

AUDIT COMMITTEE – INTERNAL SELF ASSESSMENT OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Responsible Officer Ceri Pilawski

e-mail: Ceri.pilawski@shropshire.go.uk

Tel: 01743 252027

1. Summary

This report provides the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards (PSIAS) which the Chartered Institute of Public Finance and Accountancy (CIPFA) have developed in collaboration with the Chartered Institute of Internal Auditors (CIIA) and which come into force from 1st April 2013.

2. Recommendations

The Committee is asked to consider and endorse the conclusion that the Council's Internal Audit complies with the principles of the Public Sector Internal Audit Standards and supports the improvement activities proposed to ensure full conformance.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The use of a consistent framework for internal audit across the UK public sector has benefits for both partnership working and for internal auditors who work across different parts of the public sector. The standards are designed to drive improvement and lead to better public finance arrangements.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.

3.3 There are no direct environmental, equalities, climate change or consultation consequences of this proposal.

4. Financial Implications

4.1 There may be a small cost to enable an external assessment of Internal Audit's conformance with the PSIAS in compliance with standard 1310 (external inspection) to be conducted. Information on this will be provided nearer the time.

5. Background

5.1 In May 2011, the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national Public Sector Internal Audit Standards (PSIAS), based upon the mandatory elements of the global CIIA's International Professional Performance Framework have been developed.

5.2 The PSIAS came into force from 1st April 2013 and consists of the following:

- Definition of Internal Auditing;
- Code of Ethics; and
- Standards for the Professional Practice of Internal Auditing.

5.3 The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011.

5.4 In April 2013, CIPFA produced a Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards against which this review of the Internal Audit service has been conducted. As a result of any gaps, an improvement plan is proposed to move the service to a position of full conformance.

Relevant Issues

5.5 The new Standards aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide the Head of Finance, Governance and Assurance (the Section 151 Officer) with the key assurances they need to support them both in managing the council and in producing the annual governance statement.

5.6 In complying with the PSIAS Shropshire Council can provide assurances to Internal Audit's external customers of the teams' professionalism, quality and effectiveness.

5.7 A summary of the results of the self-assessment by the Audit Service Manager against the PSIAS are summarised in **Appendix A**. The majority of

Standards are totally complied with. Where there are areas of non-compliance these are detailed below for members to consider further. In some cases improvements have also been identified in areas of compliance, these along with the actions outlined below appear as an improvement plan in Appendix A to ensure full conformance to the standards in the future.

Areas of non-conformance

- 5.8 **Objectivity Standard:** Do internal auditors display objectivity by not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? (2.2)¹

Finding: It is felt important that internal audit is consulted during system, policy or procedure development. Auditors have been assigned to business review projects where there is a possibility that internal control systems will be affected. This is seen as a key way for internal audit to add value and strengthen internal control arrangements. Where specific auditors have been involved in providing system advice they will be kept away from carrying out the audit as far as possible i.e. another auditor would be allocated the audit. If this was not possible it is felt the benefit of using the experience of developing controls and procedures outweighs concerns of independence and the review process will help to ensure that the review and report is objective and evidenced based.

Therefore **partial** conformance but this is not considered to the detriment of the principles of auditing and the independent review process helps to mitigate any risks, therefore no actions are proposed.

- 5.9 **1100 Independence and Objectivity Standard:** Does the Chief Audit Executive confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples **can be used** by the CAE when assessing the organisational independence of the internal audit activity: The board:

- c) approves the internal audit budget and resources plan.

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee.

- e) approves decisions relating to the appointment and removal of the CAE

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan, including the appointment and removal of the CAE, and to report any concerns to the Audit Committee.

¹ Reference to the relevant part of the Conformance checklist

Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?

Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?

Finding: Neither of the above has been done to date.

Therefore **partial** conformance: Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector CIPFA advise that this can be achieved by ensuring that the Chief Executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee.

Improvement actions proposed to address issues for this standard are:

1. The Terms of Reference of the Council's Audit Committee are reviewed annually in the autumn and consideration will be given to ensuring their compliance with the PSIAS. In addition, other clients Audit Committee's Terms of Reference will be reviewed as appropriate.
2. The Chief Executive is asked to contribute feedback to the performance appraisal of the CAE.
3. The Chair of Shropshire Audit Committee is asked to contribute feedback to the performance appraisal of the CAE. Consideration to be given to extending this to Chairs of all Audit Committees serviced by the team.

5.10 **1312 External Assessments Standard:** Has an external assessment been carried out, or is planned to be carried out, at least once every five years?

Finding: The last external assessment was reported in 2010 against CIPFA's, 'Code of Practice for Internal Audit' and conducted by the Audit Commission. The new standards came in from the 1st April 2013. It is assumed that an external assessment under the standards needs to be conducted by March 2018. No plans have been made for such an assessment, but there is every intention to have one once further guidance on the requirements of the assessment are known.

It is likely that the shape and size of the present Internal Audit team will change to reflect the business plans of the Council over the next five years and therefore early completion of such an assessment may only be of short term benefit. Conversely an assessment earlier may inform the delivery of the service going forward. This is yet to be discussed with the Section 151 Officer.

Therefore we are currently **not** conforming to the standard and propose to consider the approach and timing of an external audit assessment with the Section 151 Officer or a self-assessment with 'independent validation'.

- 5.11 Following on from this initial assessment, Members will receive a report in the June of each year reporting on the effectiveness of the Internal Audit service measured against the PSIAS and an update of the action implemented for required improvements.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Accounts and Audit (England) Regulations 2011

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006

Public Sector Internal Audit Standards 2013

CIPFA Local Government Application note for the United Kingdom Public Sector Internal Audit Standards 2013

Completed Conformance Checklist 2013/14 and supporting evidence

Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member n/a

Appendix A: Public Sector Internal Audit Standards 2013 conformance assessment and Improvement Plan

Appendix A

Public Sector Internal Audit Standards 2013 conformance assessment

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|---|-------------|---|---------------|--|
| Definition of Internal Auditing | Yes | | | |
| Code of Ethics | | | | |
| Integrity | Yes | | | |
| Objectivity | Partially | No action proposed: the independent quality review process of all files and therefore evidence mitigates the slight risks identified in the Audit Committee report | | |
| Confidentiality | Yes | | | |
| Competency | Yes | Whilst training records are maintained by auditors and appraisals identify development requirements, the recording and retention of training records and whether there is a need to keep a central training file will be reviewed | December 2013 | Audit Service Manager |
| Attribute Standards | | | | |
| 1000 Purpose, Authority and Responsibility | Yes | | | |
| 1100 Independence and Objectivity | Yes | | | |
| 1110 Organisational Independence | Partially | 1. The Terms of Reference of the Council's Audit Committee are reviewed annually in the autumn and consideration will be given to ensuring their compliance with the PSIAS. In addition, other clients | November 2013 | Audit Service Manager/ Audit Committee |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|---|-------------|--|---|---|
| | | <p>Audit Committee's Terms of Reference will be reviewed as appropriate.</p> <p>2. The Chief Executive is asked to contribute feedback to the performance appraisal of the CAE.</p> <p>3. The Chair of Shropshire Audit Committee is asked to contribute feedback to the performance appraisal of the CAE. Consideration to be given to extending this to Chairs of all Audit Committees serviced by the team.</p> | <p>September 2013</p> <p>September 2013</p> | <p>Section 151 Officer</p> <p>Section 151 Officer</p> |
| 1111 Direct Interaction with the Board | Yes | | | |
| 1120 Individual Objectivity | Yes | | | |
| 1130 Impairment to Independence or Objectivity | Yes | | | |
| 1200 Proficiency and Due Professional Care | Yes | | | |
| 1210 Proficiency | Yes | | | |
| 1220 Due Professional Care | Yes | | | |
| 1230 Continuing Professional Development | Yes | | | |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|--|-------------|--|--|-----------------------|
| 1300 Quality Assurance and Improvement Programme | Yes | There is a QAIP in place however, the IA manual would benefit from a review to reflect those processes which are now electronic and to ensure that it complies completely with the standards | March 2014 | Audit Service Manager |
| 1310 Requirements of the Quality Assurance and Improvement Programme | Yes | | | |
| 1311 Internal Assessments | | There are on-going performance monitoring targets in place and service level agreements with external clients but these will be reviewed to ensure that they are SMART and efficient in terms of the information used and monitored. | December 2013 SLA's as they come up | Senior Group Auditor |
| 1312 External Assessments | No | Consider the approach and timing of an external audit assessment with the Section 151 Officer or a self-assessment with 'independent validation'. External assessment or a self-assessment with 'independent validation' to be conducted. | March 2018 | Section 151 Officer |
| 1320 Reporting on the Quality Assurance and Improvement Programme | Yes | | | |
| 1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing' | Yes | | | |
| 1322 Disclosure of Non-conformance | Yes | | | |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|--|-------------|-----------------------------------|-------|------|
| Performance Standards | | | | |
| 2000 Managing the Internal Audit Activity | Yes | | | |
| 2010 Planning | Yes | | | |
| 2020 Communication and Approval | Yes | | | |
| 2030 Resource Management | Yes | | | |
| 2040 Policies and Procedures | Yes | | | |
| 2050 Coordination | Yes | | | |
| 2060 Reporting to Senior Management and the Board | Yes | | | |
| 2070 External Service Provider and Organisational Responsibility for Internal Auditing | Yes | | | |
| 2100 Nature of Work | Yes | | | |
| 2110 Governance | Yes | | | |
| 2120 Risk Management | Yes | | | |
| 2130 Control | Yes | | | |
| 2200 Engagement Planning | Yes | | | |
| 2210 Engagement Objectives | Yes | | | |
| 2220 Engagement Scope | Yes | | | |
| 2230 Engagement Resource Allocation | Yes | | | |
| 2240 Engagement Work Programme | Yes | | | |
| 2300 Performing the Engagement | Yes | | | |
| 2310 Identifying Information | Yes | | | |
| 2320 Analysis and Evaluation | Yes | | | |
| 2330 Documenting Information | Yes | | | |
| 2340 Engagement Supervision | Yes | | | |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|--|-------------|---|---------------|-----------------------|
| 2400 Communicating Results | Yes | | | |
| 2410 Criteria for Communicating | Yes | | | |
| 2420 Quality of Communications | Yes | | | |
| 2421 Errors and Omissions | Yes | | | |
| 2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing' | Yes | | | |
| 2431 Engagement Disclosure of Non-conformance | Yes | | | |
| 2440 Disseminating Results | Yes | | | |
| 2450 Overall Opinion | Yes | Whilst references to internal controls cover all these areas and governance reports are taken to the same June Audit Committee separately (item 10), the wording of the opinion should be reviewed to ensure that this is clear. | June 2014 | Audit Service Manager |
| 2500 Monitoring Progress | Yes | | | |
| 2600 Communicating the Acceptance of Risks | Yes | Given the future resource restrictions envisaged and a review of risks, it may be necessary to identify and report upon what areas will not be, or are unlikely to be, audited on a regular basis to senior managers and Audit Committee. | November 2013 | Audit Service Manager |