

Report of the Head of Internal Audit & Corporate Anti-Fraud

AUDIT COMMITTEE – 19TH JULY 2017

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

1. Purpose of the Report

- 1.1 This report presents the information and evidence received in support of the review of the effectiveness of the audit function. The Audit Committee will be required to assess this evidence and form a view as to their satisfaction that the audit function is effective and where improvements have been identified, agree these and monitor them during the course of the year.

2. Recommendation

- 2.1 **It is recommended that the Audit Committee considers the information in support of the review of the effectiveness of the audit function and expresses a view as to their satisfaction with the service.**

3. Background

- 3.1 The Accounts and Audit Regulations 2015 part 2 requires an authority to conduct an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 3.2 There remains no specific guidance to determine how the effectiveness of the internal audit function should be determined. The process used for the Authority has traditionally utilised a collation of the various forms of feedback and evaluation which the audit function received during the year.
- 3.3 As the Committee will be aware, the Public Sector Internal Audit Standards (PSIAS) came into effect on the 1st April 2013. The PSIAS require the Head of Internal Audit & Corporate Anti-Fraud to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP should be designed to enable an evaluation of the internal audit activity's conformance with the PSIAS and assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. It is therefore appropriate that the QAIP also forms the basis of the annual review of the effectiveness of the Internal Audit function. The QAIP has been monitored during 2016/17 and a further self-assessment undertaken at the year end.
- 3.4 The QAIP must include both internal and external assessments. There are two elements to the internal assessment process. Firstly, the ongoing monitoring arrangements of the performance of the internal audit activity which have been incorporated into the routine policies and practices used to manage the function and Internal Audit work. These arrangements are summarised as follows:

- (i) Internal Audit Procedure Manual;
- (ii) On-going supervision and review of audit work;
- (iii) Feedback from auditees following specific audit work / reports;
- (iv) Performance management information (performance indicators);
- (v) The results of internal quality assurance audits;
- (vi) External assessment regarding conformance with the PSIAS and implementing any resulting recommendations;
- (vii) Any feedback from External Audit in relation to the effectiveness of the function;

The second element of the internal assessment process is the requirement to undertake periodic assessments to evaluate conformance with the PSIAS.

- 3.5 Independent external assessments are required to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. Such assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. The standards require an 'appropriate sponsor' to be nominated in order to safeguard the independence of the external assessment process.
- 3.6 The external assessment was undertaken in late 2015 and a report outlining the findings of the assessment was presented to the Audit Committee in March 2016. The assessment found that the Internal Audit function achieved the highest classification with regards conformance with the Standards and the observations arising from the review did not relate to the effectiveness of the function. For completeness, the updated action plan is included as Appendix 4 to this report.

4. Quality Assurance Improvement Programme - Update

4.1 Internal Audit Procedure Manual:

A high-level review of the procedure manual has been undertaken. The manual remains fit for purpose and reflects the requirements of the PSIAS as confirmed in the external assessment.

4.2 Supervision and Review of Audit Work:

The function is structured and organised in order to provide for the effective supervision of staff. Each audit is reviewed by a senior member of staff and any review points are recorded for action by the Auditor. Action points are reviewed in order to capture any training and development issues as part of the Personal Development Review (PDR) process. All staff have recently had a PDR meeting with their line manager.

4.3 Feedback from Auditees:

The Auditee feedback shows a positive level of satisfaction with the Internal Audit function. Summarised below is the feedback received following conclusion of each piece of audit work. Appendix 1 shows the summary feedback in more detail.

	Very Good	Good	Acceptable	Poor
Auditee Feedback	6	3	0	0

4.4 Performance Management Information (Performance Indicators):

A full list of the performance indicators is contained at Appendix 3. Overall, performance of the function is satisfactory and all PI's for the year are either on or exceed target levels.

4.5 Self Assessment against the Requirements of the PSIAS:

The external assessment confirmed the accuracy and completeness of the self-assessment.

4.6 External Audit:

The Council's External Auditor, KPMG no longer undertake a triennial review of the service against the professional standards nor specifically review or rely on Internal Audit work in respect of the core systems. External Audit do however receive copies of all Internal Audit reports and therefore have the opportunity to identify any effectiveness issues. No specific issues have been raised.

5. Issues Arising from the Review

- 5.1 Overall the evidence from the various aspects of feedback and evaluation shows that auditees at all levels regard the function as effective.
- 5.2 This report, the outcome of the external assessment and information obtained from the feedback received from auditees, serves to provide the Audit Committee with an overall view of Internal Audit effectiveness.

6. List of Appendices

- Appendix 1 - Summary of feedback from auditees following specific audit work / reports
- Appendix 2 - Internal Audit Performance Indicators 2016/17
- Appendix 3 - PSIAS - External Compliance Assessment Report

7. List of Background Documents

- Accounts and Audit Regulations 2015
- Public Sector Internal Audit Standards
- Feedback from auditees

Responsible Officer: **Rob Winter CPFA**
Head of Internal Audit & Corporate Anti-Fraud
robwinter@barnsley.gov.uk
01226 773241

Appendix 1

Analysis of Auditee Feedback Received in 2016/17

		Very Good	Good	Acceptable	Poor
A	Audit Planning				
1	Relevance of the audit objectives	4	3	0	0
B	Communication				
1	Consultation on scope and objectives of the audit	7	5	0	0
2	Communication during all aspects of the audit	7	2	0	0
3	Helpfulness co-operation of the auditor(s)	7	2	0	0
4	Professionalism of the auditor(s)	7	2	0	0
5	The auditor(s) demonstrated an appreciation of any relevant issues concerning equality and diversity	7	2	0	0
C	Timing				
1	Duration of the audit	4	5	0	0
2	Timeliness of the audit report	6	3	0	0
D	Quality of the audit report				
1	Format and clarity of audit report	6	3	0	0
2	Accuracy of the findings	6	3	0	0
3	Relevance of recommendations	6	3	0	0
4	Overall quality of the report	7	2	0	0
E	Value of the audit				
1	Basic controls assurance the audit has provided	7	2	0	0
2	Added value given beyond basic controls assurance	6	3	0	0
3	Overall value of the audit	6	3	0	0
		67%	33%	0%	0%
		100%			
	Total Number of 'ticks' (A – E)	93	42	0	0
	Percentage	69	31	0%	0%
		100%			

Additional comments where provided:-

1. The conduct, value and timeliness of the audit were very good. The scope/coverage was also very good, however even greater value could have been added by suggestions from the audit team around any additional processes which could be put in place to counter potentially fraudulent RTB applications.
2. Excellent audit and report as usual from this Auditor.
3. Liaison with colleagues from Audit was helpful and supportive. Timely and effective dialogue ensured that service views and suggestions were incorporated into the recommendations. The findings are supportive of improvement activity in service.

INTERNAL AUDIT PERFORMANCE INDICATORS FOR 2016/17

Ref.	Indicator	Frequency of Report	Target 2016/17	Actual
1.	<u>Customer Perspective:</u>			
1.1	Percentage of questionnaire received noted “good” or “very good” relating to work concluding with an audit report. (Cumulative 9 very good or good)	Quarterly	95%	100%
2.	<u>Business Process Perspective:</u>			
2.1	Percentage of final audit reports issued within 10 working days of completion and agreement of the draft audit report. (Cumulative 14/17 reports)	Quarterly	80%	82%
2.2	Percentage of chargeable time against total available.	Quarterly	73%	73%
2.3	Average number of days lost through sickness per FTE (Cumulative 45 days in total)	Quarterly	6 days	3 days
3.	<u>Continuous Improvement Perspective:</u>			
3.1	Personal development plans for staff completed within the prescribed timetable.	Annual	100%	100%
4.	<u>Financial Perspective:</u>			
4.1	Total Internal Audit costs v budget.	Quarterly	Within Budget	Within Budget

PUBLIC SECTOR INTERNAL AUDIT STANDARDS – EXTERNAL COMPLIANCE ASSESSMENT 2016

Response to areas suggested for improvement

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Update June 2017
5.2a	<p>Three Year Plan</p> <p>The current Internal Audit plan is for a year's duration. If the level of resources available to internal audit reduces, consideration should be given to moving to a three year plan. This will assist in ensuring that there are no gaps in the coverage of critical areas of the Council's financial systems and key service delivery risks.</p>	<p>Planning over a longer period is considered as a key part of the annual process.</p> <p>The extent of change within and around the Council, has meant that it is not practical to prepare a longer-term audit plan.</p> <p>In many respects, a 6-month plan can be more appropriate to reflect the pace of change, changes in priority, emerging issues and unplanned requests from senior management for advice, support and challenge.</p> <p>The planning process remains robust enough to ensure there are no gaps in the coverage of key risks and issues facing the Authority.</p>	<p>Longer-term audit planning will continue to be considered and implemented when there is greater stability within the Council and sector generally.</p> <p>Action Closed</p>
5.2b	<p>Focus on High Priority Recommendations</p> <p>The service currently has three levels of recommendation, fundamental, significant and merits attention. Consideration should be given to focusing on those controls, which if audit work found to be weak, in either adequacy or application, would result in a fundamental or significant recommendation being made. This not only promotes internal audit resources being focused on the priority areas but also</p>	<p>The nature of the classification of audit recommendations means that due attention is focussed on those with the greatest significance or priority and therefore higher risk areas.</p> <p>The follow-up process again focusses on the implementation of fundamental or significant recommendations.</p> <p>In many respects the 'merits attention'</p>	<p>The current methodology and classification of recommendations is understood across the Council.</p> <p>The overall audit methodology will need to be reviewed should resources be reduced and a more thematic approach be required.</p> <p>This is currently being considered for the 2017/18 audit year.</p>

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Update June 2017
	enables the organisation to focus on the key controls it needs to operate.	<p>recommendations arise consequentially from the consideration of issues in the audit and represent those areas where some improvement in control processes or procedures would be beneficial.</p> <p>In some cases a number of 'merits attention' recommendations across a service or system can collectively result or contribute to a negative assurance opinion.</p>	<p>The Audit Committee will be kept informed regarding the development of any new approaches in response to any reduction in resources.</p> <p>A fundamental review of how recommendations are classified and categorised is underway. The Audit Committee will be appraised of the outcome and the proposals in due course.</p>
5.2c	<p>Audit Reports per Auditor</p> <p>A review of the number of audits issue indicates that Barnsley issues fewer reports compared with its West and South Yorkshire neighbours. This could be for a number of reasons including working styles and the definition of a report (for example other Councils may include grant certification audits as reports). However it would be beneficial for the Council's Head of Internal Audit to review the position to determine whether the reporting framework met Barnsley's Internal Audit requirements and those of the Council's and external client requirements. In some cases short briefing style reports can be a more effective deployment of Internal Audit resources focusing on remedies to internal control weaknesses.</p>	<p>Over the last few years audit work has reflected and responded to management requests for on the one hand more significant pieces of review work and on the other a demand for advice and support for initiatives, projects and strategy groups.</p> <p>Both aspects have had the impact of reducing the audit report : auditor ratio.</p> <p>This is not seen as much in the other clients, where there is a far higher ratio.</p> <p>All pieces of work contribute to the Head of Internal Audit's annual opinion and equally in the advice and information to management.</p> <p>It is a valid point regarding using a shorter report style to capture areas of activity where a formal report is not appropriate.</p>	<p>Whilst the relatively low ratio of reports : auditor is noted, there remains an effective deployment of audit resources targeted to support management.</p> <p>However, there is an opportunity to relate some aspects of currently 'un-reported' audit work in a form that would improve the ratio.</p> <p>Actioned in 2016/17.</p>

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Update June 2017
5.2d	<p>Risks linked to the Audit Plan</p> <p>The current Internal Audit plan reflects the financial risks of the authority and also links in with the risk management processes of the authority. It is critical that the Council's strategic risk register remains relevant and reflects the environment the Council is working in, especially in the light of the changing availability of resources. This is a key responsibility of strategic management. It is Internal Audit's responsibility to ensure it reviews those strategic risks and the control environment supporting them. The Audit Committee, Strategic Directors, Section 151 Officer and Internal Audit Service need to continue ensuring that the Internal Audit resources are directed and balanced, so that Service delivery, organisational governance and financial administrative controls are reviewed and maintained.</p>	<p>Agreed. This is an essential aspect of the control and governance framework and how Internal Audit supports, advises and challenges.</p> <p>Whilst there is always scope for improvement, the risk management arrangements within the Authority are well established, pragmatic and consequently can be relied upon by Internal Audit for the purposes of planning and review work. The Audit Committee has received a report on the audit planning methodology and will consider the draft Plan at its March meeting. This will demonstrate the linkages to risks across the Council.</p> <p>This aspect of focus will always remain a priority for Internal Audit in seeking to support the further embedding of effective and appropriate risk management arrangements across all parts of the Council.</p>	<p>This is very much a constant area of focus for Internal Audit and therefore there is no specific action to take in this regard.</p> <p>The annual audit planning process focusses heavily on the risk registers and through the detailed consultation process with senior management, ensures audit activity remains aligned to risk.</p> <p>The Audit Committee will receive information throughout the year as part of Progress reports from Internal Audit about risk issues, as well as specific Strategic Risk register updates as appropriate.</p> <p>Action Closed</p>
5.2e	<p>Assurance Mechanisms</p> <p>In order to make the best use of Internal Audit resources it is important that attention is directed to significant/critical risks including process/system development and areas where Internal Audit's expertise is effective. Care should continue to be taken when preparing the Internal Audit plan that Internal Audit is not used to provide assurances outside its professional authority. The Authority could</p>	<p>The audit planning process and the detailed consultation with senior managers seeks to ensure a risk-informed programme of work designed to provide assurances regarding the effectiveness of the control, risk and governance arrangements put in place and managed by management.</p> <p>All audit activities within the plan are structured on that basis and therefore do not fall outside of the services authority or</p>	<p>Internal Audit has and will continue to support management in the development of an assurance map for the Council. There are specific days allocated to this within the 2017/18 plan.</p> <p>No specific action is required of Internal Audit in this regard beyond that already planned.</p> <p>Action Closed</p>

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Update June 2017
	benefit from an assurance mapping process which clearly designates responsibility for critical risks and how assurances are achieved for those risks.	<p>competence.</p> <p>It has been acknowledged for some time by senior management that the development of a corporate assurance map would be of use.</p> <p>Work in this area had developed over the last few months and it is hoped that such an assurance map will be in place during 2016/17. Internal Audit has and will play a key role in supporting, implementing and subsequently monitoring the assurance map.</p>	
5.2f	<p>Adults (BMBC ONLY)</p> <p>A review of the Internal Audit Plan for 2015/16 shows that 65 Internal Audit days were allocated to the Communities Department which incorporates Adults Services. The days allocated to People and Place were 175 days and 112 respectively. Given that Adults services is one of the most critical resource demanding areas of Council activity, consideration should be given to whether the resources allocated to Adults, is sufficient and reflects the current level of risk.</p>	<p>Due to how the functions and services of the Council are structured, a number of areas of work supporting the 'Adults' agenda were undertaken outside of the Communities Directorate, i.e. within Finance and the People Directorate e.g., DOLS and personal budgets.</p> <p>The '65' days therefore presents a slightly false position.</p> <p>However, the point is acknowledged and the 2016/17 planning process and had a key focus on this general area.</p>	<p>The 2016/17 and 2017/18 audit plans has considered the area and with management and include an appropriate programme of work.</p> <p>The Audit Committee will receive information about this work through the periodic Progress reports.</p> <p>Action Closed</p>
5.2g	<p>Delivery of Training</p> <p>Whilst not a specific requirement of PSIAS and the responsibility could sit within other areas of the organisation, it was noted that the Internal Audit Service had not delivered any formal</p>	<p>This is somewhat an anomaly of 2015/16. In most years Internal Audit undertakes or contributes to training of some kind.</p> <p>Training activity has in the past been in areas such as anti-fraud and corruption, contracts</p>	<p>Some provision has been made in the 2017/18 Plan for specific training for Berneslai Homes and a number of the external clients.</p> <p>Training has generally been requested by management and accommodated where</p>

Report Ref.	Suggested Improvement	Internal Audit Comment	Action Update June 2017
	<p>training in the form of courses to other areas of the organisation, or service managers.</p> <p>The provision of training by Internal Audit gives the Service exposure to the rest of the organisation and allows it to sell itself to service managers and also be pro active in delivering improvements to the governance arrangements of the Council. Consideration should be given to the delivery of such training in the future.</p>	<p>and procurement, general governance and audit committee effectiveness.</p> <p>The Internal Audit service also contributes to the maintenance and development of the Council's on-line training facility (BOLD).</p> <p>More focus is attached corporately to the on-line method of training, awareness, advice and guidance.</p>	<p>possible by Internal Audit during the year. Consequently, and again for 2017/18, any such requests will be considered and resourced form contingency days. The Audit Committee will receive information about such activity in the Progress reports.</p> <p>Action Closed</p>