PSIAS and the Local Government Application Note (LGAN) – Action Plan.

**Background Papers**

UK Public Sector Internal Audit Standards.

PWC Review of Internal Audit – February 2016 (Restricted Report)

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No.

**Council Approval Required**

No.

**Exempt from the Press and Public**

No

## **Title: Internal Audit conformance with UK Public Sector Internal Audit Standards**

### **1. Recommendations**

The Audit Committee is asked to:

- 1.1 Note the progress Internal Audit has made since the Price Waterhouse Coopers (PWC) review of the service against the UK Public Sector Internal Audit Standards (PSIAS), and
- 1.2 Approve the further action identified in the Action Plan at **Appendix 1** to ensure full compliance with PSIAS.

### **2. Background**

- 2.1 Internal Audit was the subject of an external review by PWC during 2015 and a report was presented to Audit Committee on 25 February 2016 on the outcomes of the review. One of the areas the review considered was the extent of Internal Audit's compliance with the PSIAS. PWC concluded there were improvements required in various areas to ensure and demonstrate compliance with the Standards.
- 2.2 PWC recommended that an improvement plan should be developed that brings about the improvements required by Internal Audit to fully meet the PSIAS requirements. PWC acknowledged in its report that Internal Audit was already implementing improvements while PWC was carrying out its review, but PWC concluded it was too soon to give credit in its assessment for the improvements being put in place.
- 2.3 One particular area of concern for PWC was the Team's ability to complete its audit plan for 2015/16. After the provision of additional resources and expertise to Internal Audit during the second half of the year, the service was able to achieve 95% of its plan (against a target of 90%). This included work in arrange of specialist areas that were completed successfully and raised a number of significant issues, which are reflected in the Internal Audit Annual Report 2015/16.
- 2.4 Internal Audit continues to implement improvements identified by PWC. A current self-assessment, reflected in Appendix 1, shows progress made since the PWC review. It is aimed to complete all substantial actions in time for a full external re-assessment of the Service's compliance with standards to be carried out by December 2016. Some of the key milestones are:

<b>Date</b>	<b>Action</b>	<b>Audit Standard</b>
From April 2016	Ensure audit briefs enable the requirements of the standards to be fully met.	2240
	Ensure working papers meet required standards	2330
31 May 2016	Allocate work within the agreed plan to appropriate staff taking into account their grade and expertise	1311
	Implement performance targets for audit work	
31 July 2016	Complete performance and development reviews for all staff, following implementation of the organisation review.	1210 – 1230
	Ensure staff are supported by suitably qualified staff in carrying out their work	Ditto
	Maintain a training and development log.	Ditto
	Establish a quality assurance programme	1300
	Develop the approach to adding value to the organisation through audit work	3000
	Assess the Council's risk management arrangements in undertaking audit work	2010 and 2120
30 September 2016	Review and consider the implications for the audit programme of the Council's assurance framework. Assist in mapping the assurance framework	2010
	Develop the audit approach to fully reflect the Internal Audit Charter and the Organisation objectives and priorities	2050
	Establish a programme to review the Council's Governance Arrangements set out in its Code of Governance	2120
31 December 2016	Complete internal Quality Assurance reviews	1311
	Commission a further external assessment of compliance with auditing standards	Ditto
	Carry out a survey of the views of senior managers	Ditto
	Fully refresh the Internal Audit Manual to reflect new, compliant, audit policies and procedures	2040

*(nb – this is not a full list from Appendix 1)*

2.5 We will also be carrying out a programme of refresher training for the Audit Team, to re-inforce new policies and procedures, including:

- The overall approach to audit assignments, including consideration of risk, scope of work and due professional care
- Standards of evidence and recording of work
- Quality Assurance requirements and findings
- Value added work
- Completeness of audit approach
- Reporting.

### **3. Options Considered and Recommended Proposal**

3.1 Internal Audit has prepared a current assessment on compliance with standards. The Audit Committee is asked to note the progress made on this since the PWC review and approve the Action Plan to achieve full compliance.

### **4. Consultation**

4.1 We have consulted with PWC as authors of the review of Internal Audit for comments on points of non-conformance with PSIAS.

### **5. Timetable and Accountability for Implementing this Decision**

5.1 The Audit Committee is asked to receive this report at its 27<sup>th</sup> April 2016 meeting.

### **6. Financial and Procurement Implications**

6.1 There are no direct financial or procurement implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Finance and Customer Services Directorate.

### **7. Legal Implications**

7.1 The provision of Internal Audit is a statutory requirement for all local authorities that is set out in the Accounts and Audit (England) Regulations 2015. These state:

*“each principal authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

7.2 Internal Audit also has a role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are:

*“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”*

## **8. Human Resources Implications**

8.1 There are no direct Human Resources implications arising from this report.

## **9. Implications for Children and Young People and Vulnerable Adults**

9.1 There are no direct implications for Children and Young People and Vulnerable Adults arising from this report.

## **10 Equalities and Human Rights Implications**

10.1 There are no direct Equalities and Human Rights Implications arising from this report.

## **11. Implications for Partners and Other Directorates**

11.1 Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives, including those set out in the Corporate Plan, the Corporate Improvement Plan and Children's Services Improvement Plan.

## **12. Risks and Mitigation**

12.1 The following risks have been identified: -

- (i) Limitations in resources to implement the changes planned
- (ii) Failure to meet implementation timescales due to unforeseen 'responsive' or other unplanned work.

## **14. Accountable Officer(s)**

Colin Earl, Assistant Director of Audit, Procurement and ICT.  
Marc Bicknell, Chief Internal Auditor.