

READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	25 th SEPTEMBER 2014	AGENDA ITEM:	5
TITLE:	PUBLIC SECTOR INTERNAL AUDIT STANDARDS - Annual Self-Assessment		
LEAD COUNCILLOR:	COUNCILOR STEVENS	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
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1. EXECUTIVE SUMMARY

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into force from 1st April 2013. One of the requirements of the standards is to report the results of the quality assurance and improvement programme to senior management and the Board (i.e. Audit Committee) at least annually.
- 1.2 An external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation and can be in the form of a full external assessment, or a self-assessment with independent external validation.
- 1.3 The Chief auditor executive must agree the scope of external assessments with an appropriate sponsor, e.g. the Sec 151 Officer or chair of the audit committee as well as with the external assessor or assessment team.
- 1.4 The PSIAS are derived from international standards. As such, they set out clear principles for professional practice. The practical implementation of the standards for local government in the United Kingdom has been further developed by CIPFA who have published the Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.
- 1.5 In order to satisfy proper internal audit practices, there is a requirement to comply with the Standards and the Local Government Application Note. The Standards and Application Note are necessarily technical and extensive. The Application Note sets out a detailed checklist of individual areas that need to be considered when coming to a view of the level of conformance with the PSIAS.

- 1.6 The checklist includes over 330 items. The internal assessment confirms that for the vast majority of items, 96%, the Authority complies in with the PSIAS and Application Note. There is full compliance for 85% and partial compliance for a further 11%.
- 1.7 Where the Authority does not comply there is a requirement to set out an improvement programme to bring the Authority into compliance, or where the Authority determines that it is not appropriate to comply, that there is an exception and the reasons for this. The quality assurance and improvement programme (QAIP) sets out the areas of non-compliance and the proposed action to be taken. The QAIP is attached as **Appendix 1**.

2. RECOMMENDED ACTION

- 2.1 The Audit & Governance Committee notes the actions identified in the Quality Assurance and Improvement Programme (Appendix 1).

3. PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

- 3.1 Compliance with the Public Sector Internal Audit Standards (PSIAS) is a requirement of the Audit & Accounts Regulations (2011) and should underpin the Internal Audit arrangements within the Council. The Chief Auditor is expected to report on conformance with the PSIAS annually.
- 3.2 The PSIAS and CIPFA's Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK. The CIPFA Application Note has been developed as the sector-specific requirements for local government organisations within the UK Public Sector Internal Audit Framework.
- 3.3 The PSIAS contains a detailed checklist of over 300 questions which has been used as the basis for the self-assessment. It is designed to assess the performance of internal audit against the following categories:
- a) Code of Ethics
 - Integrity,
 - objectivity
 - confidentiality
 - competency
 - b) Attribute Standards
 - Purpose, authority and responsibility
 - Independence & objectivity
 - Proficiency & due professional care
 - Quality assurance and improvement programme

- c) Performance standards
 - Managing the internal audit activity
 - Nature of work
 - Engagement planning
 - Performing the engagement
 - Communicating results
 - Monitoring progress
 - Communicating the acceptance of risks

- 3.4 The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace internal auditors' own professional bodies' codes of ethics or those of the employing organisation. Internal auditors must also have regard to the Committee on Standards in Public Life's Seven Principles of Public Life namely Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

- 3.5 The Standards define internal auditing as '*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*'.

- 3.6 The Standards refer to a "Chief Audit Executive" which, for RBC, is deemed to be the Chief Auditor. The Standards also refer to a "Board" which, for RBC, is deemed in most cases to be the Audit and Governance Committee on behalf of the Council.

- 3.7 The Chief Auditor must report functionally to the board. In practice this means the Audit & Governance Committee (as the Board) will be involved in:
 - approving the internal audit charter
 - approving the risk based internal audit plan
 - receiving communication from the Chief Auditor on the internal audit activity's performance relative to its plan and other matters
 - making appropriate enquiries of management and the Chief Auditor to determine whether there are inappropriate scope or resource limitations
 - approving any significant additional (internal audit) consulting services not already included in the audit plan, prior to any engagement being accepted.

- 3.8 The published PSIAS also include some examples of functional reporting to the board which are not typically seen as the responsibility of an Audit Committee in a Local Authority and would not be done by the Audit & Governance Committee e.g.:
 - approving decisions regarding the appointment and removal of the Chief Auditor;
 - approving the remuneration of the Chief Auditor; and,
 - approving the Internal Audit budget and resource plan.

4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

5. COMMUNITY ENGAGEMENT AND INFORMATION

- 5.1 N/A

6. LEGAL IMPLICATIONS

- 6.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.
- 6.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.
- 6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 2011, in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.
- 6.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards Issued by the Relevant Internal Audit Standard Setters. This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

7. FINANCIAL IMPLICATIONS

- 7.1 N/A

8. BACKGROUND PAPERS

- 8.1 N/A

Overview

<u>PSIAS Ref.</u>	<u>Requirement</u>	<u>Comments</u>	<u>Required Action</u>	<u>Priority</u>
Code of Ethics	Internal Auditors have regard to the Standards of Public Life's Seven Principles of Public Life?	Whilst Auditors are not directly aware of the principles, it is evident through their conduct that they do abide to the same set of standards	Internal Auditors should be briefed on the Seven Principles of Public Life.	Low

Attribute Standards

<u>PSIAS Ref.</u>	<u>Requirement</u>	<u>Comments</u>	<u>Required Action</u>	<u>Priority</u>
1000 Purpose, Authority & Responsibility	The Internal Audit Charter should define the role of Internal Audit in any fraud related work. The Charter must also explicitly recognise the mandatory nature of the PSIAS.	The Internal Audit Charter lacks detail on the role of Internal Audit in the prevention and detection and investigation of fraud. This is particularly evident following the merger of Internal Audit and the Corporate Investigations Team.	The Internal Audit Charter should be amended and fully reflect the Internal Audit role in fraud related work. It should also recognise the mandatory nature of the standard.	Low
1110 Organisational Independence	The Chief Executive or Equivalent should be involved in the performance appraisal of the Chief Auditor, and the Chair of the Audit Committee should also provide feedback into the process	The Managing Director receives the draft performance appraisal for comment and/or additional targets. He then counter-signs the record signifying his acceptance and agreement. Currently the Chair of the Audit Committee is not involved in the performance appraisal process.	The Chair of the Audit Committee should be given the opportunity to provide feedback as part of the annual performance appraisal of the Chief Auditor	Low
1230 Continuing Professional Development	Any training and development needs that identified should be included in an appropriate ongoing development programme that is recorded, reviewed and monitored.	Predetermined skills and competences are detailed within the job descriptions. Professional CPD also required for qualified Internal Auditors. Training and CPD has been limited due to funding limitations.	In order to ensure a full range of skills is maintained and developed, a record of all training needs should be produced with individual needs prioritised.	Medium
1312 External Assessments	An external assessment must be carried out at least once every five years.	There are currently no formal plans in place for the external assessment to take place. Moreover quotations received from firms have proved prohibitive.	In order to satisfy the Standard an External Assessment or "independent validation" must be organised.	Medium

Performance Standards

<u>PSIAS Ref.</u>	<u>Requirement</u>	<u>Comments</u>	<u>Required Action</u>	<u>Priority</u>
2050 Coordination	The Chief Auditor should carry out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance.	The Council has not developed an Assurance Framework and so it is difficult for the Chief Auditor to know exactly what other forms of Assurance are available. As part of setting the Annual Audit Plan, other forms of assurance are identified and considered during the scoping of the review.	The Council should develop an Assurance Framework, identifying all forms of external assurance. The Audit plan / universe should be mapped against this framework and assignments prioritised accordingly.	Medium
2050 Coordination	The Chief Auditor should share information and coordinate activities with other internal and external providers of assurance and consulting services. He should also meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans.	The Chief Auditor meets with external audit at least annually, however there is little to no actual coordination in terms of respective audit plans,. Internal Audit share information with External Audit, however this is not always reciprocated	The Chief Auditor should attempt to better coordinate Internal and External Audit work. This could include quarterly meetings to discuss upcoming assignments, discuss requirements and share knowledge	Low
2120 Risk Management	Internal Audit has evaluated the effectiveness of the organisation's risk management processes	Whilst internal audit consider the risk management arrangements in place within individual service / units, there has been no assessment of the robustness of the risk management culture and strategy of the organisation	Audit should undertake a review of the organisations risk management culture and strategy to ensure that they are suitably robust and capture and manage risk	Medium
2210 Engagement Objectives	Internal Audit has ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished	Performance management issues are considered as part of individual assignments during the annual plan, however these consider the service objectives and delivery, rather than the corporate strategy and its objectives.	Internal Audit have not undertaken a corporate review of performance management for a number of years, and given the business transformation currently taking place, there is a good argument that a full strategic performance management review is required. IA will look to undertake a post	Medium

			implementation review of the Council's reshape programme.	
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PSIAS Ref.	Requirement	Comments	Required Action	Priority
2210 Engagement Objectives	The objectives set for consulting engagements address governance, risk management and control processes as agreed with the client. Moreover they are consistent with the organisation's own values, strategies and objectives?	Consulting arrangements are not always formally planned, recorded or monitored. There is a risk that these are not consistent, and do not identify key issues.	A standard methodology should be developed and followed for consulting arrangements. These should replicate the detail required for the standard engagement process	Medium
2240 Engagement Work Programme	Work programmes must include procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.	There is an inconsistent approach to setting assignment work programmes across the department. Whilst Terms of Reference are signed off, the work programme itself is not, but rather left to Auditor discursion. Moreover there is no formal process for extending Audits or altering the scope.	A standard Audit methodology should be considered, particularly with regards to creating assignment work programmes. Work programmes should be approved prior to the commencement of the review, and any alterations or extensions must be formally approved and documented.	Medium
2340 Engagement Supervision	Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.	Principal Auditor review is ongoing throughout the engagement process and sign-off is required at key stages of each review. It is acknowledged however that this could be improved to better manage project slippage and overspend	Improvements to the current supervision arrangements should be considered, and could include formal assignment gateways at monthly intervals and/or greater challenge of assignment progress	Low

2430/31 Conformance with PSIAS	Auditors should report whether engagements have been conducted in conformance with the PSIAS. Where non-conformance is reported, the impact of this should also be detailed.	We do not currently report on individual conformance with the PSIAS. It is my subjective view that the above areas of non-compliance do not impact on individual engagements and therefore conformance can and should be reported.	Where applicable in accordance with the PSIAS Internal Auditors should report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".	Low
2440 Disseminating Results	The Chief Auditor has determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	A distribution list has previously been in use, however due to organisational changes this no longer remains up-to-date. Informally Auditors know who Audit reports should be sent to.	An agreed distribution list should be compiled outlining to whom Terms of Reference, Draft and Final reports should be distributed.	Low

PSIAS Ref.	Requirement	Comments	Required Action	Priority
2450 Overall Opinion	The annual report must incorporate a statement on the conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme (QAIP)	We do not currently report on the conformance with the PSIAS. Moreover the self-assessment has not previously been timetabled around the annual assurance report and so the QAIP has not been reported	The self-assessment should be undertaken in conjunction with the annual assurance report and a statement of conformance should be documented along with the QAIP.	Low
2500 Monitoring Progress	The Chief Auditor has established a process 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	The current follow up process captures high risk recommendations or limited assurance reviews. A full follow up assignment is programmed in the following year audit plan. A full programme of follow ups is not undertaken, nor are recommendations followed up as part of subsequent service reviews.	A formal recommendation follow up process should be considered. At the very least recommendations should be followed up at subsequent service reviews, or if possible a system of live follow ups upon the deadline for implementation.	Low