Rotherham Metropolitan Borough Council

Public Report

Council Report
Audit Committee – 20 July 2016.

Title
Internal Audit Compliance 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)
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Ward(s) Affected
All wards.

Executive Summary
This report provides an update on Internal Audit's compliance with the Public Sector Internal Audit Standards. The external review by Price Waterhouse Coopers (PWC), completed in December 2015 and reported to the Audit Committee in February 2016, found the service was not fully meeting the requirements of the Standards. A report presented to the Audit Committee on 27 April 2016 explained the arrangements being put in place to move towards achieving compliance during 2016. This report provides an update on progress.

Reports on progress will be subject to external scrutiny as agreed by the Chief Executive and the Audit Committee at the Committee's meeting in February 2016. A partner, Veritau Ltd, has been appointed following a tendering exercise to assist with checking and supporting progress. There is a significant amount of work underpinning the attached action plan. Veritau Ltd has carried out a high level review of the work undertaken so far and the progress made to date. Based on this, Veritau has stated the action plan "*is a reasonable reflection of the actions taken and being proposed*".

Veritau Ltd is scheduled to complete a more detailed update by September and a full re-assessment of Internal Audit's compliance with the standards, by December 2016.

Recommendations

The Audit Committee is asked to:

1.1 Note progress made on the Action Plan in place to achieve compliance with Public Sector Internal Audit Standards

1.2 Note Veritau Ltd's comments on progress.

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

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 Compliance with UK Public Sector Internal Audit Standards

1. Recommendations

The Audit Committee is asked to:

1.1 Note progress made on the Action Plan in place to achieve compliance with Public Sector Internal Audit Standards

1.2 Note Veritau Ltd's comments on progress.

2. Background

2.1 Internal Audit was the subject of an external review by PWC during 2015 and a report following the review was presented to the Audit Committee on 25 February 2016. One of the areas the review considered was the extent of Internal Audit's compliance with the PSIAS. Of the ten Standards tested, Internal Audit was assessed as non-compliant in five, partially compliant in two and fully compliant in three.

2.2 PWC recommended that an improvement plan should be developed that brings about the necessary improvements to meet the PSIAS requirements. Since the previous progress report to Audit Committee on 27 April 2016, Internal Audit has continued to implement actions to bring the service back towards full compliance. An updated assessment of progress in implementing the necessary improvements is shown in the action plan attached at **Appendix 1**.

2.3 There are 76 actions to take in total. PWC's assessment of compliance, when it carried out its work in late 2015, and the current assessment are summarised below:

Assessment	Number of Red Rated Actions	Number of Amber Rated Actions	Number of Green Rated Actions
PWC (2015)	41	32	3
Current Assessment	nil	36	40

(Note: PWC acknowledged in its report that Internal Audit was already implementing improvements while PWC was carrying out its review)

2.4 Key progress made to date includes:

Action	Audit Standard
The service has extended its mixed model approach to the delivery of specialist work, involving the use of specialist auditors (external) to meet gaps in relevant audit areas	1210(b) 1210(c)
The service has a partnership arrangement with Leicester City Council for ICT Audit services, which provides an assessment of ICT risks and controls.	1210(e)
Performance targets are included in all audit jobs now allocated.	1311(b)
The audit planning process has considered the recently	2010(c)

refreshed Council risk registers in their current form.	
Senior management has been consulted in the preparation of the Audit Plan 2016/17 to ensure their views on risks have been taken into account in setting the plan.	2010(g)
Internal Audit has developed a Fraud Risk Register, although it is currently in draft format.	2120(c)
Audit work takes into account current risk assessments.	2210(a) 2210(b)
Review and quality control procedures are now in place to ensure working papers meet required quality standards.	2330(a)
All audit reports now show a clear link between objectives & conclusions. Presentation is being further developed to provide a clearer and more meaningful audit opinion on each piece of work.	2420(a)

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

2.5 This represents a better position, although there remains a significant amount of work to complete the action plan and, more importantly, embed the requirements into audit processes and procedures.

2.6 Key next steps include:

Date	**Action**	**Audit Standard**
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 while undertaking audit work	2010 and 2120
30 September 2016	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
	Work with Veritau Ltd to complete a current 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)

2.7 As shown above, Internal Audit is currently revising its processes. Staff will need to be re-trained in relevant areas to ensure they are effectively implemented, 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.

2.8 Progress against the action plan will be reported to the Audit Committee at each of its meetings during 2016/17. Veritau Ltd has been asked to comment on the progress reports. There is a significant amount of work underpinning the attached action plan. For this update report, Veritau Ltd has carried out a high level review of the work undertaken by Internal Audit so far and the progress made to date. Based on this, Veritau has stated the action plan "*is a reasonable reflection of the actions taken and being proposed*".

3. Options Considered and Recommended Proposal

3.1 Internal Audit has prepared an Action Plan (Appendix 1) to highlight and address those areas of PSIAS that have been self-assessed as compliant ("green") and those as remaining either 'non' or 'partially' compliant ("amber"). The Audit Committee is asked to note the progress made since the 27 April 2016 Audit Committee report and approve the updated Action Plan to achieve full compliance.

4. Consultation

4.1 Veritau Ltd has been consulted on the report and action plan. Veritau's comments are included above at 2.8.

5. Timetable and Accountability for Implementing this Decision

5.1 Details of key dates and responsible officers are included in the action plan. Progress will be monitored on an ongoing basis and reported to the Audit Committee at each of its meetings during 2016/17.

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 or 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.

12.2 The risks are being mitigated through regular review. Remedial actions will be taken where the risk of failure becomes more than an acceptable level.

13. Accountable Officer(s)

Colin Earl, Assistant Director of Audit, Procurement and ICT