

**AUDIT COMMITTEE – 20<sup>th</sup> JANUARY 2016**

**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 10<sup>th</sup> June 2015.

**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 and that this provides good assurance regarding the continuing effectiveness of the Internal Audit function.**

**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 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 10<sup>th</sup> June 2015. 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 which has been recently been completed. The

assessment was undertaken by the Head of Internal Audit from Bradford MDC. He will present his report at the March Committee.

- 4.3 As the Internal Audit function has a number of external clients, with the agreement of the Committee, it is proposed to invite representatives from client audit committees to that March meeting.

## **5. Appendices**

- 5.1 Appendix 1 - Action Plan - Internal Audit Self-Assessment against the Public Sector Internal Audit Standards.

## **6. Background Papers**

- 6.1 Annual Review of Internal Audit Effectiveness report presented to the Audit Committee on the 10<sup>th</sup> June 2015.

**Contact Officer: Head of Internal Audit**

**Telephone: 01226 773241**

**Date: 8<sup>th</sup> January 2016**

## Quality Assurance and Improvement Programme Action Plan

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, 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> 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.</p> <p>No further action is necessary other than monitoring this position.</p>	Now completed	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.</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 members in respect of the PSIAS.</p>	31 <sup>st</sup> March 2016	HoIA

No.	Code Ref.	Standard	Response / Comment	Date to Be Actioned	Responsible Officer
			<b>This is to be considered as part of the review of the terms of reference currently being considered by the Committee.</b>		
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>A member of staff from one of the West &amp; South Yorkshire authorities will undertake the external assessment on the basis of a peer review. A terms of reference outlining the basis of the approach was agreed by each member authority during 2014. A report outlining the approach was subsequently prepared and presented for discussion and agreement to the BMBC Audit Committee meeting on the 5th November 2014.</p> <p><b>Action: The Head of Internal Audit from Bradford City Council has just completed his assessment. His draft report is to be considered in the next few weeks with the report being presented to the March Committee.</b></p>	March 2016	HoIA
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: This is currently being developed by the Director of Finance, Assets &amp; Information Services with involvement by Internal Audit.</b></p>	31 <sup>st</sup> March 2016	HoIA / Director, Finance, Assets & IS