

Council Report

Audit Committee Meeting – 26th May 2020.

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, Finance and Customer Services.

Report Author(s)

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Ward(s) Affected

All wards.

Report 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. Further self-assessments in January 2018 and January 2019 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 2020. It reaffirms the conclusion of general conformance with the standards.

An external validation of the self-assessment was agreed by the Audit Committee and planned to take place in April and May 2020. It has been postponed and is now planned for late 2020.

Recommendations

The Audit Committee is asked to:

- 1) Note the result of the self-assessment against the PSIAS.
- 2) Confirm that an external peer review should be completed in late 2020.

List of Appendices Included

Chartered Institute of Internal Audit definitions of levels of conformance.

Background Papers

Public Sector Internal Audit Standards and Associated Local Government Application Note.

Audit Committee paper November 2019.

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No.

Council Approval Required

No.

Exempt from the Press and Public

No.

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

1. Background

- 1.1 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.
- 1.2 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.
- 1.3 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.
- 1.4 An Action Plan was produced and the internal assessment in January 2017 showed an overall Partial Conformance with PSIAS. Further internal assessments in January 2018 and 2019 showed that sufficient progress had been made to conclude that the department had general conformance with the standards.
- 1.5 The Audit Committee agreed in November 2019 that the annual assessment for 2020/21 would be validated by an external peer review. This was planned to take place in April and May 2020 but had to be postponed due to Covid-19. It will now take place towards the end of 2020.
- 1.6 The Chartered Institute of Internal Auditors (CIIA) definitions and guidance for conformance with the Standards are given in Appendix A.

2. Key Issues

- 2.1 The self-assessment for 2019/20 has been completed. This self-assessment used the checklist developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). When arranging for peer review external assessments between Councils in South and West Yorkshire, for consistency it was agreed to use this checklist.
- 2.2 The review consists of an assessment against the Mission and Definition of Internal Audit, the Core Principles and Code of Ethics, and the four attribute standards and seven performance standards.
- 2.3 In each case the conclusion was that the department generally conforms with the requirements. Some individual areas where further improvement could be made were identified and these have become the action points in the Quality Assurance and Improvement Programme for 2020.

Key actions include:

- Assess the need for IT audit
- Develop the use of Computer Aided Audit Techniques (CAATS)
- Increased stakeholder feedback on performance

(nb this is not a full list)

3. Options considered and recommended proposal

- 3.1 Internal Audit work through the Quality Assurance and Improvement Plan to address those areas of PSIAS that have been self-assessed as requiring improvement.
- 3.2 The external assessment to be carried out in late 2020

4. Consultation on proposal

- 4.1 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. Timetable and Accountability for Implementing this Decision

- 5.1 The Audit Committee is asked to receive this report at its May 2020 meeting.
- 5.2 Actions will be completed during 2020.

6. Financial and Procurement Advice and 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 Advice and 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:

“A relevant 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 Advice and 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 Advice and Implications

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

11. Implications for Partners

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 Council Plan.

12. Risks and Mitigation

12.1 The following risk has been identified.

Risk	Impact	Likelihood	Mitigation
Failure to meet the requirements of the standards set down in the UK Public Sector Internal Audit Standards (PSIAS).	Low	Low	Ongoing monitoring. Internal assessment shows areas where standards are not currently met. Produce and implement Quality Assurance and Improvement Plan.

13. Accountable Officer(s)

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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.
- 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.