

Council Report

Audit Committee – 21 September 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. Reports presented to the Audit Committee on 27 April 2016 and 20 July 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. Veritau Ltd has been appointed following a tendering exercise to assist with checking and supporting progress. Veritau Ltd has carried out a light touch review of this update, following the previous report in July, and has stated the "*action plan reflects the work being done by the service to ensure compliance with the standards; although some of the actions are clearly a work in progress*".

A full re-assessment of Internal Audit's compliance with the standards is due to be completed 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 20 July 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 is summarised below:

Assessment	Number of Red Rated Actions	Number of Amber Rated Actions	Number of Green Rated Actions
PWC (2015)	41	32	3
July 2016	nil	36	40
Current Assessment	nil	29	47

(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 since the previous update provided in July 2016 includes:

Action	Audit Standard
Improved scoping and reviewing processes have been implemented to ensure due professional care is applied to each audit assignment.	1220(a)
Each member of audit staff now maintains a personal Continuing Professional Development (CPD) log. In addition, individual staff development requirements have been identified through PDRs and this will form the basis of future staff development / CPD sessions.	1230(b)
Refreshed performance targets are referred to in the Audit Charter (for approval by the Audit Committee on 21 September 2016).	1311(c)

Internal Audit progress reports review and comment specifically on progress against the risk-based audit plan.	1311(f)
Ongoing progress against the self-assessment is regularly reported to the Audit Committee and including independent comments by Veritau Ltd.	1320(a)
All work within the audit plan is being allocated to available resources, taking account of optimum timing for management, to minimise the risk of abortive work.	2030(b)
All audit reports now show a clear link between objectives & conclusions and presentation has been 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 continually improving 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 October 2016	Continue to develop the audit approach to fully reflect the refreshed Internal Audit Charter and the organisation's 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
	Continue to work with Veritau Ltd to complete a current external assessment of compliance with auditing standards	Ditto
	Monitor team performance by carrying out a survey of the views of senior managers	Ditto
	Fully refresh the Internal Audit Manual to reflect new, PSIAS compliant, audit policies and procedures	2040(c)
	Continue the staff development / CPD programme.	1210, 1220, 1230
	Complete procurement of electronic audit management system.	2040(b)
30 April 2017	Report to Audit Committee on Quality Assurance & Improvement Programme (QAIP), including results of survey of senior managers.	1320, 1321
	Complete a fuller 'Assurance Mapping' exercise to determine where reliance can be placed on other internal and external sources of assurance.	2010(a)

(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 'light touch' review of the work undertaken by Internal Audit so far and the progress made to date. Based on this review, Veritau has stated the *"action plan reflects the work being done by the service to ensure compliance with the standards; although some of the actions are clearly a work in progress"*.

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 20 July 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