

AUDIT COMMITTEE – 11TH JUNE 2014

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

1. Purpose of the Report

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

2. Recommendation

2.1 It is recommended that the Audit Committee:

- i. **considers the information in support of the review of the effectiveness of the internal audit function and expresses a view as to their satisfaction with the service;**
- ii. **receives a progress report in approximately 6-months to monitor progress against the Internal Audit Action Plan (Appendix 4)**

3. Background Information

- 3.1 The Accounts and Audit Regulations 2011 paragraph 6(3) introduced a requirement for all authorities to undertake an annual review of the effectiveness of the internal audit function. Accordingly, Internal Audit report the outcome of this review to the Company's Audit Committee.
- 3.2 By way of reminder, the Public Sector Internal Audit Standards (PSIAS) came into effect on the 1st April 2013 and replaced the Code of Practice for Internal Audit 2006. The PSIAS require the Head of Internal Audit (HoIA) 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, assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. It is therefore considered 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 2013/14 and a further full self assessment undertaken at the year end.
- 3.3 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. These arrangements are summarised as follows:

- (i) Internal Audit Procedure Manual
- (ii) On-going supervision and review of audit work
- (iii) Performance management information (performance indicators)
- (iv) Feedback from auditees following specific audit work / reports
- (v) Feedback from senior managers (annual)
- (vi) The results of quality assurance audits
- (vii) A self assessment against the requirements of the PSIAS
- (viii) The view of External Audit as to whether they can rely on Internal Audit's core systems work and in doing so are considering its effectiveness
- (ix) Completion of actions within the Quality Assurance Improvement Programme Action Plan

The second element of the internal assessment process is the requirement to undertake periodic assessments to evaluate conformance with the PSIAS. This periodic assessment should be undertaken by an independent person within the organisation with sufficient knowledge of internal audit practices or someone with at least an understanding of all elements of the standards. The precise arrangements regarding periodic assessments are currently being discussed and agreed.

3.4 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 HoIA is currently evaluating the most appropriate way to address the external assessment process and will consult with the Audit Committee in due course.

3.5 This report, together with the assurances and information obtained from the feedback received from auditees, serves to provide the Audit Committee with an overall view of Internal Audit effectiveness.

4. Quality Assurance Improvement Programme - Actions Arising

4.1 Internal Audit Procedure Manual:

A review of the procedure manual is currently being undertaken. Whilst, the manual continues to be fit for purpose, the content is under review to ensure that it reflects the requirements of the new PSIAS and the changes required in order to integrate the audit service with the Joint Secretariat Internal Audit Service.

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 process. No issues have been identified resulting in action relevant to the review of the effectiveness of the function.

4.3 Performance Management Information (performance indicators):

Performance indicators have been reported to the Audit Committee as part

of the regular Quarterly Reports. The results show a good level of performance throughout 2013/14. The issue of draft reports indicator was slightly less than target which has been mainly due to delays obtaining details required to finalise the audit report. The actual days allocated to training was also slightly less than target due to a slight delay in the implementation of a professional training programme.

4.4 Feedback from Auditees:

Summarised below, the two sources for which a questionnaire has been issued.

	Very Good	Good	Acceptable	Poor
Auditees (App.1)	60%	40%	0%	0%
Senior Management (App.2)	57%	29%	14%	0%

Appendices 1 and 2 show the summary feedback in more detail. The Audit Committee has received the feedback from auditees throughout the year as part of the regular Quarterly Reports. The feedback obtained from Senior Managers (Directors and Assistant Directors) has been an annual process. Both sources of feedback did not identify any issues impacting on the effectiveness of the function and show a picture of the function being generally rated as either 'very good' or 'good'. The issues raised giving rise to feedback categorised as 'Acceptable' will be discussed with the responsible Director and any necessary service improvements implemented accordingly.

4.5 Quality Assurance Audits:

A programme of 'Independent' quality control reviews has recently been completed which consisted of a peer review by senior managers of completed audits selected by the Head of Internal Audit. The reviews did not identify any issues impacting on the effectiveness of the function.

4.6 Self Assessment against the requirements of the PSIAS:

Although the new standards only came into effect from the 1st April 2013 a self-assessment against the Standards was undertaken in May 2013 reflecting back over 2012/13 to identify any potential gaps in conformance. A further self assessment has been undertaken at the end of the financial year and has been used to inform the compliance programme for 2014/15. The compliance checklist summary is attached as Appendix 3 along with a detailed action plan as Appendix 4. Each action has been prioritised based on the value of the outcome added to the client / auditee.

The summary checklist highlights that in the majority of areas the function is assessed as 'generally conforms'.

There is partial conformance in the areas of:

- Organisational Independence
- Requirements of the Quality Assurance and Improvement Programme

There is non-conformance in the areas of:

- External Assessments

4.7 **External Audit Reliance:**
The External Auditor, KPMG no longer undertake a triennial review of the service against the professional standards. Reliance on the work undertaken by Internal Audit is obtained as part of their review of the core systems work. Although the External Auditor's coverage was restricted to a small number of pieces of work, 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 The areas for improvement and actions predominantly relate to those arising from the implementation of the new professional standards. Actions have been identified to address areas of non conformance as per Appendix 4.

5.3 This report, together with the assurances and information obtained from the feedback received from auditees, serves to provide the Audit Committee with an overall view of Internal Audit effectiveness to meet the annual statutory requirement to review its effectiveness.

6. List of Appendices

Appendix 1 - Summary of feedback from auditees following specific audit work / reports

Appendix 2 - Summary feedback from senior managers

Appendix 3 - Public Sector Internal Audit Standards Self Assessment Checklist

Appendix 4 - Internal Audit Effectiveness Action Plan 2014/15

7. Background Information

Accounts and Audit Regulations 2011

Public Sector Internal Audit Standards

Feedback from auditees and senior managers

Internal Audit quarterly reports to the Audit Committee

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Telephone : 01226 773241

Date : 30th May 2014

Appendix 1

Analysis of Internal Audit Feedback Received During of 2013/14

Number ticks shown against each 'score' given

		Very Good	Good	Acceptable	Poor
A	Audit Planning				
1	Relevance of the audit objectives	13	7	0	0
B	Communication				
1	Consultation on scope and objectives of the audit	12	6	1	0
2	Communication during all aspects of the audit	14	5	1	0
3	Helpfulness co-operation of the auditor(s)	14	6	0	0
4	Professionalism of the auditor(s)	14	6	0	0
5	The auditor(s) demonstrated an appreciation of any relevant issues concerning equality and diversity	8	7	0	0
C	Timing				
1	Duration of the audit	12	8	0	0
2	Timeliness of the audit report	12	5	1	0
D	Quality of the audit report				
1	Format and clarity of audit report	13	6	0	0
2	Accuracy of the findings	13	8	0	0
3	Relevance of recommendations	10	9	0	0
4	Overall quality of the report	13	6	0	0
E	Value of the audit				
1	Basic controls assurance the audit has provided	12	8	0	0
2	Added value given beyond basic controls assurance	9	10	0	0
3	Overall value of the audit	12	8	0	0
		60	40	0	0
		100%			
Total Number of 'ticks' (A – E)		181	105	3	0
Percentage		63	36	1	0
		99%			

Returned Questionnaires:-

Quarter 1	4
Quarter 2	7
Quarter 3	4
Quarter 4	5
Total	20

Auditee Comments (where given) :- (received in the quarter)

Given the changes at the school in the last 12 months: a change in Business Manager and the Finance Officer taking on greater responsibility of day to day financial management, the timing of the audit was opportune. It was good to have external confirmation that the policies and changes in procedures are working effectively, I think the single finding was justified and in the context of the entire audit, was relatively minor and will be taken on board for the end of each summer term. I thank (name of Auditor) for their time at the school.

The flexibility of Internal Audit in tailoring the work undertaken and the timescales to meet service needs is much appreciated.

Overall the audit was as expected and carried out in a professional manner. There were a number of e mail exchanges between the auditor, my admin manager and I, this became confusing as the auditor was agreeing actions with the office manager with no involvement or discussions with me as to the operational value and or constraints. In addition I was asked a number of questions that were unrelated to the audit about budget management. I eventually asked for the formal report as the e mail exchanges were not helpful in finalising actions that the service needed to conclude.

Very happy with Audit overall - (Name of Auditor) was able to identify what was needed at early course, and once in possession of correct files / evidence was able to undertake audit with little input on my / our day - to day activities. (Name of Auditor) acted in a helpful, professional and pragmatic manner.

As usual IA's approach to the evaluation of our governance self assessment has been very thorough and will form part of our evidence within our automatic contract renewal mechanism with the Council.

The audit team were very helpful in providing advice appropriate to the school environment, and were understanding of the issues that combining 3 schools created in our first year of operation. Having the interim report provided during the school holidays enabled us to form our responses and prepare documentation ready for the new academic year.

It was very evident that the Auditor had knowledge and experience in the field of quality management systems. The audit was carried out in a very professional manner with positive findings and observations. The objective of the audit was met and very helpful to me and my colleague in making improvements to our working practices and quality management systems. We found the findings of the audit valuable and have learnt from the audit.

We both found the findings of the audit valuable and have learnt from the Audit.

The audit produced some useful recommendations which we will act upon and was carried out in a professional / low key manner.

INTERNAL AUDIT – ANNUAL SENIOR MANAGER FEEDBACK QUESTIONNAIRE

SUMMARY RESULTS

Very Good / Very Satisfied	Good / Satisfied	Acceptable / Fairly Satisfied	Poor / Not Satisfied
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A. Access to Internal Audit Services

1. How satisfied are you with regards the range of and access to the services of Internal Audit?
2. How satisfied are you that service/s provided by Internal Audit will assist and support you in the future?
3. Information provided within the Internal Audit intranet site

3	3	1	0
3	3	1	0
3	1	1	0

B. General Advice and Support

1. Timeliness of general advice & support
2. Quality & usefulness of advice & support
3. Helpfulness / co-operation of the auditor(s)
4. Professionalism of auditor(s)
5. Due regard for equality & diversity issues shown by the auditor(s)

5	1	1	0
5	1	1	0
5	1	1	0
5	1	1	0
2	3	1	0

C. Investigations

1. Support & advice regarding allegations of irregularity / fraud etc.
2. Timeliness of investigations
3. Professionalism of the auditor(s) undertaking or advising on investigation matters
4. Access to general guidance, information & training regarding anti-fraud matters (incl. e-training)

4	1	1	0
4	0	2	0
4	1	1	0
2	1	1	0

D. Projects, Developments and New Systems

1. Support, advice & assurance regarding projects, developments or new systems
2. Input from Internal Audit at or for 'steering' or 'project' groups
3. Professionalism of the auditor(s) advising on projects, developments or new systems

2	1	2	0
2	1	2	0
2	1	2	0

E. Internal Audit Planning and General Communication

1. Extent of consultation and involvement in annual audit planning
2. Extent of risk issues considered and reflected in annual audit planning
3. Overall relevance of audit jobs contained in annual audit plans

3	3	1	0
2	4	1	0
2	4	1	0

Very Good / Very Satisfied	Good / Satisfied	Acceptable / Fairly Satisfied	Poor / Not Satisfied
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F. Overall Value and Contribution of Internal Audit

1. General controls assurance, advice and support	4	2	1	0
2. Investigations work and support for management in dealing with irregularities	5	1	1	0
3. Contribution of Internal Audit in projects, developments or new systems	3	1	2	0
4. Overall value / contribution of Internal Audit	4	2	1	0
	57	29	14%	0%
	86%			

Total Number of 'Ticks'

74	37	27	0
54	27	19	0

Percentage

Additional comments where provided :-

Given the nature of the service, my call on Internal Audit is relatively limited. However, I appreciate the challenge and support received in keeping the Constitution up-to-date.

Audit colleagues are extremely professional and knowledgeable, including in supporting 'special' projects.

The only visibility of the service is attendance once a year at DMT - very little input during the rest. Could be more proactive and questionnaire should be online.

I think Internal Audit have generally provided a great support service and as such are positively embraced by the Directorate. My query and challenge is that we arguably need to be more focussed on Future Council (whilst accepting we still need some backwards looking review audits). I'm happy to discuss.

Public Sector Internal Audit Standards – Self Assessment Checklist

		GC	PC	DNC
	Definition of Internal Auditing	✓		
Ref.	Code of Ethics			
1	Integrity	✓		
2	Objectivity	✓		
3	Confidentiality	✓		
4	Competence	✓		
	Attribute Standards			
1000	Purpose, Authority and Responsibility	✓		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organisational Independence		✓	
1111	Direct Interaction with the Board	✓		
1120	Individual Objectivity	✓		
1130	Impairments to Independence or Objectivity	✓		
1200	Proficiency and Due Professional Care (The sum of Standards 1210-1230)	✓		
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		
1300	Quality Assurance and Improvement Programme	✓		
1310	Requirements of the Quality Assurance and Improvement Programme	✓	✓	
1311	Internal Assessments		✓	
1312	External Assessments			✓
1320	Reporting on the Quality Assurance and Improvement Programme	✓		
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓		
1322	Disclosure of Non-conformance	✓		
	Performance Standards			
2000	Managing the Internal Audit Activity (Sum total of Standards 2010 – 2060)	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		

		GC	PC	DNC
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organisational Responsibility for Internal Audit	N/A	N/A	NA
2100	Nature of Work (Sum of Standards 2110 – 2130)	✓		
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		
2200	Engagement Planning (Sum of Standards 2201-2240)	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Programme	✓		
2300	Performing the Engagement (The sum of Standards 2300-2340)	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results (Sum of Standards 2410-2440)	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		
2421	Errors and Omissions	✓		
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	✓		
2431	Engagement Disclosure of Non-conformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Communicating the Acceptance of Risks	✓		

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 CAE report to a level within the organisation that allows the internal audit activity to fulfill its responsibilities?	<p>The HoIA has a 'dotted' reporting line to the Director of Finance, Property and IS (Section 151 Officer), Chair of the Audit Committee and External Audit. From the 1st April 2014, on a functional basis the HoIA reports to the Assistant Director of Finance. The organisational (structural) independence of the internal audit activity is therefore reduced and the emphasis and reliance is placed upon the HoIA accessing relevant senior management, the CX, Audit Committee and the External Auditor.</p> <p>Action: Independence is being achieved and managed through dual-reporting relationships, the objectivity of the individual auditor and an effective engagement process. It is therefore concluded that any perceived threat to independence is being effectively managed. However, given the infancy of the structural changes, this will be kept under review.</p> <p>The Audit Charter will need to be amended to reflect this issue.</p>	Ongoing / March 2015	HoIA & Risk Mgt.
2.	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. As per the above issue, the HoIA reports on a functional basis to the Assistant Director of Finance.</p> <p>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.</p> <p>10.05.14 Update: The issue will be discussed with the</p>	September 2014	HoIA & Risk Mgt.

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
3.	1311 – 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>Assistant Director of Finance as part of the Corporate PDR process.</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>Update 20.11.13: Refer to No. 5 above.</p> <p>Update 10.05.14: Details of the approach to be taken regarding periodic self assessments will be discussed with the Assistant Director of Finance.</p>	31st July 2014	HoIA & Risk Mgt.
4.	1312 – Quality Assurance and Improvement Programme External Assessments	<p>Has an external assessment been carried out, or is planned to be carried out, at least once every five years?</p>	<p>The intention is for a member of staff from one of the West & 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>Update 20.11.13: Refer to No. 5 above.</p> <p>Update 10.05.14: The above discussions took place on the 09.05.14. Agreed in principle, however the Section 151 Officer from each member Authority is required to confirm their agreement to the approach. The intention is for the first external assessment to be undertaken during March / April 15.</p>	31st July 2015	Senior Audit Manager
5.	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>Refer to the above.</p> <p>Update 20.11.13: Refer to No. 4 above.</p> <p>Update 10.05.14: Refer to No. 4 above.</p>	31st August 2014	HoIA & Risk Mgt.
6.	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>	31st August 2014	HoIA & Risk Mgt.

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
7.	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?	<p>Update 20.11.13: Refer to No. 4 above.</p> <p>Update 10.05.14: Refer to No. 4 above.</p> <p>The HoIA will discuss and agree the scope of the external assessment initially with the ACE, Finance, Property & Information Services.</p> <p>Update 20.11.13: Refer to No. 4 above.</p> <p>Update 10.05.14: Refer to No. 4 above.</p> <p>Refer to the above.</p> <p>Update 20.11.13: Refer to No. 4 above.</p> <p>Update 10.05.14: Refer to No. 4 above.</p>	31st August 2014	HoIA & Risk Mgt.
8.	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?	<p>Update 20.11.13: Refer to No. 4 above.</p> <p>Update 10.05.14: Refer to No. 4 above.</p>	31st March 2014	HoIA & Risk Mgt.
9.	2010 - Planning	Does the risk-based plan take into account the organisation's assurance framework?	<p>The Authority's assurance framework needs to be defined and agreed.</p> <p>Update 10.05.14: This has commenced but not yet completed.</p>	31st August 2014	HoIA & Risk Mgt.
10.	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.	<p>The Procedure Manual needs to be reviewed to address the appropriate elements and requirements of the PSIAS.</p> <p>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.</p> <p>Update 10.05.14: A review of the manual is currently being undertaken.</p>	31st August 2014	Senior Audit Manager

