



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
23 June 2016	
9:30am	<u>Public</u>

ANNUAL REVIEW OF INTERNAL AUDIT: QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP) 2015/16

Responsible Officer James Walton

e-mail: james.walton@shropshire.gov.uk

Tel: 01743 255011

1. Summary

- 1.1 The Accounts and Audit Regulations 2015 (5) require the Council to 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 (PSIAS) or guidance.
- 1.2 As part of the Service's Quality Assurance and Improvement Programme (QAIP), this report provides the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards. Compliance with these standards demonstrates an effective Internal Audit Service. Audit Committee is required to review this report and its findings.
- 1.3 This review should be read in conjunction with the Annual Internal Audit report, found elsewhere on this agenda. When read together the two reports demonstrate the effectiveness of internal audit. The update of the self-assessment has confirmed that the Council continues to operate an effective Internal Audit function. There are no areas where the Internal Audit function is not complying with the Code and whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code.

2. Recommendations

- 2.1 The Committee is asked to consider and endorse, with appropriate comment, the conclusion that the Council employs an effective internal audit to evaluate its risk management, control and governance processes

that complies with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to work towards full compliance where appropriate.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Accounts and Audit Regulations 2015 (section 5) require a relevant authority to 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 (PSIAS) or guidance.
- 3.2 Under the PSIAS, Internal Audit's mission is, 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Thereby providing assurances on the Council's internal control systems by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Internal Audit will also continue to align its work with the Strategic Risk Register.
- 3.3 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. Under 1310 of the PSIAS there is a requirement for Internal assessments which include:
- Ongoing monitoring of the performance of the internal audit activity; and
 - Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.
- 3.4 Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity and is incorporated into the routine policies and practices used to manage the activity. It uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.
- 3.5 This Report provides Members with details of an annual assessment conducted to evaluate conformance with the Definition of Internal

Auditing, the Code of Ethics and the Standards. It is completed by the Audit Service Manager and discussed with the Section 151 Officer before the results and improvement plan are reported to Audit Committee.

- 3.6 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or climate change consequences of this proposal.

4. Financial Implications

- 4.1 The Internal Audit service is provided within approved budgets. There may be a small cost to enable an external assessment of Internal Audit's conformance with the PSIAS in compliance with Standard 1312 (external inspection) to be conducted. The Chairman, Section 151 Officer and the Audit Service Manager have delegated authority to consider the approach/scope of the assessment and agree this with an external assessor and report back to the Committee.

5. Background

- 5.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory for all principal local authorities and were updated in 2016. They consist of:
- Mission of Internal Audit (new);
 - Definition of Internal Auditing;
 - Core Principles for the Professional Practice of Internal Auditing (new);
 - Code of Ethics; and
 - Standards for the Professional Practice of Internal Auditing.
- 5.2 The 'Mission' of Internal Audit is, 'to enhance and protect organisational value by providing risk based and objective assurance, advice and insight'. Internal Audit's effectiveness is demonstrated when the following principles are present and operating effectively.
- Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence
 - Aligns with the strategies, objectives, and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk based assurance
 - Is insightful, proactive and future focused
 - Promotes organisational improvement.
- 5.3 In April 2013, CIPFA produced a Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards. Internal

Audit is reviewed using this guidance for compliance with the Standards, the results of which are summarised in **Appendix A**.

- 5.4 The PSIAS 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 he needs in both managing the financial affairs of the Council and producing the annual governance statement.
- 5.5 In complying with the PSIAS, Shropshire Council can provide assurances to Internal Audit's external customers of the teams' professionalism, quality and effectiveness.
- 5.6 **Appendix A** provides an update against the previously approved improvement plan. The majority of standards are complied with totally. Where there are areas of non-compliance these are detailed below for members to consider further. Where further improvements have been identified in areas of compliance these, along with the actions outlined below, appear in the improvement plan within the appendix, to ensure full conformance to the standards in future.

Areas of potential non-conformance

- 5.7 **Code of Ethics - 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?

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 an opportunity for internal audit to add value and strengthen internal control arrangements. Where specific auditors have been involved in providing system advice they will be excluded from carrying out the audit as far as possible i.e. another auditor would be allocated to 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 remain objective and evidenced based.

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

- 5.8 **1100 Independence and Objectivity Standard:** Does the Chief Audit Executive (CAE) 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:

- **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.

- **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.

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, this is completed for Shropshire Council.

The Section 151 Officer also seeks as he deems appropriate, opinions from the Chairs of externally serviced Audit Committees and their key officers on the Audit Service Manager's performance for use in her appraisal.

5.9 **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 new standards came in from the 1st April 2013. Therefore, an external assessment under the standards needs to be conducted by March 2018. The Audit Committee are aware that the services of an external assessor are presently being procured, the results of which and timing for an external review will be reported to a later Committee after consultation with the Chair and the s151 Officer.

Therefore, currently Internal Audit is not conforming to the standard but is still within the given timeframe to comply.

- 5.10 The above are not considered significant variations in respect of the principles of the PSIAS to require specific mention in the Annual Governance statement since the intention is to comply with the PSIAS within the prescribed time frames once further details are known.

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

- Accounts and Audit Regulations 2015
- Public Sector Internal Audit Standards 2016
- Local government application note for the UK Public Sector Internal Audit Standards CIPFA
- Completed Conformance Checklist 2015/16 and supporting evidence

Cabinet Member (Portfolio Holder)

Malcolm Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee

Local Member N/A

Appendix A: Public Sector Internal Audit Standards conformance assessment and improvement plan

Appendix A

Public Sector Internal Audit Standards 2016 conformance assessment and improvement plan

Standard	Conformance	Observations and actions proposed	When?	Who?
Mission of Internal Audit	Yes	0 Update charter with mission	November 2016	Audit Service Manager
Definition of Internal Auditing	Yes			
Core Principles for the Professional Practice of Internal Auditing	Yes	1.3 Update charter with principles	November 2016	Audit Service Manager
Code of Ethics				
Integrity	Yes	2.1.3 Update conflict of interest forms	June 2016 underway	All Auditors
Objectivity	Partially			
Confidentiality	Yes	2.3.1 Ensure information security training conducted by all staff in 2016/17	June 2016 completed	Audit Service Manager
		2.3.2 Ensure all filing conforms with retention guidelines	July 2016 underway	All Auditors
Competency	Yes	2.4.1 Review induction process for new trainees	July 2016	Audit Service Manager
		2.4.2 Set up training log for 2016/17 and complete	April 2016 completed	All Auditors
		2.4.3 Set dates for appraisals in first and third quarters	April and October April is	All Auditors

Standard	Conformance	Observations and actions proposed	When?	Who?
		2.5 Remind all at team meeting of Seven Principles of Public life	completed July 2016	Engagement Auditor
Attribute Standards				
1000 Purpose, Authority and Responsibility	Yes	3.1.4 Circulate Internal Audit Charter to senior management board for any comments	April 2016 completed	Audit Service Manager
1100 Independence and Objectivity	Yes			
1110 Organisational Independence	Partially	3.2.8 The Terms of Reference of external clients Audit Committee's Terms of Reference will be reviewed as appropriate to ensure compliance with PSIAS 3.2.9 Agree process with HFG&A – continue to consider feedback from all clients CEO equivalents and Audit Committee Chairs in contribution to the performance appraisal of the CAE.	Aug 2016 April 2016 completed	Engagements Auditor Section 151 Officer
1111 Direct Interaction with the Board	Yes			
1120 Individual Objectivity	Yes			
1130 Impairment to Independence or Objectivity	Yes	3.2.17 Plan to rotate auditors for external clients 3.2.22 Remind all auditors of the Counter Fraud, Bribery and Anti-Corruption Strategy at team meeting	April 2016 onwards June 2016	Engagement Auditors

Standard	Conformance	Observations and actions proposed	When?	Who?
1200 Proficiency and Due Professional Care	Yes			
1210 Proficiency	Yes	<p>3.3.5 Review the options to cover skills gaps as a result of maternity and vacancies</p> <p>3.3.7.1 Review and refresh fraud investigation manual and supporting documentation</p> <p>3.3.7.2 Remind auditors of the fraud investigation manual and its application</p> <p>3.3.7.3 Ensure fraud awareness training is completed by all annually</p> <p>3.3.8 Check information technology checklist or its parts, are applied as appropriate to all audits</p> <p>3.3.9 All auditors to be reminded of the availability of CAATS where it can assist in large data analysis</p>	<p>April/ May 2016 Completed</p> <p>July 2016</p> <p>August 2016</p> <p>June 2016 completed</p> <p>July 2016</p> <p>July 2016</p>	<p>Audit Service Manager</p> <p>Engagement Auditor</p>
1220 Due Professional Care	Yes			
1230 Continuing Professional Development	Yes	3.3.13 All auditors to be reminded of the need for them to ensure that their personal CPD/ log books, etc. are up to date and	April 2016 completed	Audit Service Manager

Standard	Conformance	Observations and actions proposed	When?	Who?
		that they have clear records if requested as part of the assessment.		
1300 Quality Assurance and Improvement Programme	Yes	3.4.1.1 Review the IA manual and the quality review processes to ensure complete compliance with the standards	July 2016	Audit Service Manager
		3.4.1.2 Review and order procedure notes for MK	September 2016	Engagement Auditor
		3.4.1.3 Complete this assessment and continue to report to Audit Committee annually along with a high level improvement programme.	June 2016 completed	Audit Service Manager
1310 Requirements of the Quality Assurance and Improvement Programme	Yes			
1311 Internal Assessments	Yes	3.4.8 Refining performance monitoring of individual activity against plans where it is efficient and effective to do so with the use of improved reporting from MK.	July 2016	Engagement Auditors
		3.4.9 Review SLA's when they are up for renewal and consider including a basket of performance targets in consultation with the client.	August 2016	
1312 External Assessments	Partially	3.4.14.1 Complete tender process with SCAG	Summer 2016	Audit Service Manager

Standard	Conformance	Observations and actions proposed	When?	Who?
		3.4.14.2 Discuss with successful contractor the process required at Shropshire in liaison with S151 Officer	September 2016	
		3.4.14.3 Agree date to undergo an external assessment	March 2018	Audit Service Manager/ S151 Officer
		3.4.14.4 Update Audit Committee on progress and eventual results	March 2018	
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	3.4.22 When conducted external assessment results will be presented to the Audit Committee	March 2018	Audit Service Manager/ S151 Officer
1322 Disclosure of Non-conformance	Yes	3.4.25 Report outcome of this assessment to June Audit Committee on compliance with the standards and a resulting QIAP.	June 2016 completed	Audit Service Manager
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	4.1.33 Complete AGS exercise formalising	May 2016	Audit Service

Standard	Conformance	Observations and actions proposed	When?	Who?
		assurance mapping process to inform IA planning.	completed	Manager
2060 Reporting to Senior Management and the Board	Yes	4.1.36 Continue to ensure senior managers are informed of changes in the internal control environment	Following Audit Committees	Audit Service Manager
2070 External Service Provider and Organisational Responsibility for Internal Auditing	Yes			
2100 Nature of Work	Yes			
2110 Governance	Yes			
2120 Risk Management	Yes	4.2.13 Remind all auditors of the need to avoid managing risks themselves, or being perceived as such, when helping to improve the risk management processes and to use the advice disclaimer.	May 2016 completed	Engagement Auditor
2130 Control	Yes			
2200 Engagement Planning	Yes	4.3.6 Ensure consultancy engagements are documented as necessary in compliance with PSIAS	April 2016 completed	Engagement Auditors
2210 Engagement Objectives	Yes	Action: 4.3.10 Remind all to consider these elements when developing audit programme objectives - considering the probability of: a) Significant errors? b) Fraud? c) Non-compliance?	May 2016 completed	Engagement Auditors

Standard	Conformance	Observations and actions proposed	When?	Who?
		d) Any other risks?		
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			
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			
2500 Monitoring Progress	Yes			
2600 Communicating the Acceptance of Risks	Yes			