



**AUDIT COMMITTEE – 10<sup>TH</sup> JUNE 2015**

**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 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 monitor 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 Quality Assurance and Improvement Programme Action Plan (Appendix 3)**

**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 1<sup>st</sup> 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 2014/15 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 internal audit. 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) The results of quality assurance audits
- (vi) A self assessment against the requirements of the PSIAS
- (vii) Any feedback from External Audit in relation to the effectiveness of the function;
- (viii) 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 external assessment is scheduled to be undertaken mid year.
- 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.
- 3.6 A full explanation of the performance of the function is included in the Head of Internal Audit's annual report on the agenda.

#### **4. Quality Assurance Improvement Programme - Actions Arising**

- 4.1 Internal Audit Procedure Manual:  
A review of the procedure manual has been undertaken. This is fit for purpose and reflects the requirements of the PSIAS.
- 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):  
A full list of the performance indicators is contained at Appendix 4. Overall, performance for this year has been generally satisfactory. The chargeable time indicator is slightly below target which was due to additional management time due to corporate requirements. In addition, additional time has been required in respect of professional training. This has not impacted upon the delivery of the

Internal Audit service to the Council. The cumulative positive in respect of the issue of final reports indicator is slightly below target due to delays in obtaining feedback and details to conclude final reports.

#### 4.4 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
<b>Auditee Feedback</b>	13	3	1	0

As described in the Internal Audit Charter & Strategy, it is a priority for the function to ensure the highest standards of service delivery to the Council and therefore the Audit Committee. As part of this it is proposed that through the regular work update meetings with Executive and Service Directors, issues of quality and the service provided by Internal Audit will be discussed. This will be as a substitute for the annual questionnaire to ensure a more relevant and timely assessment of effectiveness, quality and service across the Council.

#### 4.5 Quality Assurance Audits:

A programme of 'Independent' quality control reviews will commence in 2015/16. This will consist of a peer review by senior managers of completed audits selected by the Head of Internal Audit.

#### 4.6 Self Assessment against the Requirements of the PSIAS:

A compliance checklist summary is attached at Appendix 2 to confirm the status of Internal Audit's compliance with the PSIAS. In addition, an updated detailed action plan is attached at Appendix 3 to confirm the actions taken / to be taken with regards to areas of partial / non-compliance.

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:

- Requirements in respect of the structural independence of the Head of Internal Audit.
- Requirements of the Quality Assurance and Improvement Programme.

There is non-conformance in the areas of:

- External Assessments (but this is programmed for mid 2015).

#### 4.7 External Audit Reliance:

External Audit (currently 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 does however receive copies of core system Internal Audit reports and therefore

have the opportunity to identify any effectiveness issues. No specific issues have been raised.

4.8 A number of other improvement opportunities and priorities have been identified through the general process of reviewing the function. These are:

- Embedding the new operational structure in the Team and new management roles including a formal review
- Embed new relationships with external client senior management to ensure good communication, feedback and continuous improvement opportunities
- Review the existing and consider opportunities for a new audit management system to ensure efficiencies are maximised
- Explore and exploit opportunities to raise the profile of Internal Audit within the Council and within the external client base, including involvement in national audit groups

4.9 Progress against these additional improvement areas will be incorporated into the quarterly progress reports to the Audit Committee.

## **5. Issues Arising from the Review**

5.1 Overall the evidence from the various aspects of feedback and evaluation shows that auditees regard the function as effective.

5.2 The areas for improvement and actions predominantly relate to those arising from the implementation of the professional standards. Actions have been identified to address areas of non conformance as per Appendix 3.

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 - Public Sector Internal Audit Standards Self Assessment Checklist

Appendix 3 - Quality Assurance and Improvement Programme Action Plan

Appendix 4 - Internal Audit Performance Indicators 2014/15

## **7. Background Information**

Accounts and Audit Regulations 2011  
Public Sector Internal Audit Standards  
Feedback from Auditees

Contact Officer : Head of Internal Audit

Telephone : 01226 773241

Date : 1<sup>st</sup> June 2015

## Appendix 1

### Analysis of Auditee Feedback Received in 2014/15

		Very Good	Good	Acceptable	Poor
<b>A</b>	<b>Audit Planning</b>				
1	Relevance of the audit objectives	13	3	1	0
<b>B</b>	<b>Communication</b>				
1	Consultation on scope and objectives of the audit	13	4	0	0
2	Communication during all aspects of the audit	13	3	1	0
3	Helpfulness co-operation of the auditor(s)	16	1	0	0
4	Professionalism of the auditor(s)	16	1	0	0
5	The auditor(s) demonstrated an appreciation of any relevant issues concerning equality and diversity	9	7	0	0
<b>C</b>	<b>Timing</b>				
1	Duration of the audit	13	4	0	0
2	Timeliness of the audit report	14	3	0	0
<b>D</b>	<b>Quality of the audit report</b>				
1	Format and clarity of audit report	15	2	0	0
2	Accuracy of the findings	14	3	1	0
3	Relevance of recommendations	13	3	1	0
4	Overall quality of the report	14	3	0	0
<b>E</b>	<b>Value of the audit</b>				
1	Basic controls assurance the audit has provided	13	3	1	0
2	Added value given beyond basic controls assurance	11	5	1	0
3	Overall value of the audit	13	3	1	0
		<b>73%</b>	<b>22%</b>	<b>5%</b>	<b>0%</b>
		<b>95%</b>			
	<b>Total Number of 'ticks' (A – E)</b>	<b>200</b>	<b>48</b>	<b>7</b>	<b>0</b>
	<b>Percentage</b>	<b>78%</b>	<b>19%</b>	<b>3%</b>	<b>0%</b>
		<b>97%</b>			

#### Returned Questionnaires:-

Quarter 1	5
Quarter 2	9
Quarter 3	2
Quarter 4	1
<b>Total</b>	<b>17</b>

## Auditee Comments (where given) Received During the Year:

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I am very grateful for the assistance provided by Internal Audit in this matter, All of the suggestions have been progressed.

The Audit also helped to raise the issue of staff capacity and the additional time being required to undertake tasks due to poor IT support systems, for example the Council has purchased an EPOS Till system a year ago and the service is still waiting for IT to install it. We have been advised by IT that our service is not a priority and we have recently been subject to yet a further delay. The new system would save a considerable amount of staff time in reconciliation and in stock management.

\*\*\*\*

Met with Audit since report issued to discuss potential improvements / efficiencies to payments system. Audit input has been valuable and dialogue is ongoing.

\*\*\*\*

This audit was extremely valuable. It was a challenging task for the auditor to unpick the various working time arrangements and identify weaknesses and this was done with great attention to detail and thoroughness.

The audit findings were communicated professionally and sensitively in a way which has enabled us to identify practical steps to address deficiencies in current practices.

\*\*\*\*

Challenge of governance assurances was limited in this audit review. Internal Audit explained that this was due to the time available for the audit and the limited availability of management within the services chosen for sample testing.

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[Auditee's name]'s knowledge of systems and procedures is always a benefit, she is always considerate and the various part time working arrangements in our team and is happy to work around them accordingly.

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Really helpful that [Auditee's name] was prepared to support the group in designing the system to ensure that it is robust and addresses the issues raised in the audit.

\*\*\*\*

Very good planning at the initial meeting, however some misunderstanding prior to the meeting re purpose as ideally [Auditee's name] was more relevant person.

\*\*\*\*

I agree with the all the conclusions made by the Auditors. I would like to take this opportunity to thank the Auditor for a well organised and informative visit.

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## Public Sector Internal Audit Standards – Self Assessment Checklist

		GC	PC	DNC
	<b>Definition of Internal Auditing</b>	✓		
<b>Ref.</b>	<b>Code of Ethics</b>			
1	Integrity	✓		
2	Objectivity	✓		
3	Confidentiality	✓		
4	Competence	✓		
<b>Ref.</b>	<b>Attribute Standards</b>			
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 (The sum of Standards 1310-1320)	✓		
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	✓		
<b>Ref.</b>	<b>Performance Standards</b>			
2000	Managing the Internal Audit Activity (Sum total of Standards 2010 – 2060)	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures	✓		

		GC	PC	DNC
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)	✓		
2201	Planning Considerations	✓		
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	✓		



Appendix 3

Quality Assurance and Improvement Programme Action Plan

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
1	1110- Organizational 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, Assets and Information Services (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 Service Director - 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><b>Action:</b>  <b>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. No issues have arisen since this structural change. The Audit Charter reflects the structure.</b></p>	December 2015 (Date of next update)	HoIA
2	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 self assessments needs to be defined. This will be initially covered as part of the Internal Audit Effectiveness review presented to the June 2013 Audit Committee.</p> <p><b>Action:</b> The issue has been discussed with the Director of Finance, Assets &amp; Information Services. It has been proposed that this Officer would be nominated the 'sponsor' for both the periodic self--assessment and the external assessment. In addition, responsibility would be assigned to one or two BMBC Audit Committee Members in order to oversee and 'champion' the periodic self-assessment and external assessment processes. Two Audit Committee Members would therefore be consulted to obtain their agreement to be assigned as 'lead' Audit Committee</p>	30 <sup>th</sup> June 2015	HoIA

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
3	1312 – Quality Assurance and Improvement Programme External Assessments	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	<p><b>members in respect of the PSIAS.</b></p> <p>The intention is for a member of staff from one of the West &amp; South Yorkshire authorities to undertake the external assessment on the basis of a peer review. A terms of reference outlining the basis of the approach has been agreed by each member authority during 2014. A report was subsequently prepared and presented for discussion and agreement to the BMBC Audit Committee meeting on the 5th November 2014.</p> <p><b>Action: Further discussion is required with West and South Yorkshire colleagues in order to confirm the start date for the external assessment. A meeting is scheduled for the 12<sup>th</sup> June 2015 in order to progress the arrangements.</b></p>	30 <sup>th</sup> June 2015	Audit Manager
4	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><b>Action: The intention is that this will developed during 2015 by the Director of Finance, Assets &amp; Information Services. This will be monitored as part of work update meetings with the Director.</b></p>	30 <sup>th</sup> June 2015	HoIA / Director, Finance, Assets & IS

INTERNAL AUDIT PERFORMANCE INDICATORS FOR 2014/15

Ref.	Indicator	Frequency of Report	Target 2014/15	Actual 2014/15
<b>1.</b>	<b><u>Customer Perspective:</u></b>			
1.1	Percentage of questionnaire received noted "good" or "very good" relating to work concluding with an audit report. (4 very good, 1 good, none acceptable or poor)	Quarterly	95%	100%
1.2	Percentage of questionnaires received (noted "good" or "very good") relating to the provision of advice, investigations, support to steering groups and project boards.	Annual	95%	N/A
<b>2.</b>	<b><u>Business Process Perspective:</u></b>			
2.1	Percentage of final audit reports issued within 10 working days of completion and agreement of the draft audit report.	Quarterly	80%	77%
2.2	Percentage of chargeable time against total available.	Quarterly	73%	67%
2.3	Average number of days lost through sickness per FTE.	Quarterly	6 days	6 days
<b>3.</b>	<b><u>Continuous Improvement Perspective:</u></b>			
3.1	Personal development plans for staff completed within the prescribed timetable.	Annual	100%	100%

