

**REVIEW OF THE EFFECTIVENESS OF
THE INTERNAL AUDIT SERVICE
(Report by the Internal Audit Manager)**

1. INTRODUCTION

- 1.1 This report details the outcome of the annual review of the effectiveness of the Internal Audit Service as required by the Accounts & Audit Regulations 2011.
- 1.2 A self assessment review has been conducted by the Internal Audit Manager against 'proper practice', which consists of the:
- Public Sector Internal Audit Standards (PSIAS): and the
 - Local Government Application Note to the PSIAS.
- 1.3 The Application Note contains a detailed and lengthy checklist of over 200 questions which has been used as the basis for the self assessment. The completed checklist has been circulated to Members of the Panel in advance of the meeting.

2. PREVIOUS REVIEWS

- 2.1 The last review, which was conducted against previous 'proper practice' (the Cipfa Code of Audit Practice for Internal Audit in the United Kingdom) was reported to the Panel in September 2012. An action plan was endorsed by the Panel, the outcomes of which are reported in Annex A.

3. ANNUAL GOVERNANCE STATEMENT

- 3.1 Whilst there are many similarities between the Cipfa Code of Audit Practice and the PSIAS there are also a number of significant differences. The review has highlighted those differences and given the Internal Audit Manager an early opportunity to consider if there are any significant areas of non-conformance.
- 3.2 Instances of non-conformance with the PSIAS have to be included in the Internal Audit annual report together with the results of the quality and assurance improvement programme (QAIP) and progress against any improvement plans. Significant variations should be considered by the Panel for inclusion in the Annual Governance Statement.
- 3.3 The Internal Audit Manager is of the opinion that whilst there are some areas of non-conformance, these are not considered to be significant enough, either individually or collectively, to warrant inclusion in the annual governance statement.

4. SELF ASSESSMENT OUTCOME

4.1 The Internal Audit Service is considered to:

Conform with the following Standards:

PSIAS	Description
Code of Ethics	Integrity, Objectivity, Confidentiality & Competency
1000	Purpose, Authority & Responsibility
1100	Independence & Objectivity
1200	Proficiency & Due Professional Care
2000	Managing the Internal Audit Activity
2100	Nature of Work
2200	Engagement Planning
2300	Performing the Engagement
2400	Communicating Results
2500	Monitoring Progress
2600	Communicating the Acceptance of Risks

Not conform with the following Standard:

PSIAS	Description
1300	Quality Assurance & Improvement Programme

4.2 Non conformance with PSIAS 1300 is due to not having a formal QAIP in place or having undertaken an external assessment of the service.

The Institute of Internal Auditors in their Practice Guide to the QAIP, state that the QAIP should include a rating scale to assess internal audits level of conformance with the Standards. The IIA has a number of different quality models available. These have not yet been fully reviewed. A report will be presented to Panel on the quality model options available once they have been considered.

4.3 There are a number of questions in the checklist that refer to consultancy engagements. The report to Panel in March 2013 on the Internal Audit Plan for 2013/14 explained that no consultancy engagements (as defined by the PSIAS) were included in the audit plan. As a result the questions relating to consultancy engagements have not been completed as they are not considered to be applicable.

5. RECOMMENDATIONS

5.1 It is recommended that the Panel:

- a. note that the outcome of the Internal Audit Manager's self-assessment which shows that the Internal Audit Service generally conforms with the PSIAS;

- b. note the action plan (Annex B) that has been prepared to address the areas of non-conformance identified from the self-assessment; and;
- c. confirm that the non-conformance issues (within Annex B) are not significant enough to be considered for inclusion in the Annual Governance Statement.

Background Information

Application Note checklist to the PSIAS

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Cipfa Code of Audit Practice
Non-compliance and Areas for Improvement : September 2012 review

Code Ref.	Requirement	2012 Review : Areas for Improvement	By when	Action taken	Actioned
1.1.1	Terms of reference. The Code asks a number of questions in relation to the terms of reference. The current terms of reference are considered to meet the Code, with the exception of defining consultancy work.	As agreed by the Panel in June 2012, terms of reference are not going to be revised until the national Public Sector Internal Audit Standards (PSIAS) have been published, expected early in 2013.	March 2013	PSIAS became effective on 1 April 2013. CGP approved Internal Audit Charter (23 March 2013) which reflects the PSIAS requirements. Terms of reference document no longer required.	Yes.
1.4.2	Has the Internal Audit Manager made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	Changes to be made to the Employees Code of Conduct to make explicit the notification requirement.	May 2013	Paragraph 12.5 of the Code of Conduct amended.	Yes
10.3.1	Has the Internal Audit Manager defined the need for and the form of any follow-up action?	The audit manual needs to be amended to reflect the changes that have come about through the SharePoint audit actions system. Auditors are aware of the process to be followed.	December 2012	Audit manually updated in December 2012 to reflect the changes.	Yes
11.1.1	Is there an audit manual?	Electronic version in place. It needs to be reviewed and updated to take account of current procedures and recent initiatives.	March 2013	The review of the internal audit manual is an on-going process. Further changes will be required to reflect the PSIAS.	Yes & ongoing.

**Public Sector Internal Audit Standards
Non-conformance and Areas for Improvement : May 2013 review**

PSIAS Ref.	Requirement	Issue identified	Non-conformance		To be actioned by
			AGS issue?		
			Yes	No	
Attribute Standard 1000: Purpose, Authority and Responsibility					
1110	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Internal Audit Manager?	This is a new requirement and will be included in the 2014 appraisal process.		No	May 2014
1110	Is feedback sought from the chair of the Corporate Governance Panel for the Internal Audit Manager's performance appraisal?	This is a new requirement and will be included in the 2014 appraisal process.		No	May 2014
1120	Do internal auditors avoid any conflict of interest, whether apparent or actual?	One internal auditor is a Staff Side representative; this is managed by the Internal Audit Manager not allocating to them audits that fall within 'HR' areas. Disclosure of this impairment to objectivity was reported to CGP In March 2013.		No	-----
1130	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	With the introduction of 'continuous auditing' in Sept 2012, auditors are currently each allocated a number of key financial areas to review. Once the continuous auditing approach has become established, these audits will be rotated across the internal audit team.		No	September 2013

**Public Sector Internal Audit Standards
Non-conformance and Areas for Improvement : May 2013 review**

PSIAS Ref.	Requirement	Issue identified	Non-conformance		To be actioned by
			AGS issue?		
			Yes	No	
1130	Have internal auditors complied with the Bribery Act 2010?	Whilst there is no evidence to suggest non compliance, the whole issue of objectivity, impairment, conflicts etc will be specifically addressed through training provided by the Internal Audit Manager.		No	August 2013
Attribute Standard 1200: Proficiency and Due Professional Care					
1210	Does the Internal Audit Manager hold a professional qualification, such as CMIIA/CCAB or equivalent?	The Internal Audit Managers lack of a professional qualification was reported to CGP in March 2013. CGP were informed of the post-holders overall proficiency (knowledge, skills and experience) and that the lack of a professional qualification was not considered detrimental to the management or delivery of the internal audit service. This was formally noted by the CGP		No	-----
Attribute Standard 1300: Quality Assurance & Improvement Programme					
1300	Has the IAM developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	The QAIP is a new requirement and needs to be fully understood and introduced. A QAIP Practice Guide has been issued by the Institute of Internal Auditors. A review against the Guide will be undertaken prior to the 2014 effectiveness review of internal audit.		No	April 2014

**Public Sector Internal Audit Standards
Non-conformance and Areas for Improvement : May 2013 review**

PSIAS Ref.	Requirement	Issue identified	Non-conformance		To be actioned by
			AGS issue?		
			Yes	No	
1311	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	The Internal Audit Manager has not completed a review against the risk based plan or aims and objectives. This is primarily due to timing differences between the effectiveness review and the preparation of the internal audit annual report, and not appreciating the requirements of the PSIAS. Future reviews will run simultaneously.		No	July 2013
1321	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	The first external assessment is due to be carried out during 2013/14 by the Internal Audit Manager of the Welland Consortium.		No	April 2014
1321	Has the Internal Audit Manager discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the Corporate Governance Panel?	The proposed form and scope of the external assessment has yet to be discussed with CGP. This will be addressed before the external assessment commences.		No	December 2013

Public Sector Internal Audit Standards
Non-conformance and Areas for Improvement : May 2013 review

PSIAS Ref.	Requirement	Issue identified	Non-conformance		To be actioned by
			AGS issue?		
			Yes	No	
Attribute Standard 2000: Managing the Internal Audit Activity					
2000	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with <i>the Code of Ethics</i> and the <i>Standards</i> ?	<p>Whilst the audit review sheet requires internal auditors to confirm they have no conflicts of interest in respect of the review they are to perform, the PSIAS requirements are wider. Annual statement to be introduced regarding acceptance of the Code of Ethics.</p> <p>Additionally the Internal Audit Manager intends to undertake training with the internal auditors to explain the main changes brought about by the PSIAS.</p>		No	August 2013
2010	Does the Internal Audit Manager identify and consider the expectations of senior management, the Corporate Governance Panel and other stakeholders for internal audit opinions and other conclusions?	Descriptions of assurance opinions are included in the annual report. Internal Audit Manager considers it would be beneficial to refresh and discuss opinions, so that any changes can be included in the 2013/14 annual report/opinion.		No	July 2013
2040	<p>Has the Internal Audit Manager established policies and procedures to guide staff in performing their duties in a manner that conforms to the PSIAS?</p> <p>Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?</p>	The audit manual outlines the procedures to be followed. It needs to be updated to reflect the changes brought about by the PSIAS.		No	On-going August 2013

**Public Sector Internal Audit Standards
Non-conformance and Areas for Improvement : May 2013 review**

PSIAS Ref.	Requirement	Issue identified	Non-conformance		To be actioned by
			AGS issue?		
			Yes	No	
2050	Has the Internal Audit Manager carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	Sources of assurance other than from internal audit have been included in the internal audit annual report. CGP agreed to undertake assurance mapping to assist with the annual governance process. It is anticipated that this will commence prior to July 2013 CGP and be able to used in the annual planning process for 2014/15.		No	March 2014
Attribute Standard 2400: Communicating Results					
2450	Does the Internal Audit Managers annual report include: <ul style="list-style-type: none"> a statement on conformance with the PSIAS? the results of the QAIP? 	The effectiveness review was completed (May 2013) before the annual report was prepared. The annual report (anticipated to be presented to CGP in July 2013) will cover both items.		No	July 2013