

Summary Sheet

Council Report:

Audit Committee – 29th January, 2019.

Title:

Internal Audit Self-Assessment against the Public Sector Internal Audit Standards.

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 of Finance and Customer Services*)

Report Author(s):

David Webster (Head of Internal Audit)

Ward(s) Affected:

None

Executive Summary:

All Internal Audit departments in Local Government must comply with the Public Sector Internal Audit Standards (PSIAS). The standards include the need for an annual self-assessment to confirm compliance, with an external assessment at least every five years.

An external assessment was completed by PwC in 2015-16, who found that the department did not conform to the standards, resulting in an Action Plan to improve the department. An internal self-assessment was completed in January 2017 which showed that substantial progress had been made so that the department demonstrated partial conformance with the standards. Another self-assessment in January 2018 showed that sufficient progress had been made to conclude that the department had general conformance with the standards.

This paper reports the results of the internal self-assessment for January 2019. This has been completed by one of the new recruits to the team, an experienced auditor, to give a measure of independence to the results. It reaffirms the conclusion of general conformance with the standards. Summary results are given below showing the progress made in the last three years.

The department has undergone considerable changes in personnel and the way it works in the last year. However some planned development did not take place. It is recommended that another external assessment takes place next year after a period of stability and development.

Recommendation:

The Audit Committee is asked to

- a. Note the result of the self-assessment against the PSIAS.**
- b. Note the progress made from the external assessment carried out in 2015/16 and the internal assessment last year.**
- c. Confirm that an external peer review should be completed in 2019/20.**

Background Papers:

Public Sector Internal Audit Standards.

Local Government Advice Note.

Audit Committee Paper February 2018.

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 Self-Assessment against the Public Sector Internal Audit Standards.

1. Recommendations

The Audit Committee is asked to:

- **Note the result of the self-assessment against the PSIAS.**
- **Note the progress made from the external assessment carried out in 2015/16 and the internal assessment last year.**
- **Confirm that an external peer review should be completed in 2019/20.**

2. Background

2.1 Professional Standards for Internal Audit are set out in the Public Sector Internal Audit Standards (PSIAS). These require an annual internal assessment of conformance against the standards, with an independent assessment of internal audit at least every 5 years.

2.2 In 2015, the Interim Director of Finance and Corporate Services commissioned a review of Internal Audit to be conducted by PWC, following a competitive tender exercise. The PWC review was a comprehensive assessment. The report following the review was presented to the Audit Committee in February 2016. It recommended a number of actions required to improve the service and ensure compliance with audit standards.

2.3 One of the areas the review considered was the extent of Internal Audit's conformance with the PSIAS. Of the ten Standards tested at that time, Internal Audit was assessed as non-compliant in five, partially conforming in two and generally conforming in three.

2.4 An Action Plan was produced and the internal assessment in January 2017 showed an overall Partial Conformance with PSIAS. This assessment resulted in the production of a Quality Assurance and Improvement Programme (QAIP) which was presented to the Committee in June 2017.

2.5 A further internal assessment in January 2018 showed that sufficient progress had been made to conclude that the department had general conformance with the standards. An updated QAIP was produced and presented to the Committee in February 2018.

2.6 The Chartered Institute of Internal Auditors (CIIA) definitions and guidance for conformance with the Standards are given in Appendix A.

3. Annual Self-Assessment against the PSIAS.

3.1 The self-assessment for 2018/19 has been completed by a new recruit to the Internal Audit team, who is an experienced internal auditor, in order to give a measure of independence to the assessment. He used the checklist used by the Chartered Institute of Internal Auditors (CIIA) when they conduct external assessments. The checklist gives details of the standards and the key

conformance criteria for each one. There is space for the reviewer assessment and suggestions for improvement.

- 3.2 The review consists of an assessment against the definition of Internal Audit, the code of ethics, the four attribute standards and the seven performance standards.
- 3.3 Appendix A contains results of the review against each individual standard. It gives the definitions of general, partial, and non-conformance followed by the detailed result against each individual standard. For comparison the results of the review in 2017/18 are noted. Key points are:
 - The Internal Audit department has maintained the standards reported last year, again achieving an overall general conformance.
 - The overall position and progress since the PwC report to the Audit Committee can be indicated as follows:

		PwC 2015/16	Annual Assessment 2016/17	Annual Assessment 2017/18	Annual Assessment 2018/19
Overall Assessment		DNC	PC	GC	GC
Definition		Not reported	GC	GC	GC
Code of Ethics					
Integrity		Not reported	GC	GC	GC
Objectivity		Not reported	GC	GC	GC
Confidentiality		Not reported	GC	GC	GC
Competence		Not reported	GC	GC	GC
Attribute Standards					
1000	Purpose, Authority and Responsibility	GC	GC	GC	GC
1100	Independence and Objectivity	GC	GC	GC	GC
1200	Proficiency and Due Professional Care	DNC	PC	PC	PC
1300	Quality Assurance and Improvement Programme	DNC	GC	GC	GC
Performance Standards					
2000	Managing the Internal Audit Activity	PC	GC	GC	GC
2100	Nature of Work	DNC	PC	GC	GC
2200	Engagement Planning	DNC	PC	GC	GC
2300	Performing the Engagement	DNC	PC	GC	GC
2400	Communicating Results	PC	GC	GC	GC
2500	Monitoring Progress	GC	GC	GC	GC
2600	Resolution of Senior Management's Acceptance of Risk	Not reported	GC	GC	GC

Key:

GC – Generally Conforms PC – Partially Conforms

DNC – Does Not Conform

- 3.4 Since the last assessment there have been many issues affecting the department which have hampered the progress expected. Two Senior Auditors left the team and their replacements did not start until January 2019. Further development of the integrated audit software took place, with the introduction of automated recommendation tracking. The Head of Internal Audit spent much of the year involved in disciplinary and grievance management investigations. The secondments into and out of the team came to an end, replaced by permanent positions. As a result, although the overall level of conformance was maintained, the planned improvements did not all materialise. There are still individual areas of partial conformance that need to be addressed.
- 3.5 The areas of partial conformance give rise to actions which will form the Quality Assurance and Improvement Plan for the next year. This has the aim of achieving general conformance within all areas of the standards by the time of the next assessment.

Key actions include:

- Fully refreshing the Internal Audit Manual to reflect new ways of working after the introduction of audit software
- Develop audit planning method and documentation
- Development of assurance mapping.
- Develop the use of Computer Aided Audit Techniques (CAATS)

(nb this is not a full list)

- 3.6 The standards require that an external assessment be carried out every five years by a qualified independent assessor. One was completed three years ago, so to meet the standards another does not have to be completed until 2020-21. It is recommended that the next external assessment be carried out next year after a period of stability and development.

4. Options considered and recommended proposal

4.1 Internal Audit work through the Quality Assurance and Improvement Plan to address those areas of PSIAS that have been self-assessed as partially conforming.

4.2 The next external assessment to be carried out in a year's time

5. Consultation

5.1 The report is presented to the Audit Committee to enable it to fulfil its responsibility for overseeing the work and standards of internal audit.

5.2 The Strategic Director, Finance and Customer Services has been fully briefed on progress.

6. Timetable and Accountability for Implementing this Decision

6.1 Actions will be completed during 2019.

7. Financial and Procurement Implications

7.1 Any financial implications specifically arising from the implementation of recommendations made in this report will be dealt with as appropriate.

8. Legal Implications

8.1 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.”

8.2 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”.

9. Human Resources Implications

9.1 Any HR implications emanating from the implementation of the recommendations will be addressed in full consultation with Human Resources. This could involve matters relating to staff development, skills and capabilities.

10. Implications for Children and Young People and Vulnerable Adults

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

11. Equalities and Human Rights Implications

11.1 There are no direct Equalities or Human Rights implications arising from this report.

12. Implications for Partners and Other Directorates

12.1 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 Council Plan.

12.2 Senior management, Members and other stakeholders will be consulted in relation to the future expectations for the internal audit service, as part of the planning for 2019/20. The aim will be to ensure major issues and risks for services are reflected in the audit planning processes, including where relevant, partnership working.

13. Risks and Mitigation

13.1 The failure to maintain an effective audit function means the Council fails to comply with the Accounts and Audit Regulations, as well as failing to secure the benefits of an effective and modern internal audit that helps the Council manage its risks and adds value to control arrangements in place at the Council. More comprehensive performance management arrangements will provide better control of this risk.

13.2 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.

13.3 Close and regular monitoring of the implementation of recommendations included in the action plan will ensure any risks of failing to achieve improvements will be monitored and addressed.

14. Accountable Officer(s):

David Webster (Head of Internal Audit).

Evaluation Procedure

- Examine and reflect upon the requirements of the *Definition of Internal Auditing*, the *Code of Ethics* and each *International Standard*. Use the relevant *Interpretation* within the Standards to build your understanding.
- Consider the key conformance criteria that will demonstrate compliance. You may wish to add other conformance criteria that are specific to your organisation or there may be additional criteria you wish to suggest. If you have suggestions use the form at Appendix 1 to provide feedback.
- Record the full range and extent of the evidence that exists within the internal audit activity and the organisation that demonstrates conformance with the *Standard*. There are lots of ways to gather information to support your assessments. This might include interviews with stakeholders and internal auditors as well as reviewing files, work papers reports and personnel records. As a result you may need to prepare an interview schedule and timetable.
- Compare the evidence to the key conformance criteria and assess the degree of conformance. Use the definitions that are provided below to guide your evaluation. Any of the key conformance criteria that is not achieved, would strongly suggest a rating of '**does not conform**' or '**partially conforms**'.
- Record the assessments in the table provided shading the boxes green, amber or red. Use this to present a summary of the results and to make an overall assessment. If most of the *Standards* are judged to be '**does not conform**', then the overall assessment must be '**does not conform**'.

Generally Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

Partially Conforms means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

Does Not Conform means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

Detailed Assessment against individual Standards – Current and Last Year (LY)

		Generally Conforms	Partially Conforms	Does Not Conform
	OVERALL ASSESSMENT	LY		
	Definition of Internal Auditing	LY		
Reference	Code of Ethics			
1	Integrity	LY		
2	Objectivity	LY		
3	Confidentiality	LY		
4	Competence	LY		
Reference	Attribute Standards			
1000	Purpose, Authority and Responsibility	LY		
1010	Recognising Mandatory Guidance in the Internal Audit Charter	LY		
1100	Independence and Objectivity	LY		
1110	Organisational Independence	LY		

		Generally Conforms	Partially Conforms	Does Not Conform
1111	Direct Interaction with the Board	LY		
1112	Chief Audit Executive Roles Beyond Internal Auditing	LY		
1120	Individual Objectivity	LY		
1130	Impairments to Independence or Objectivity	LY		
1200	Proficiency and Due Professional Care (The sum of <i>Standards</i> 1210-1230)		LY	
1210	Proficiency	LY		
1220	Due Professional Care		LY	
1230	Continuing Professional Development	LY		
1300	Quality Assurance and Improvement Programme (The sum of <i>Standards</i> 1310-1320)	LY		
1310	Requirements of the Quality Assurance and Improvement Programme		LY	
1311	Internal Assessments	LY		
1312	External Assessments	LY		
1320	Reporting on the Quality Assurance and Improvement Programme	LY		
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	LY		

		Generally Conforms	Partially Conforms	Does Not Conform
1322	Disclosure of Non-conformance	LY		
Reference	Performance Standards			
2000	Managing the Internal Audit Activity (Sum total of <i>Standards</i> 2010 – 2070)	LY		
2010	Planning	LY		
2020	Communication and Approval	LY		
2030	Resource Management	LY		
2040	Policies and Procedures		LY	
2050	Coordination and Reliance		LY	
2060	Reporting to Senior Management and the Board	LY		
2070	External Service Provider and Organisational Responsibility for Internal Audit	LY		
2100	Nature of Work (Sum of <i>Standards</i> 2110 – 2130)	LY		
2110	Governance		LY	
2120	Risk Management	LY		
2130	Control	LY		

		Generally Conforms	Partially Conforms	Does Not Conform
2200	Engagement Planning (Sum of <i>Standards</i> 2201-2240)	LY		
2201	Planning Considerations		LY	
2210	Engagement Objectives	LY		
2220	Engagement Scope	LY		
2230	Engagement Resource Allocation	LY		
2240	Engagement Work Programme	LY		
2300	Performing the Engagement (The sum of <i>Standards</i> 2310-2340)	LY		
2310	Identifying Information	LY		
2320	Analysis and Evaluation	LY		
2330	Documenting Information	LY		
2340	Engagement Supervision	LY		
2400	Communicating Results (Sum of <i>Standards</i> 2410-2450)	LY		
2410	Criteria for Communicating	LY		
2420	Quality of Communications	LY		

		Generally Conforms	Partially Conforms	Does Not Conform
2421	Errors and Omissions	LY		
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	LY		
2431	Engagement Disclosure of Non-conformance	LY		
2440	Disseminating Results	LY		
2450	Overall Opinions	LY		
2500	Monitoring Progress	LY		
2600	Resolution of Senior Management s Acceptance of Risks	LY		