

Council Report

Audit Committee Meeting – 23rd March 2021.

Title

External Assessment of Internal Audit 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)

David Webster, Head of Internal Audit

Tel: 01709 823282 Email: david.webster@rotherham.gov.uk

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 agreed by the Audit Committee and planned to take place in April and May 2020. It was postponed because of Covid-19 and was completed in late 2020.

The external assessment was completed by the Head of Internal Audit at Calderdale Metropolitan Borough Council, who has found that the department generally conforms to the standards. This paper reports the results of the external assessment.

Recommendations

The Audit Committee is asked to:

- 1) Note the result of the external assessment against the PSIAS.

List of Appendices Included

External Compliance Assessment Peer Review

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.

External Assessment of Internal Audit 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 The Audit Committee agreed in November 2019 that the annual internal 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 was completed towards the end of 2020.

2. Key Issues

- 2.1 The external assessment has been completed. This 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 consisted 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 The conclusion was that the department generally conforms with the requirements. Some individual areas where further improvement could be made were identified and these will become the action points in the Quality Assurance and Improvement Programme for 2021/22. The full report is attached in Appendix 1.
- 2.4 The Chartered Institute of Internal Auditors (CIIA) definitions and guidance for conformance with the Standards are given in Appendix 2.

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 assessed as requiring improvement.

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 March 2021 meeting.

5.2 Actions will be completed during 2021.

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

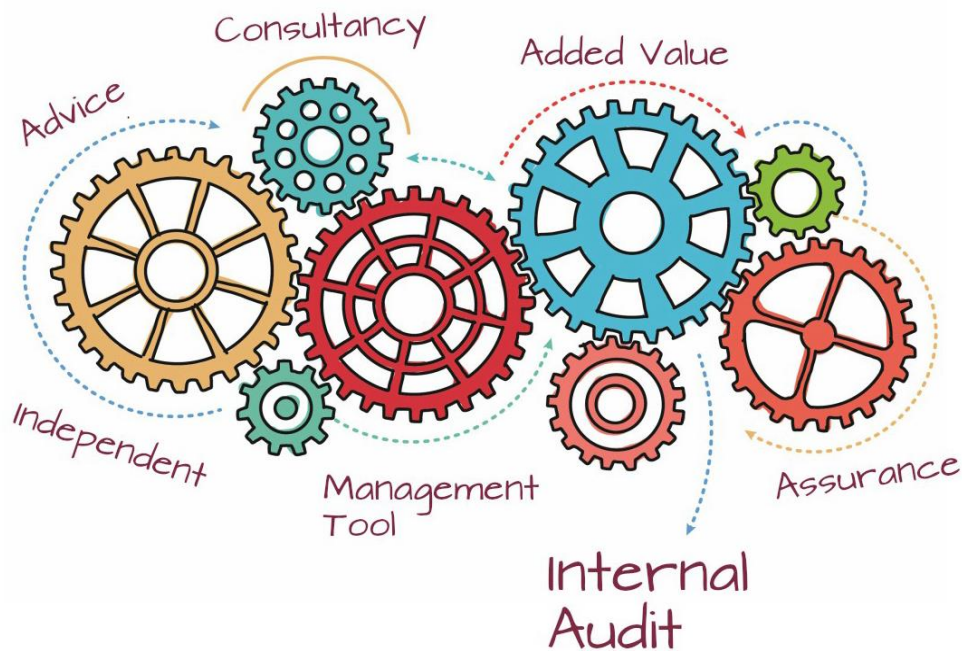
12.1 The following risk has been identified.

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. External assessment shows areas where standards can be improved. Produce and implement Quality Assurance and Improvement Plan.

13. Accountable Officer(s)

David Webster, Head of Internal Audit.

Tel 01709 823282 E mail david.webster@rotherham.gov.uk



**ROTHERHAM METROPOLITAN BOROUGH COUNCIL
INTERNAL AUDIT SERVICE**

**PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)
EXTERNAL COMPLIANCE ASSESSMENT PEER REVIEW**

FINAL Date 9th February 2021

LISA HINCHLIFFE CPFA
HEAD OF INTERNAL AUDIT
WESTGATE HOUSE
HALIFAX
HX1 1PS

REPORT PREPARED BY: Lisa Hinchliffe
TELEPHONE NO. (01422) 393562

CALDERDALE METROPOLITAN BOROUGH COUNCIL

CHIEF EXECUTIVE'S OFFICE – FINANCE

**ROTHERHAM METROPOLITAN BOROUGH COUNCIL
PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)
EXTERNAL COMPLIANCE ASSESSMENT PEER REVIEW**

CONTENTS

- 1. Introduction**
- 2. Executive Summary**
- 3. Scope and Methodology**
- 4. Summary of Findings**
- 5. Recommendations**

Appendix A - List of Interviewees

Appendix B - List of Internal Audit Reports Examined

Appendix C – Actions to Consider

CIRCULATION

David Webster, Head of Internal Audit

Judith Badger, Strategic Director, Finance and Customer Services

Cllr Ken Wyatt, Chair of Audit Committee

1. INTRODUCTION

- 1.1 This report details the external assessment of Rotherham Metropolitan Borough Council's Internal Audit function against the Public Sector Internal Audit Standards. This external assessment has been undertaken by the Head of Internal Audit from Calderdale Council. The standards require that such an external review is carried out every 5 years.
- 1.2 This report has been discussed and agreed with David Webster, Head of Internal Audit. The results of the review will be reported to Rotherham's Audit Committee on the 23rd March 2021.
- 1.3 The external assessment builds on the internal self-assessments which have been reported to the Audit Committee.

2. EXECUTIVE SUMMARY

- 2.1 The overall opinion from the external review is that Rotherham Metropolitan Council Internal Audit function "**Generally Conforms**" to the Public Sector Internal Audit Standards.
- 2.2 The guidance suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform". "Generally Conforms" is the top rating and means that the Internal Audit activity has a Charter, policies and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the Internal Audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the Internal Audit activity from performing adequately in all or in significant areas of its responsibilities.
- 2.3 The evidence identified in the external assessment has confirmed the results arising from the Head of Internal Audit's self-assessment against the PSIAS which was reported to the Audit Committee on the 24th March 2020. It is noted that a QAIP is in place at Rotherham which has been taken account of and noted as part of this external review.
- 2.4 Although the overall assessment is that Rotherham "generally conforms" that are some areas identified for consideration against best practice, ensuring future resilience and potential enhancements. These are detailed at 4.5 of the report and recommendations have been made at section 5.

3. SCOPE AND METHODOLOGY

- 3.1 The review was conducted in conformance with the PSIAS using a combination of enquiry, observation and sample testing.
- 3.2 The methodology for a peer approach external assessment was agreed by the West and South Yorkshire Heads of Internal Audit Group following the introduction of the PSIAS in April 2013. This methodology was reviewed and endorsed by the peer group of Heads of Internal Audit undertaking the next round

of external assessments in 2020 and 2021. On the 26th November 2019, Rotherham's Audit Committee agreed that a peer approach be once again adopted for the external review.

- 3.3 The focus of the external assessment was two-fold; primarily to review whether Rotherham's Internal Audit function was PSIAS compliant and secondly to consider and identify any possible areas for service improvement.
- 3.4 The external assessment required an independent desktop review of Rotherham's own self-assessment against the PSIAS, structured interviews, and less formal discussions and a review of four Internal Audit reports which were selected by the assessor. **Appendix A** provides a list of the interviewees and other staff with whom discussions took place. **Appendix B** lists the titles of the audit reports examined.
- 3.5 Due to Covid-19 it was not possible to make a site visit to Rotherham MBC and as such all interviews were conducted via Microsoft Teams. As a result the assessor could not be given access to Pentana in order to review working papers and other management information included within the system. As such reliance was placed on information provided by relevant Auditors and Principal Auditors as part of discussions. It is acknowledged that like all local authorities and Internal Audit sections there have been disruptions throughout the year to service delivery due to Covid. It is noted that the Audit Committee have been kept up to date on the current position.

4. SUMMARY OF FINDINGS

- 4.1. As detailed in the executive summary at 2.1 above, the findings from the external review confirmed the results from the internal self-assessment being that Rotherham Internal Audit generally conforms to PSIAS.
- 4.2. From discussions and interviews with key stakeholders, as detailed in Appendix A, and from the review of documentation provided as evidence, the following good practices and positive comments were observed:
- a) The audit team is effective and well respected within the organisation providing constructive challenge, in the main future-based reports supporting the organisation to achieve priorities.
 - b) Good engagement with services and directorates was conveyed with auditors demonstrating a good knowledge of key issues for the organisation whilst remaining independent.
 - c) Relevant expertise exists within the team with professionally qualified auditors as required.
 - d) Directors are engaged with the audit team and ask for assistance and consider the audit plan to be sufficiently flexible.
- 4.3 From interviews carried out with various officers, the Chair of the Audit Committee and from observation at the November 2020 Audit Committee it is clear that overall responsibility and implementation of Internal Audit

recommendations has been an issue, but that action has been taken by the Head of Internal Audit to address this and that this is being managed through Pentana.

- 4.4 The level of resources available to Internal Audit is a decision for the Audit Committee, Strategic Director, Finance and Customer Services and the Head of Internal Audit. From discussions it was apparent that there is an awareness of the potential issue of future resilience within the Internal Audit section. The view on the level of resources from the external assessment is that current resources are considered adequate, although any further reduction in resources could bring into question the issue of a minimum level of audit which would need to be reconsidered.

4.5 **Service Improvement Opportunities**

- 4.5.1 As part of the assessment the review looked at the current practices adopted by Rotherham's Internal Audit Service. The report identifies a number of observations made that the Audit Committee, Strategic Leadership Team and the Internal Audit Service may wish to consider in terms of the future development of the service. These Actions for Consideration are outlined in the **Appendix C**.

- 4.5.2 Any developments need to be considered in the context of how they will 'add value' with the available resources both to the Internal Audit Service and to the Council as a whole. It needs to be recognised that the approach taken is the responsibility and decision of the Audit Committee, Strategic Director, Finance and Customer Services and the Head of Internal Audit along with the application of their professional judgement in accordance with Rotherham Metropolitan Borough Council's strategic objectives.

5. **RECOMMENDATIONS**

- 5.1 It is recommended that:

- a) This report is presented to members of the Audit Committee for consideration of the findings and suggested actions.
- b) The findings and suggested actions from the report are considered and where appropriate added to the existing Quality Assurance and Improvement Programme (QAIP) which is used and maintained on an ongoing basis.
- c) The QAIP is presented to the Audit Committee and reported periodically to monitor progress and the continued development of the Internal Audit Service.

List of Interviewees

Judith Badger - Strategic Director, Finance and Customer Services

Anne Marie Lubanski – Strategic Director Adult Care, Housing and Public Health

Councillor Ken Wyatt – Audit Committee Chair

Gareth Mills - Director, Public Sector Audit Grant Thornton

Internal Audit Team Contacts

David Webster - Head of Internal Audit

Mitch Chapman – Principal Auditor

Andy Furniss – Principal Auditor

Dave Todd – Senior Auditor

Angela McComb – Senior Auditor

Claire Shaw - Auditor

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OFFICIAL

List of Audit Reports Selected

1. ACH&PH – No Recourse to Public funds
2. R&E – Home to School Transport
3. ACX – Payroll
4. CYPS – Themed School Audit

Service Improvement Opportunities

Ref	Observations	Actions to Consider	Management Response/Action
1.	Proficiency and Due Professional Care (Standard 1200)		
1.1	<p>Standards require that engagements are performed with proficiency and due professional care having regards to skills and qualifications.</p> <p>The self-assessment identified that there is a short-fall in IT audit knowledge and the use of computer assisted audit techniques (CAATs), although actions have been identified to manage this, such as buying a service from Salford Internal Audit. No reference is made to these arrangements in the Audit Manual or Internal Audit Charter.</p>	<p>Arrangements for IT audits and CAATs should be appropriately documented in the Audit Manual and Internal Audit Charter.</p> <p>Action should continue to be taken to address this gap in knowledge to ensure audits are performed in compliance with required standards</p>	<p>Agreed.</p> <p>Salford Internal Audit Services have produced an Audit Needs Assessment. This will be incorporated into the Audit Plan for 2021/22.</p> <p>The use of Computer Aided Audit Techniques is being explored and they will be used during 2021/22.</p> <p>The Audit Manual and Charter will be updated to reflect this.</p> <p>Implementation Date 30.9.21</p>
1.2	<p>Verbal assurance was provided as part of the review that all auditors take part in PDR's. Although from discussion it was clear that the majority of auditors have undertaken regular training and development some auditors could not recall any recent training or development opportunities.</p>	<p>Reviews should be undertaken of all auditors PDRs to ensure that all have participated in a programme of continuing professional development in order to ensure that standards continue to be met.</p>	<p>Agreed.</p> <p>Professional Standards will be included in the next round of PDRs, due in May 2021.</p> <p>Implementation Date 30.6.21</p>
2.	Quality Assurance and Improvement Programme (1300)		
2.1	<p>Standards require that internal assessments are required in the form of ongoing monitoring and reporting on the performance of internal audit activity against set performance targets. It is noted that the following performance targets are reported to the Audit Committee:</p>	<p>In order to provided Members of the Audit Committee with further assurance as to the effectiveness of the Internal Audit activity consideration should be given to extending the reporting of performance targets from the</p>	<p>Agreed.</p> <p>Further information from the Post Audit Questionnaires will be provided to the Committee.</p>

Ref	Observations	Actions to Consider	Management Response/Action
	<p>a) draft reports issued within 15 working days of field work being completed;</p> <p>b) Chargeable time/available time;</p> <p>c) Audit completed within planned time;</p> <p>d) Client satisfaction survey.</p> <p>From discussion as part of the assessment and a review of the Audit Manual it was established that other qualitative monitoring processes are included within Pentana and questions asked on the client post assurance questionnaire, but they are not reported to Audit Committee.</p> <p>Standards require the quality of communications to be generally accurate, objective, clear, concise, constructive, complete and timely. Although no issues were identified as part of the external review and it was noted that client post audit questionnaires consider some of these quality issues, they do not consider them all, nor are they communicated to the Audit Committee. Although a judgement has been made as part of the external assessment, that on the whole the Core Principle 'Demonstrates quality and continuous improvement' has been met, consideration should be given to enhancing the communication of quality standards.</p>	<p>information contained within the Pentana and client post audit questionnaires.</p> <p>In order to demonstrate the quality of communications, consideration should be given to reviewing the questions on the client post audit questionnaires and communicating the full results to the Audit Committee.</p>	<p>The questions will be reviewed to ensure they provide sufficient information.</p> <p>Implementation Date 30.9.21</p>
2.2	<p>As part of discussions with auditors and principal auditors it was established that they were unsure whether post audit questionnaires were being sent to clients and they were not being made aware of the results if they were. It is noted however, that this requirement is included within the Audit Manual.</p>	<p>Once revised, auditors should be reminded of the process for post audit questionnaires. In addition, as part of continuous improvement the results of questionnaires should be reviewed and communicated to auditors as appropriate.</p>	<p>Agreed.</p> <p>Implementation Date January 2021.</p>
2.3	<p>As part of the external review progress reports presented to each meeting of the Audit Committee were reviewed. It was noted that a number of audits showed the status 'WIP' (work</p>	<p>In order to ensure efficiency, and that reports are reported in a timely manner, consideration should be given to introducing targets and</p>	<p>Agreed.</p> <p>Targets for the timely completion of</p>

Ref	Observations	Actions to Consider	Management Response/Action
	in progress) for several meetings. From discussion with the Head of Internal Audit it was identified that there would be reasons for this, although the potential for “drift” is currently not being monitored.	monitoring the manage the risk of “drift” i.e. starting audits and not completing them in a timely manner.	audits will be introduced. Implementation Date 30.9.21
3.	Managing the Internal Audit Activity (Standard 2000)		
3.1	The self-assessment identified that reliance has not been placed on other sources of assurance and that work on assurance mapping had commenced but was not complete. It is noted however, that some consideration is given to this as part of scoping individual audits.	In order to make best use of Internal Audit resources action should be taken to ensure reliance is placed on other sources of assurance where available.	Agreed. A Research Document was introduced after the self-assessment, to be used prior to scoping audits. This will be further developed to ensure reliance can be placed on other sources of assurance where possible. Implementation Date 31.3.21.
4.	Performing the Engagement (2300)		
4.1	Standards require that auditors should remain alert to the possibility of the following when performing their individual audits: <ul style="list-style-type: none"> • Intentional wrongdoing; • Errors and emissions; • Poor value for money; • Failure to comply with management policy; • Conflicts of interest. As part of the self-assessment it was confirmed that this requirement is being met through training, experience and audit methodology. Although this is acknowledged and no impairment was observed as part of the external review through discussion with auditors, and reviews of individual audit reports, the standard requires that this is documented.	Consideration should be given to documenting the requirement to be alert to the potential issues as part of all engagements. Although not exhaustive this could be achieved in a number of ways such as reference in the Audit Manual, part of annual declarations or a regular documented training or items at teams meetings for all auditors.	Agreed. This will be referenced in the Audit Manual and included in team meetings. Implementation Date 30.9.21

Ref	Observations	Actions to Consider	Management Response/Action
5.	Communicating Results (2400)		
5.1	<p>Standards require that internal auditors must communicate the results of engagements. The standards state that internal Auditors may report that engagements are “conducted in conformance with the PSIAS” only if the results of the QAIP support such a statement.</p> <p>It was noted as part of the external assessment that this is not included in the current report format. The reason given for this as part of the self-assessment was that this is not used as the last external assessment did not have that result.</p>	<p>Given the outcome of this external review, consideration should be given to including within the standard report format that engagements are conducted in conformance with PSIAS.</p>	<p>Agreed.</p> <p>This will be added to all reports.</p> <p>Implementation Date 1.4.21</p>
5.2	<p>As required by the standards it was identified from the external assessment that an overall annual audit opinion was provided which was supported by work undertaken by internal audit. However, as part of discussions and a review of the report it was identified that this could be improved by providing a high-level summary showing the overall picture for the year.</p>	<p>Consideration should be given to providing a high-level summary of the position for the year as part of the annual opinion.</p>	<p>Agreed.</p> <p>A high-level summary will be included in the Internal Audit Annual Report.</p> <p>Implementation Date 30.6.21</p>
5.3	<p>In local government, internal auditors operate in the public domain. There will be a variety of external interests in their work, including the organisation’s partners in the voluntary sector and other parts of the public sector, the general public, and ‘armchair auditors’ and other stakeholders who the government expects to scrutinise local authority activities. The Freedom of Information Act 2000, or equivalent, obliges internal auditors to manage their activities in the expectation that their work will become public knowledge and could be scrutinised by anyone with an interest in doing so.</p> <p>It is noted however, that Internal Audit Progress Reports are presented to Audit Committee in private. Although reasons were given as to why this decision was made, such</p>	<p>In order to improve transparency and reporting to all stakeholders, consideration should be given to all Internal Audit Progress Reports being reported in public.</p>	<p>Agreed.</p> <p>Internal Audit Progress Reports will be included in the public sessions of the Audit Committee, with any confidential information being included in the private session.</p> <p>Implementation Date 30.6.21</p>

Ref	Observations	Actions to Consider	Management Response/Action
	<p>confidentiality on sensitive issues with fraud investigations for example, it is considered that on the whole Internal Audit Progress Reports to the Audit Committee should be presented in public.</p>		
6.	Monitoring Progress (2500)		
6.1	<p>Standards require that a process should be in place to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action and that a revised opinion should be considered.</p> <p>It was noted as part of the review that recent action had been taken to address the issue of recommendations not being implemented and that this is being tracked by Pentana.</p> <p>As part of the review it was established that such a process is in place and that it is documented as part of the Audit Manual. It was found however through discussion with auditors that they were not clear when a follow-up audit should be done as they stated that it was determined by the Head of Internal Audit. It was noted that there were many follow-up audits on the Audit Plan but auditors were not always clear why the follow-up audit was required. It was also established that a different approach was being taken by different auditors when accepting that audit recommendations had been implemented, with some asking that evidence be provided, and others accepting the response from management.</p>	<p>The Audit Manual should be reviewed to ensure that the process for following up on recommendations and follow-up audits is clear. Consideration should be given to reviewing the opportunities within the Pentana system to automate the process for not only following up on recommendations but also for follow-up audits.</p> <p>Once reviewed the documented procedure should be communicated to all auditors as a reminder of the process.</p>	<p>Agreed.</p> <p>The process for tracking and following up audit actions and completing follow-up audits will be reviewed and made clearer and communicated to all auditors.</p> <p>Implementation Date 30.9.21.</p>

Chartered Institute of Internal Audit definitions of levels of conformance

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.