

**HUNTINGDONSHIRE DISTRICT COUNCIL**

<b>Title:</b>	Internal Audit Service: Annual Effectiveness and Charter Review
<b>Meeting/Date:</b>	Corporate Governance Panel – 15 July 2015
<b>Executive Portfolio:</b>	Resources: Councillor J A Gray
<b>Report by:</b>	Internal Audit & Risk Manager
<b>Ward(s) affected:</b>	All Wards

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**Executive Summary**

The Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit Service has in place a Quality Assurance and Improvement Programme (QAIP) and an Audit Charter.

**Quality Assurance and Improvement Programme**

Quality is required to be assessed at both the individual audit level as well as at a broader internal audit activity level. The QAIP should ensure that quality is built in to, rather than on to, the way the internal audit activity operates. The Internal Audit & Risk Manager is required to develop a QAIP that includes both internal and external assessments.

This report outlines the findings of the Internal Audit & Risk Managers self-assessment against the PSIAS and updates the Panel on progress that has been made to introduce the agreed actions arising from the 2014 external assessment of the service.

There are no issues from the self-assessment that impacts the overall scope or operation of the Internal Audit Service or require including within the 2014/15 annual governance statement. There are some areas where improvements can be made and an action plan has been prepared, which is attached to the report.

**Audit Charter**

The Audit Charter defines the purpose, authority and responsibility of internal audit. Due to a number of legislative and organisational changes, a number of changes are required to the Charter to ensure that it remains relevant and up to date.

## **Recommendations**

It is recommended that the Panel:

- a. note that the outcome of the Internal Audit & Risk Manager's self-assessment which shows that the Internal Audit Service conforms with the PSIAS;
- b. note the results of the action plans (Appendix A and B) that have been prepared to address the areas of non-conformance identified;
- c. confirm that the non-conformance issues (within Appendix B) are not significant enough to be considered for inclusion in the Annual Governance Statement; and
- d. Agree the changes to the Internal Audit Charter (Appendix C).

## **1. WHAT IS THIS REPORT ABOUT**

- 1.1 This report details the outcome of the review of the effectiveness of the Internal Audit Service and the Internal Audit Charter.

## **2. WHY IS THIS REPORT NECESSARY/BACKGROUND**

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit & Risk Manager maintains a quality assurance and improvement programme (QAIP). The QAIP consists of two types of assessment:

1. Internal assessments, which cover the following areas:

- a. Establishing policies and procedures to guide auditors in performing their duties.
- b. Maintaining on-going supervision and review of audit work including the review and approval of all draft and final reports.
- c. On-going performance monitoring including feedback from auditee surveys.
- d. Periodic assessment against the PSIAS (designed to assess conformance with the Internal Audit Charter and the PSIAS and the efficiency and effectiveness of the service).

2. External assessments.

- a. An external assessment has to be carried out at least once every five years, either a 'full' external assessment or by undertaking a self-assessment with 'independent validation'.

- 2.2 This report details the results of the Internal Audit & Risk Managers assessment (1.d above) and the results of the action plan arising from the external 'independent validation' of Internal Audit that was reported to the Panel in May 2014.

- 2.3 The Internal Audit Charter is reviewed periodically by the Internal Audit & Risk Manager. There are a number of changes necessary to reflect legislative changes and the introduction of operational shared services (IT, building control and legal).

## **3. OPTIONS CONSIDERED/ANALYSIS**

### **Review of Internal Audit effectiveness**

- 3.1 The PSIAS consist of four Attribute Standards and seven Performance Standards.

The Attribute Standards are those that apply to organisations as well as to individual internal auditors.

The Performance Standards are those that not only describe the nature of the internal audit services being provided, but also provide criteria against which the performance of an internal audit function can be measured.

<i>PSIAS</i>	<i>Description</i>
<b>Code of Ethics</b>	<b><i>Integrity, objectivity, confidentiality &amp; competency</i></b>

<i>Attribute Standard</i>	<i>Description</i>
<b>1000</b>	<b><i>Purpose, authority &amp; responsibility</i></b>
<b>1100</b>	<b><i>Independence &amp; objectivity</i></b>
<b>1200</b>	<b><i>Proficiency &amp; due professional care</i></b>
<b>1300</b>	<b><i>Quality assurance &amp; improvement programme</i></b>

<i>Performance Standard</i>	<i>Description</i>
<b>2000</b>	<b><i>Managing the Internal Audit activity</i></b>
<b>2100</b>	<b><i>Nature of work</i></b>
<b>2200</b>	<b><i>Engagement planning</i></b>
<b>2300</b>	<b><i>Performing the engagement</i></b>
<b>2400</b>	<b><i>Communicating results</i></b>
<b>2500</b>	<b><i>Monitoring progress</i></b>
<b>2600</b>	<b><i>Communication the acceptance of risks</i></b>

- 3.2 A self-assessment review has been conducted by the Internal Audit & Risk Manager against 'proper practice', which consists of the PSIAS and its accompanying Application Note. The Application Note contains a detailed and lengthy checklist of over 200 questions.
- 3.3 The Internal Audit & Risk Manager is of the opinion that the Internal Audit Service is acting effectively and conforms with the PSIAS. This also reflects the view of the external assessment conducted in 2014.
- 3.4 There is always the opportunity for improvement. An update on the action plan agreed following the 2014 review is included at Appendix A whilst Appendix B contains an action plan arising from the 2015 review.
- 3.5 There are no issues, either individually or collectively, that require to be included in the annual governance statement.
- 3.6 The results of the QAIP are required to be included in the Internal Audit annual report.

### **Review of the Internal Audit Charter**

- 3.7 PSIAS Attribute Standard 1000 states that "the purpose, authority and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards and approved by the Board".
- 3.8 Due to a number of legislative and organisational changes, a number of changes are required to the Charter. The following significant changes are being proposed within the following three sections. The revised Charter is attached at Appendix C.

## **Relationship with Members & Senior Management**

Update to reflect the changes introduced by the Accounts & Audit (England) Regulations 2015 (A&AR). They require that the Council “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”.

## **Role and responsibilities**

With the introduction of the strategic shared service partnership with Cambridge City Council and South Cambridgeshire District Council there becomes the need to liaise with each Council’s internal audit service and agree the type and nature of assurance that will be provided by the lead authority for a particular shared service. A new paragraph has been introduced within this section to deal with this matter.

## **Quality and assurance programme**

The 2015 A&AR have removed the previous requirement (contained in the 2011 A&AR (Sect 6(3)) that the Council conducts an annual review of the effectiveness of its internal audit.

Changes to the Charter reflect the 2015 A&AR. Internal assessments will be conducted periodically and external assessments at least once every five years.

## **4. COMMENTS OF OVERVIEW & SCRUTINY PANEL**

4.1 Not applicable.

## **5. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED**

5.1 Risk register entry 255 refers to the Internal Audit Service being non-compliant with PSIAS and so requires the inclusion of significant non-compliance issues in the annual governance statement

5.2 The residual risk score for the risk is low which is supported by the outcome of the self-assessment.

## **6. WHAT ACTIONS WILL BE TAKEN?**

6.1 The action taken to address the issues arising from the self-assessment review will be reported to the Panel with both the interim progress report and as part of the annual audit report for 2015/16.

## **7. LINK TO CORPORATE PLAN**

7.1 The Internal Audit Service provides assurance to management and the Panel that risks to the delivery of the Corporate Plan across all of its areas are understood and managed appropriately.

## **8. CONSULTATION**

8.1 Not applicable.

## **9. LEGAL IMPLICATIONS**

9.1 There are no legal implications arising from this report.

## **10. RESOURCE IMPLICATIONS**

10.1 There are no resource implications arising from this report.

## **11. OTHER IMPLICATIONS**

11.1 None.

## **12. REASONS FOR THE RECOMMENDED DECISIONS**

12.1 The PSIAS require that the Panel receive information on the outcome of the periodic internal assessment of the internal audit service and approve the internal Audit Charter.

## **BACKGROUND PAPERS**

PSIAS self-assessment

## **CONTACT OFFICER**

David Harwood, Internal Audit & Risk Manager

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**Improvement Plan agreed following the 2014 external assessment  
of the Internal Audit Service.**

<b>Areas for Improvement</b>	<b>Action taken</b>	<b>Actioned</b>
The exercise of the Panel's right to hold to account Officers who fail to implement, fully and on a timely basis, agreed audit recommendations	Officers attended the June 2015 Panel meeting. There is a standing item included on the Panel's agenda that requires the Internal Audit & Risk Manager to report on the progress with the introduction of agreed internal audit actions.	Yes
Making arrangements that allow the Panel – or the Chairman exercising delegated authority – to approve or disapprove proposed changes to the approved Internal Audit Plan.	The internal audit plan is reviewed quarterly. The Chairman of the Panel is informed of changes to the plan.	Yes

## 2015 Improvement Plan

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 Managing Director undertake, countersign, contribute feedback to or review the performance appraisal of the Internal Audit Manager?	The Managing Director has been asked to contribute feedback to the Internal Audit & Risk Managers 2015 appraisal.		No	July 2015
1110	Is feedback sought from the chair of the Corporate Governance Panel (CGP) for the Internal Audit Manager's performance appraisal?	The Chairman of CGP for the 2014/15 municipal year stood down as a Councillor in May 2015. This was prior to the annual appraisal process commencing. The current Chairman will be asked to contribute to the 2015/16 appraisal review.		No	May 2016
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 allocated a number of key financial areas to review. Whilst rotation of audits did occur from July 2015, an auditor vacancy in October 2015 meant that the audits had to be re-assigned back to the previous auditor.		No	Audits will be re-assigned from April 2016.
Attribute Standard 1200: Proficiency and Due Professional Care					
1130	Do internal auditors have sufficient knowledge of key information technology risks and controls?	The contract for the provision of IT audit services ended in January 2015. A new contract is required.		No	October 2015



## 2015 Improvement Plan

PSIAS Ref.	Requirement	Issue identified	Non-conformance		To be actioned by
			AGS issue?		
			Yes	No	
Attribute Standard 2000: Managing the Internal Audit Activity					
2010	Does the risk-based plan take into account the Council's assurance framework?	The Council has in place an effective risk register and controls assurance framework. An assurance framework is being developed.		No	Mar 2016
2040	Has the Internal Audit Manager established policies and procedures to guide staff in performing their duties in a manner that conforms to the PSIAS?  Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	The audit manual outlines the procedures to be followed. It needs to be updated to reflect the changes brought about by the PSIAS. New Auditing Standards are to be issued in July 2015 and it is likely that these will result in further changes to the PSIAS and the audit manual.  The policies and procedures need to be updated on a more regular basis.		No	On-going  By March 2016 and then on-going
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 are included in the internal audit annual report. CGP agreed to undertake assurance mapping to assist with the annual governance process. It is anticipated assurance mapping will be used as part in preparation of the 2014/15 annual governance statement.		No	September 2015

## 2015 Improvement Plan

PSIAS Ref.	Requirement	Issue identified	Non-conformance		To be actioned by
			AGS issue?		
			Yes	No	
Attribute Standard 2100 : Nature of Work					
2120	Has the internal audit activity evaluated the potential for fraud and also how the Council itself manages fraud risk?	<p>This requirement is not the responsibility of the Internal Audit Service.</p> <p>There has been a significant change to the Council's fraud team. A revised counter fraud strategy was approved by CGP in June 2015. This will require a formal action plan to be prepared for identifying and evaluating the potential for fraud. This is being led by the fraud team. Internal audit will be involved with that process.</p>		No	Autumn 2015



Internal Audit Charter

The Internal Audit Service has been established by the Council as a key component of its governance framework. This Charter provides a framework for the conduct of Internal Audit in Huntingdonshire District Council and has been approved by the Council's Corporate Governance Panel.

**The key provisions of this Charter are set out below.**

**Internal Audit Service**

The Council's internal audit service is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**Independence & Objectivity**

The internal audit service will remain free from interference by any element in the Council and its scope shall not be restricted in anyway. It shall be free to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangements are provided directly or indirectly (via partnerships, contractually or any other business arrangement).

The objectivity, impartiality, integrity and conduct of all Internal Audit staff must be above reproach at all times.

**Authority**

Internal auditors are authorised to have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Internal Audit & Risk Manager considers necessary to enable the Internal Audit Service to meet its responsibilities. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

**Confidentiality**

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for the conduct of internal audit activities. The Internal Audit & Risk Manager and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

**Reporting**

The Internal Audit & Risk Manager shall submit to the Corporate Governance Panel, no later than the date at which the Council's annual governance statement is approved, an annual report and formal audit opinion.

## **Purpose of Internal Audit**

The internal audit service has been established to:

- provide independent, objective assurance to the Council on its operations
- add value, by assisting management improve the delivery of the Council's objectives and operations through evaluating and challenging the effectiveness of risk management, control and governance processes.

## **Professionalism**

The internal audit service will govern itself by adhering to the Public Sector Internal Audit Standards (PSIAS)<sup>1</sup> as required by the Accounts and Audit (England) Regulations 2015.

Supplementary guidance issued and endorsed by the Relevant Internal Audit Standard Setters as applying to local government will also be adhered to along with the Council's relevant policies and procedures and the internal audit manual.

Non-conformance with the PSIAS shall be reported to senior management and the Corporate Governance Panel.

## **Relationship with Members & Senior Management**

### **Corporate Governance Panel**

The Accounts & Audit (England) Regulations 2015 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 or guidance”.

The Council has established a Corporate Governance Panel<sup>2</sup> (Panel) and specifically delegated to it responsibility for ‘ensuring there are effective arrangements for the system of internal audit of the Council.’ The internal audit service shall report functionally to the Panel.

The Internal Audit & Risk Manager shall have:

- free and unrestricted access to the Panel and attend all of its meetings
- the right to meet with the Chairman of the Corporate Governance Panel and/or the relevant Portfolio Holder to discuss any matters or concerns that have arisen from internal audit work.

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<sup>1</sup> The PSIAS are based upon The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.

<sup>2</sup> The Corporate Governance Panel shall fulfil the role of the Board as determined by the Public Sector Internal Audit Standards.

## **Senior Management**

The Managing Director and the Corporate Director (Services) and the Corporate Director (Delivery) together with the Head of Resources<sup>3</sup> shall fulfil the role of senior management as defined by the PSIAS.

The Head of Resources shall support the Panel by ensuring that there are effective arrangements<sup>4</sup> for the internal audit of the control environment.

The Internal Audit & Risk Manager shall:

- report administratively to the Head of Resources; and
- have free and unrestricted access to senior management.

## **Independence & Objectivity**

Independence is essential to the effectiveness of the internal audit service; so it will remain free from interference in all regards. This shall include, but not be limited to matters of audit selection, scope, procedure, frequency, timing or report content.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Internal Audit & Risk Manager will confirm to the Corporate Governance Panel annually, the organisational independence of the internal audit service.

The Internal Audit & Risk Manager is responsible for the delivery of the Internal Audit, Insurance and Risk Management services. All three areas have a key part to play in mitigating the risks facing the Council. Responsibility for these operational areas is recognised by senior management and the Panel.

With the exception of insurance and risk management, internal audit staff will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

## **Authority & Confidentiality**

Internal auditors shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Internal Audit & Risk Manager considers necessary to enable the Internal Audit Service to meet its responsibilities. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. The Internal Audit & Risk Manager and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for

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<sup>3</sup> Fulfilling the duties of Section 151 of the 1972 Local Government Act

<sup>4</sup> As outlined in the Cipfa publication "The Role of the CFO in public sector organisations".

maintaining the confidentiality of the information they receive during the course of their work.

## **Internal Audit Management**

The Council shall appoint an Internal Audit & Risk Manager who shall determine the priorities of, effectively manage and deliver the internal audit service in accordance with this Charter.

The Internal Audit & Risk Manager shall:

- ensure they have a comprehensive understanding of the Council's systems, structures and operations so allowing the preparation of strategic and annual risk based audit plans that are closely aligned to the need to provide assurance against the Council's business objectives as contained within its themes and aims, principal risks and framework of assurance.
- review and adjust the plans as necessary, in response to changes in the Council's risks, operations, programs, systems and controls.
- report annually the impact and consequence of any resource limitations across the strategic plan period to the Panel, who will then recommend to Cabinet whether or not to accept the consequence identified or seek an increase in Internal Audit's resources.
- maintain a quality assurance and improvement programme to ensure that all audit work is completed to high standards and in accordance with the standards, practices and procedures as set out in the internal audit manual .
- undertake an annual review of the development and training needs of internal audit staff and arrange for appropriate training to be provided.
- put in place arrangements that ensure internal audit is notified of all suspected or detected instances of non-welfare fraud, corruption or impropriety and in conjunction with the Corporate Fraud Team Leader:
  - promote a counter-fraud culture within the Authority
  - determine the most appropriate method of investigating allegations.
- establish effective relationships with managers at all levels.

## **Role and responsibilities**

Internal audit reviews shall examine and evaluate the adequacy and effectiveness of the Council's governance, risk management, and internal control processes. This shall be achieved via:

**Assurance activities:** *results of which will influence the opinion on the adequacy and effectiveness of the control environment.*

**Risk based system audit reviews.** The documentation, evaluation and testing of financial, operational and management information systems.

**Information technology reviews.** Specialist evaluation of hardware, software and the IT environment.

**Fundamental financial systems.** Reviews focusing on agreed key controls.

**Performance improvement.** The economy, efficiency and effectiveness of business systems and processes.

**Advisory activities:** *results of which will contribute to the opinion on the adequacy and effectiveness of the control environment.*

**Systems & processes.** Control advice on new and developing systems.

**Consulting services.** Reviews at the request of management, that add value and improve governance, risk management and control processes and support management in their work.

### **Shared services:**

Where the Council provides 'shared services' to, or receives 'shared services' from other organisations, the Internal Audit & Risk Manager shall liaise with the other organisations Internal Audit Service and agree the scope of the assurance that is to be provided or received and take account of that requirement when preparing the annual audit plan.

## **Reporting and Monitoring**

### **Internal Audit Reports**

At the conclusion of a review, a written report will be issued to the appropriate manager, that will

- include an overall assurance opinion, but not provide absolute assurance, on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail management's response and timescale for corrective action;
- identify issues of good practice

When corrective action has not been agreed, reporting will be escalated to a level consistent with the Internal Audit & Risk Manager's assessment of the risk.

The Internal Audit & Risk Manager shall regularly review and report to senior management, the progress made by managers in introducing the agreed corrective actions. Senior Management shall ensure that agreed corrective actions are introduced.

### **Reporting to the Panel**

The Internal Audit & Risk Manager shall present an annual and interim report to the Panel that meets the requirements of the PSIAS. The annual report shall be timed to support the Council's annual statement of assurance on corporate governance and include an opinion on the overall adequacy and effectiveness of the control environment.



## **Quality and assurance programme**

The Internal Audit and Risk Manager shall maintain a quality assurance and improvement programme that meets the requirements of the PSIAS. The results shall be reported to senior management and the Panel.

The Internal Audit & Risk Manager will arrange for an independent review of the efficiency and effectiveness of the internal audit service to be undertaken at least once every five years. The results of the review will be reported to senior management and the Panel.

Improvement plans arising from periodic reviews of internal audit shall be prepared as appropriate, and reported to senior management and the Panel in the Internal Audit annual report.

## **Relationships with external audit and other assurance activities**

Internal Audit will establish and maintain an open relationship with the external auditor and any other assurance provider. Internal audit will plan its activity so that there is adequacy of audit coverage and to minimise duplication of assurance effort.

External audit will have full and free access to all internal audit strategies, plans, working papers and reports.

## **Review of the Charter**

The Internal Audit & Risk Manager will review annually the Internal Audit Charter and report the outcome of that review to the Senior Management. Approval of the Charter shall be the responsibility of the Panel. This version was approved on the 15 July 2015.

End