

**AUDIT COMMITTEE – 11<sup>TH</sup> DECEMBER 2013**

**ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT - PROGRESS REPORT**

**1. Purpose of the Report**

- 1.1 This report provides an update on progress made in addressing the issues arising from the annual review of the effectiveness of the Internal Audit function. This report was presented to the Audit Committee on the 12<sup>th</sup> June 2013.

**2. Recommendation**

- 2.1 **It is recommended that the Audit Committee considers the progress made in implementing the actions as contained within the updated Action Plans (Appendices 1 & 2).**

**3. Background Information**

- 3.1 The annual review of the effectiveness of the Internal Audit function involved the collation and analysis of various forms of feedback received during the year and evaluation of the audit function. The evaluation process was based upon a Quality Assurance Improvement Programme (QAIP), a requirement arising from the implementation of the new Public Sector Internal Audit Standards which came into effect on the 1st April 2013.
- 3.2 A key part of the QAIP included a detailed self assessment against the requirements of the new standards. The majority of the actions arising from the review therefore related to the implementation of these standards.
- 3.3 Details of the review and the issues arising were reported to the Audit Committee at the meeting held on the 12<sup>th</sup> June 2013. Based on the evidence from the various aspects of feedback and evaluation it was concluded that the Internal Audit Service was generally operating effectively.
- 3.4 The report also acknowledged that Audit Committee members would be provided with an update on progress made in implementing actions contained within the Action Plans on a 6 monthly basis.

**4. Progress regarding the Implementation of Actions**

- 4.1 The results of the quality assurance audits resulted in a few actions. With the exception of changes required to the filing structure within the document management system, all actions have been addressed (see Appendix 1).
- 4.2 The self-assessment against the Standards resulted in a detailed action plan. The priority attached to addressing each action has been based on the value of the outcome added to the client / auditee. The areas for improvement and action along with an update regarding progress in addressing these are summarised at Appendix 2.

4.3 Those which remain outstanding or have been delayed predominantly relate to the Internal and External Assessment process. The service is currently assessing the options in terms of undertaking internal assessments. In respect of external assessments, discussions are taking place with West and South Yorkshire Internal Audit services to establish the feasibility of undertaking a programme of peer assessments. These two areas remain the current focus in respect of completion of the outstanding actions.

**5. Appendices**

5.1 Appendix 1 - Action Plan - Quality Assurance Audits  
Appendix 2 - Action Plan - Internal Audit Self-Assessment against the Public Sector Internal Audit Standards (PSIAS)

**6. Background Papers**

6.1 Annual Review of Internal Audit Effectiveness report presented to the Audit Committee on the 12<sup>th</sup> June 2013.

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Date: 26<sup>th</sup> November 2013

## Quality Assurance Audits 2012/13 - Action Plan

	ISSUES ARISING / RECOMMENDATION	AGREED ACTION	RESPONSIBLE OFFICER/S	TARGET COMPLETION DATE
1.	<p>All required resource planning information should be included within the audit preparations within MKInsight. In addition, prior to the closing down of an audit prep the lead auditor / relevant Manager should check to ensure that all aspects of the prep have been properly and fully completed; such as the inclusion of the audit opinion, all work programmes have been approved, the checklist has been completed and the performance tab has an explanation for any time deviations / performance related issues.</p>	<p>The update of the 2013/14 audit plan information will include a check to ensure that all initial planning and resource information has been included within the audit preparations. In addition, work planning meetings will feature regular MKI/audit prep overviews to enhance performance management and ensure consistency in approach/quality standards.</p>	Senior Audit Manager	Completed
2.	<p>Audit recommendations are followed up on a regular basis; however there were instances where the status had not been changed or the incorrect person assigned as the Audit Manager. It is important that the correct status is shown and the right individuals are assigned as manager / auditor to facilitate follow up and to maintain the quality / integrity of the management information within the system.</p>	<p>A reminder to be issued to staff about the need to allocate the correct people to the named roles, "Audit Manager" and "Auditor".</p> <p>Actioned at the team brief held on the 22<sup>nd</sup> May 2013.</p>	Senior Audit Manager	Completed
3.	<p>The structure of Hyperwave under Internal Audit, no longer accurately reflects the new structure of the Section or the restructures that the Council has / is undergoing.</p>	<p>The folder structures within Hyperwave under Internal Audit need to be reviewed and amended to reflect the organisational changes across the Council.</p> <p><b>Update 20.11.13: Creation of new files follow the amended organisational structure. Review of the existing file structure is dependent upon the decision to change the corporate document management system (Hyperwave).</b></p>	Senior Audit Manager	01.06.2014
4.	<p>The structure of Hyperwave audit documentation retained within individual audit files is inconsistent. Easier access and control would be enhanced by a structured layout.</p>	<p>A recommended file layout should be agreed and included within the Audit Procedure Manual.</p> <p><b>Update 20.11.13: File layout defined and included within Procedure Manual. Briefing provided to staff 21st August and 5th September on PSIAS and revised procedures.</b></p>	Senior Audit Manager	Completed

## Action Plan – Internal Audit Self-Assessment against the Public Sector Internal Audit Standards (PSIAS)

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
1.	1110 - Organisational Independence	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Chief Audit Executive (CAE)? (For the Authority, CAE is the Head of Internal Audit (HoIA)).	<p>The requirement for the Chief Executive to undertake, countersign, contribute feedback or review the performance appraisal of the HoIA is not in accordance with the corporate PDR process. However, it is acknowledged that this would enhance the independence of the HoIA. The HoIA to discuss the appropriateness of this with the ACE, Finance, Property &amp; Information Services.</p> <p><b>20.11.13 Update: Not yet addressed and pending outcome of the review of the structure of the Directorate impacting upon the new substantive post of the Head of Internal Audit.</b></p>	31st March 2014	AED (Audit & Risk Management)
2.	1220 – Due Professional Care	<p>Do Internal Auditors exercise due professional care during a consulting engagement by considering the:</p> <ul style="list-style-type: none"> <li>a) Needs and expectations of clients, including the nature, timing and communication of engagement results,</li> <li>b) Relative complexity and extent of work needed to achieve the engagement's objectives, and</li> <li>c) Cost of the consulting engagement in relation to potential benefits?</li> </ul>	<p>The nature and approach to consulting type work needs to be agreed and formally defined within the Procedure Manual.</p>	Completed	Senior Audit Manager
3.	1220 – Due Professional Care	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	<p>The corporate PDR process identifies Internal Auditor training and development needs which extend to support for professional qualifications.</p> <p>The risk exists that if professional qualifications are not pursued by all staff then the professionalism of the service may be adversely affected. A programme of professional training needs to be defined and take-up by staff monitored.</p>	Completed	AED (Audit & Risk Management)
4.	1300 – Quality Assurance and Improvement Programme	Does the QAIP include both internal and external assessments?	The type, nature, and timing of the internal and external assessment process needs to be documented and a plan formulated for completion of the assessments.	31st March 2014	AED (Audit & Risk Management)

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
			<p><b>Update 20.11.13:</b> The Quality Assurance and Improvement Programme has been documented and included within the IA Effectiveness Report presented to the Audit Committee at the meeting held on the 12th June 2013. The precise details of the internal and assessment process need to be defined and agreed which requires discussion with the Assistant Chief Executive Finance, Property &amp; Information Services along with West and South Yorkshire Heads of Internal Audit.</p>		
5.	1300 – Quality Assurance and Improvement Programme Internal Assessments	<p>Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?</p> <p>Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories etc.</p> <p>Has an external assessment been carried out, or is planned to be carried out, at least once every five years?</p>	<p>The form and frequency of periodic assessments needs to be defined. This will be initially covered as part of the Internal Audit Effectiveness review presented to the Audit Committee on the 12th June 2013.</p> <p><b>Update 20.11.13: Refer to No. 4 above.</b></p>	31st March 2014	AD (Audit & Risk Management)
6.	1312 – Quality Assurance and Improvement Programme External Assessments	<p>Has the CAE considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?</p>	<p>The intention is for a member of staff from one of the West &amp; South Yorkshire authorities to undertake the external assessment. Further discussion is required with West and South Yorkshire colleagues in order to finalise the arrangements.</p> <p><b>Update 20.11.13: Refer to No. 4 above.</b></p> <p>Refer to the above.</p> <p><b>Update 20.11.13: Refer to No. 4 above.</b></p>	31st March 2014	Senior Audit Manager
7.	1312 – Quality Assurance and Improvement Programme External Assessments	<p>Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?</p>	<p>Refer to the above. Details of the external assessment process, including the qualifications and independence of the assessor or assessment team will be reported to the Audit Committee as part of the 6 monthly Effectiveness update report.</p> <p><b>Update 20.11.13: Refer to No. 4 above.</b></p>	31st March 2014	AED (Audit & Risk Management)
8.	1312 – Quality Assurance and Improvement Programme External Assessments			31st March 2014	AED (Audit & Risk Management)

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
9.	1312 – Quality Assurance and Improvement Programme External Assessments	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the Chair of the Audit Committee, the CFO or the Chief Executive?	The HoIA will discuss and agree the scope of the external assessment initially with the ACE, Finance, Property & Information Services.  <b>Update 20.11.13: Refer to No. 4 above.</b>	31st March 2014	AED (Audit & Risk Management)
10.	1312 – Quality Assurance and Improvement Programme External Assessments	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	Refer to the above.  <b>Update 20.11.13: Refer to No. 4 above.</b>	31st March 2014	AED (Audit & Risk Management)
11.	1321 - Conformance with the Standards	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	Audit reports and the Annual Audit Report should refer to the PSIAS and state whether the Internal Audit activity conforms with the standards.	Completed	Senior Audit Manager
12.	2010 - Planning	Does the risk-based plan take into account the organisation's assurance framework?	The Authority's assurance framework needs to be defined and agreed.	31st December 2013	AED (Audit & Risk Management)
13.	2040 - Policies and Procedures	Has the CAE established policies and procedures to guide staff in performing their duties in a manner that conforms to the PSIAS? Examples include maintaining an audit manual and/or using electronic management systems.	The Procedure Manual needs to be reviewed to address the appropriate elements and requirements of the PSIAS.  <b>Update 20.11.13: The sections of the Procedure Manual impacting upon the operational delivery of the service in respect of undertaking audit work have been updated. The remainder of the Procedure Manual requires review and update to take account of other aspects of the standards and also any changes arising from the integration of the service with the Joint Secretariat Audit Service.</b>	31st August 2014	Senior Audit Manager
14.	2050 - Coordination	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	An assurance mapping exercise needs to be undertaken as part of the annual planning process.  <b>Update 20.11.13: The risk based planning methodology includes reference to other forms of assurance. However, The HoIA is currently developing an assurance framework which will supplement the planning methodology.</b>	31st March 2014	AED (Audit & Risk Management)

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
15.	2120 - Risk Management	Do Internal Auditors address risk during consulting engagements consistently with the objectives of the engagement?	The arrangements for involvement with consulting engagements needs to be defined within the Internal Audit Procedure Manual and communicated to staff.	Completed	Senior Audit Manager
16.	2200 - Engagement Planning	Do Internal Auditors consider the following in planning an engagement, and is this documented: a) The objectives of the activity being reviewed? b) The means by which the activity controls its performance? c) The significant risks to the activity being audited? d) The activity's resources? e) The activity's operations? f) The means by which the potential impact of risk is kept to an acceptable level? g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model? h) The opportunities for making significant improvements to the activity's governance, risk management and control processes?	The risk based audit planning process would consider and take account of the areas as per the standards. However, specific details need to be included within the Audit Procedure Manual.	Completed	Senior Audit Manager
17.	2200 - Engagement Planning	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following: a) Objectives? b) Scope? The respective responsibilities of the Internal Auditors and the client and other client expectations?	The client should be made aware of the scope, objectives, respective responsibilities, and client expectations. For significant engagements, this understanding should be documented within the job brief. The procedures for consulting type audit work need to be defined within the Audit Procedure Manual and issued to staff.	Completed	Senior Audit Manager
18.	2210 - Engagement Objectives	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	Refer to the above.	Completed	Senior Audit Manager
19.	2220 Engagement Scope	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the	The procedures for consulting type audit work needs to be defined within the Audit Procedure Manual and issued to staff.	Completed	Senior Audit Manager

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
		objectives, scope, respective responsibilities and other expectations drawn up?			
20.	2410 - Communicating Results	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	A disclaimer needs to be included within audit reports issued outside of the organisation stating the limitations on the distribution and use of the results contained within audit report.	Completed	Senior Audit Manager
21.	2430 - Use of "Conducted in conformance with the Standards"	Do Internal Auditors report that engagements are "conducted in conformance with the PSIAS" only if the results of the QAIP support such a statement?	Conformance with the PSIAS / IPPF is currently ongoing. The extent of conformance will need to be acknowledged within each audit report.	Completed	Senior Audit Manager
22.	2431 - Engagement Disclosure of Non Conformance	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: a) The principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results?	Conformance with the PSIAS / IPPF is currently ongoing. Arrangements regarding non conformance with the standards in terms of disclosure within audit reports will need to be defined.  <b>Update 20.11.13: The Charter and Strategy for 2014/15 will include details of how non-conformance will be dealt with.</b>	31st December 2013	Senior Audit Manager
23.	2500 - Monitoring Progress	Do the results of monitoring management actions inform the risk-based planning of future audit work?	The risk based audit planning process needs to include reference to utilising the results of follow up work to inform the audit plan.	Completed	Senior Audit Manager