

AUDIT COMMITTEE – 10TH DECEMBER 2014

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 11th June 2014.

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 Plan at Appendix 1.

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 11th June 2014. 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 in Implementation of the Actions

- 4.1 The self-assessment against the Standards resulted in an 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 1.
- 4.2 Those which remain outstanding predominantly relate to the External Assessment process. This remains the current focus in respect of completion of the outstanding actions.

5. Appendices

- 5.1 Appendix 1 - 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 11th June 2014.

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Date: 28th November 2014

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 Audit Executive report to a level within the organisation that allows the internal audit activity to fulfill its responsibilities? (For the Authority, the CAE is the Head of Internal Audit (HoIA)).	<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:</p> <p>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> <p>Update 28.11.14: Subject to ongoing monitoring. The Audit Charter will be amended in preparation for the next financial year, 2015/16.</p>	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 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>Action: The issue will be discussed with the Director of Finance.</p> <p>Update 28.11.14: Issue to be discussed with Director of Finance</p> <p>Update 24.10.14: The issue is to be discussed with the Director of Finance.</p>	31 st January 2015	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>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>Action: The issue will be discussed with the Director of Finance.</p> <p>Update 28.11.14: The issue of periodic self assessments and external assessments has been discussed with the Director of Finance on the 8.10.14. It was agreed the Director of Finance would be nominated the 'sponsor' for both the self--assessment and the external assessment. In addition, it would be appropriate to assign responsibility to one or two Audit Committee members in order to oversee and 'champion' the internal and external assessment process. Two BMBC Audit Committee Members would therefore be consulted to obtain their agreement to be assigned as 'lead' Audit Committee members in respect of the PSIAS.</p>	31 st January 2015	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>Action: 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> <p>Update 28.11.14: Refer to point 3 above.</p> <p>Action: The issue will be discussed with the Director of Finance.</p> <p>Update 28.11.14: It has been proposed that the external assessment will take the form of a peer review involving members of the West and South Yorkshire Heads of Internal Audit Group. A report has been prepared outlining the approach and Terms of Reference for the peer review which was presented for discussion and agreement to the BMBC Audit Committee meeting on the 5th November 2014.</p>	31st May 2015	Senior Audit Manager
5.	1312 – Quality Assurance and Improvement Programme External Assessments	<p>Has the HoIA considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?</p>	<p>Update 28.11.14: It has been proposed that the external assessment will take the form of a peer review involving members of the West and South Yorkshire Heads of Internal Audit Group. A report has been prepared outlining the approach and Terms of Reference for the peer review which was presented for discussion and agreement to the BMBC Audit Committee meeting on the 5th November 2014.</p>	COMPLETED	HoIA & Risk Mgt.

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
6.	1312 – Quality Assurance and Improvement Programme External Assessments	Has the HoIA discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?	Refer to point 4 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. Update 28.11.14: Refer to point 5 above.	COMPLETED	HoIA & Risk Mgt.
7.	1312 – Quality Assurance and Improvement Programme External Assessments	Has the HoIA 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 Director of Finance. Update 28.11.14: Refer to point 5 above.	COMPLETED	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?	The HoIA will discuss and agree the scope of the external assessment initially with the Director of Finance. Update 28.11.14: Refer to point 5 above.	COMPLETED	HoIA & Risk Mgt.
9.	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. Update 28.11.14: The organisation's assurance framework needs to be defined and agreed.	31st March 2015	Director of Finance, Property and IS

