

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

07 October 2013

Report of the Chief Internal Auditor

Part 1- Public

Matters for Information

1 INTERNAL AUDIT SELF ASSESSMENT AGAINST THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Summary

To inform Members of the results of the self-assessment against the Public Sector Internal Audit Standards, effective from 1 April 2013.

1.1 Introduction

- 1.1.1 From 1 April 2013 the Internal Audit team has been working to the Public Sector Internal Audit Standards (PSIAS), defined as proper practice for Internal Audit in the UK Public Sector. The Standards are supplemented by a mandatory local government sector-specific application note issued by the Chartered Institute of Public Finance & Accountancy (CIPFA).
- 1.1.2 In January 2013, the Chief Internal Auditor informed the Audit Committee of the implementation of the new PSIAS. Internal Audit have undertaken a self-assessment to demonstrate the extent to which the service complies with the PSIAS (and the supplementary application note) and to identify areas where further work is required to demonstrate compliance.

1.2 Self-assessment against the Public Sector Internal Audit Standards

- 1.2.1 The self-assessment was completed in August 2013. A summary of the assessment findings is presented in this report, highlighting where the existing service complies with the PSIAS and where action is required to address areas of current non-compliance. The Standards are available online: <http://www.cipfa.org/-/media/Files/Publications/Standards/Public%20Sector%20Internal%20Audit%20Standards.pdf> CIPFA's Application Note to the Standards and the accompanying checklist provided for the purposes of the self-assessment are subject to copyright; while it can be shared with officers and elected Members of the purchasing organisation, it cannot be reproduced through public Committee papers. As such this report provides a summary of the results of the assessment; Members who would like to see a copy of the full assessment should contact Internal Audit directly.
- 1.2.2 The PSIAS are broken down into two main areas;
- **Attribute Standards** address the characteristics of organisations and parties performing Internal Audit activities.

- **Performance Standards** describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated.

Attribute Standards

1.3 Standard 1000 - Purpose, Authority and Responsibility

- 1.3.1 The Standards require the purpose, authority and responsibility of the Internal Audit activity to be formally defined in an Internal Audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The chief audit executive (Head of Internal Audit) must periodically review the Internal Audit charter and present it to senior management and the board (Audit Committee) for approval.
- 1.3.2 The existing Internal Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit Service. This will need to be updated to reflect the requirements of the PSIAS and will be presented to management and Members for consideration and approval, in line with the terms of reference of this Committee.

1.4 Standard 1100 – Independence and Objectivity

- 1.4.1 The Standards require Internal Audit activity to be independent and Internal Auditors to be objective in performing their work.
- 1.4.2 The current functional arrangements for Internal Audit enable the Chief Internal Auditor to report to the Council's Management Team, Chief Executive and the Audit Committee in his own name and can report operationally to a member of the corporate management team. Full compliance to the Standards will require minor amendment to arrangements for the performance appraisal of the Chief Internal Auditor to incorporate feedback from the Chief Executive and the Chair of the Audit Committee.
- 1.4.3 There are arrangements currently in place to ensure the integrity of Internal Auditors and their work built into existing audit planning and quality control processes. The team workload is managed to ensure that individual auditors do not assess any operations for which they have previously held any responsibility, been instrumental in process development through consultancy work, or in which they have any interests.

1.5 Standard 1200 – Proficiency and Due Professional Care

- 1.5.1 The Standards require that engagements must be performed with proficiency and due professional care.
- 1.5.2 The Chief Internal Auditor is suitably qualified and experienced and has arrangements in place to ensure the team has the appropriate competencies, skills, experience and personal attributes as required by the Standards. The team has existing arrangements in place to ensure all audit work is carried out with due professional care including regular one to one and appraisal meetings, monitoring of performance against individual targets and the team's seven performance measures.

1.6 Standard 1300 - Quality Assurance & Improvement Programme

- 1.6.1 The Standards require the chief audit executive to develop and maintain a quality assurance and improvement programme that covers all aspects of the Internal Audit activity.
- 1.6.2 The team has robust quality control arrangements in place currently that ensure a senior officer reviews all audit work before it is issued to clients. Client satisfaction with the service is monitored through surveys issued following each audit review and biannually to assess overall performance. The team's performance is measured against seven performance measures and these are incorporated into the Annual Review of Effectiveness of Internal Audit reported to Management Team and the Audit Committee for validation. As part of the Annual Review of Effectiveness, the team also conducts a self-assessment against proper practice; for 2013-14 this assessment will be against the PSIAS.
- 1.6.3 This section of the Standards also details specific requirements for an external assessment against the standards to be carried out at least once every five years; consideration is currently being given to how this assessment can be delivered and this will be reported to the Audit Committee for decision at the appropriate time.

Performance Standards

1.7 Standard 2000 – Managing the Audit Activity

- 1.7.1 The Standards require the chief audit executive to effectively manage the Internal Audit activity to ensure it adds value to the organisation.
- 1.7.2 Arrangements are currently in place for the Internal Audit activity to be managed in line with the requirements of this Standard. The function is considered to be achieving its purposes and responsibility as set out in the Internal Audit Charter and arrangements are in place for preparing a risk based plan that is subject to approval by the Audit Committee. There are policies and procedures in place to manage the audit resource available to deliver the plan, and to ensure co-ordination of the work of Internal Audit with that of other assurance providers. There are existing arrangements in place for Internal Audit to report to senior management and the Audit Committee.
- 1.7.3 To ensure full compliance the Internal Audit Manual will be updated to reflect the Standards and Internal Auditors will be required to sign-up to the Standards and Code of Ethics on an annual basis; previously the team have signed-up to the CIPFA Code of Practice as was required under that regime. In addition the format of the Annual Audit plan brought to the Audit Committee for approval will be adjusted to reflect Internal Audit's place in the Council's Risk Management processes and to show the respective priorities of individual pieces of work.

1.8 Standard 2100 – Nature of Work

- 1.8.1 The Standards requires the Internal Audit activity to evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

1.8.2 Existing arrangements are in line with the Standards; Internal Audit make recommendations to improve the Council's control environment and action taken by management to implement recommendations is monitored and reported to Management Team and the Audit Committee in the Annual Internal Audit Report. Internal Audit fulfils a key role in promoting ethics, values, risk and control awareness and arrangements within the Council through both its planned and responsive workloads and also through participation in the Annual Governance Review process to prepare the Council's Annual Governance Statement.

1.9 Standard 2200 – Engagement Planning

1.9.1 The Standards require Internal Auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

1.9.2 Current engagement planning arrangements are in line with the Standards for all control assurance work carried out by the team, including preparing and agreement of Internal Audit Briefs with clients in advance of audit reviews that set out the objectives, scope and resources allocated to the specific review.

1.9.3 To fully comply with the Standards, the template Internal Audit Brief will be amended to give more detail of the nature of testing specifically identifying, analysing and evaluating information. It will also be necessary for the team to issue a formal Internal Audit Brief for all consultancy engagements where previously this has only been the case for significant project work.

1.10 Standard 2300 – Performing the Engagement

1.10.1 The Standards require Internal Auditors to identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

1.10.2 Existing arrangements in place to perform Internal Audit reviews are in line with the Standards with individual auditors identifying, analysing, evaluating and documenting sufficient information to support their conclusions and recommendations made to client management.

1.11 Standard 2400 – Communicating Results

1.11.1 The Standards require Internal Auditors to communicate the results of engagements.

1.11.2 Current arrangements to communicate the results of Internal Audit work are considered to be of a high quality (supported by client feedback) and meet the requirements of the Standards, providing clients with details of work undertaken, findings and conclusions drawn. Arrangements are in place for reports to be finalised with agreement of the client to recommendations prioritised according to risk and final reports record responsible officers and timescales for action agreed. Arrangements are also in place for the Chief Internal Auditor to deliver an annual opinion on the Council's internal control environment in line with the Standards.

1.11.3 This section of the Standards also details in what circumstances Internal Audit teams may declare that their work has been conducted in conformance with the Standards

and the requirement to disclose of any non-compliance if doing so. Internal Audit at Tonbridge & Malling Borough Council will not give consideration to making this declaration until the actions identified in this report to work towards compliance with the PSIAS are taken.

1.12 Standard 2500 – Monitoring Progress

1.12.1 The Standards require the chief audit executive to establish and maintain a system to monitor the disposition of results communicated to management.

1.12.2 Internal Audit has arrangements in place to monitor and follow up on recommendations to enhance the control environment that are agreed with client management to ensure weaknesses identified are addressed promptly; the results of this process are reported to Management Team and the Audit Committee in the Annual Internal Audit Report.

1.13 Standard 2600 - Communicating the Acceptance of Risks

1.13.1 The Standards require that, when the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

1.13.2 Client management at Tonbridge & Malling Borough Council respond positively to the work of Internal Audit and this situation has not arisen to date; however there are arrangements in place for such a situation to be reported to Management Team and the Audit Committee should this arise.

1.14 Next Steps

1.14.1 To ensure compliance with the requirements of the PSIAS, Internal Audit:

- Has prepared a revised Internal Audit Charter; this is presented to the Committee elsewhere on this agenda.
- Will consider how the external assessment against the PSIAS might best be delivered and report proposals to the Audit Committee in future for approval.
- Will prepare a revised Internal Audit Manual and require Audit staff to sign up to the manual and the PSIAS on an annual basis.
- Will adjust the presentation of the Annual Internal Audit Plan to reflect the respective priorities of individual pieces of work.
- Will revise the Internal Audit Brief Template document to more fully reflect the requirements of the PSIAS and ensure a formal Audit Brief is issued for all Consultancy engagements.

- Will work with the Chair of the Audit Committee and the Director of Finance & Transformation to ensure the appraisal process for the Chief Audit Executive includes feedback from the Chair of the Audit Committee.

1.14.2 The Internal Audit team will work towards completion of these actions over the remainder of the financial year.

1.15 Legal Implications

1.15.1 The Accounts and Audit Regulations 2011 require the council to “undertake an adequate and effective Internal Audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” Proper practice is currently defined as that contained within the CIPFA’s Code of Practice for Internal Audit in Local Government 2006. From 1st April 2013, proper practice will be the common set of Public Sector Internal Audit Standards (PSIAS) for the UK Public Sector.

1.16 Financial and Value for Money Considerations

1.16.1 The introduction of the PSIAS introduces a requirement to have an external assessment against the Standards at least every five years; indications are that this would cost in the region of £5-7k while this is not currently in the Council’s budget.

1.17 Risk Assessment

1.17.1 Failure to embrace the PSIAS could result in a non-compliant Internal Audit service.

1.18 Equality Impact Assessment

1.18.1 No Equality issues have been identified in this report.

Background papers:

contact: Katey Durkin
Audit Manager

Held within Internal Audit

David Buckley
Chief Internal Auditor

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	No impact

Screening for equality impacts:		
Question	Answer	Explanation of impacts
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	No impact
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.