

AUDIT COMMITTEE

26 June 2014

EFFECTIVENESS OF INTERNAL AUDIT REPORT 2013 - 14

REPORT OF THE HEAD OF SOUTHERN INTERNAL AUDIT PARTNERSHIP

Contact Officer: Neil Pitman Tel No: 01962 845139 Email:
neil.pitman@hants.gov.uk

RECENT REFERENCES:

AUD064 – Public Sector Internal Audit Standards - Internal Audit Charter

EXECUTIVE SUMMARY:

Under the Accounts and Audit (England) Regulations 2011 Winchester City Council is required, at least once a year, 'to conduct a review of the effectiveness of its internal audit'. The purpose of this paper is to provide the Audit Committee with an overview of the measures currently in place to monitor and maintain internal audit effectiveness, taking cognisance of the Public Sector Internal Audit Standards and the Local Government Application Note.

RECOMMENDATION:

That the Audit Committee:

- Note the review conducted in assessing the 'Effectiveness of Internal Audit'; and
- Endorse the action plan generated from the assessment against the Public Sector Internal Audit Standards.

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DETAIL:

1 Introduction

- 1.1 Under the Accounts and Audit (England) Regulations 2011 Winchester City Council is required, at least once a year, 'to conduct a review of the effectiveness of its internal audit'. The purpose of this paper is to provide the Audit Committee with an overview of the measures currently in place to monitor and maintain internal audit effectiveness, taking cognisance of the Public Sector Internal Audit Standards and the Local Government Application Note.

2 Contextual information

- 2.1 The Accounts and Audit (England) Regulations 2011 - S6 states:

'(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

'(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.'

- 2.2 With affect from 1 April 2013 the 'Public Sector Internal Audit Standards' and the 'Local Government Application Note' together are recognised as 'proper practices'.
- 2.3 There is no prescriptive guidance to conducting the effectiveness review, however, the Public Sector Internal Audit Standards require the Head of the Southern Internal Audit Partnership (Chief Internal Auditor) to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit service and includes provision for both internal and external assessment.
- 2.4 To ensure effective use of resource, the requirements and subsequent outputs from internal / external assessments required within the Standards have been used to underpin the report on the 'Effectiveness of Internal Audit' as prescribed in the Accounts and Audit (England) Regulations 2011.

3 Quality Assurance and Improvement Programme (QAIP)

3.1 The QAIP through its interpretation in the Public Sector Internal Audit Standards is:

'a quality assurance and improvement programme designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement'

3.2 The QAIP must make provision for both internal and external assessments of the audit service.

4 Internal assessments

4.1 Internal assessments must include:

- On-going monitoring of the performance of the internal audit activity; and
- Periodic self assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices (sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework).

On-going Monitoring

4.2 The Head of the Southern Internal Audit Partnership has established procedures to guide internal audit staff in performing their duties to ensure they conform to the Public Sector Internal Audit Standards. This is demonstrated through the maintenance of key policies and procedures that are regularly reviewed and updated to reflect changes in working practices and standards, underpinned by an audit management software system providing consistency and common principles in the conduct of audit reviews.

4.3 In order to ensure that work is carried out to an appropriate level and quality, the Head of the Southern Internal Audit Partnership ensures that audit work is allocated to staff with the appropriate skills, experience and competence.

4.4 The Head of the Southern Internal Audit Partnership also ensures that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff.

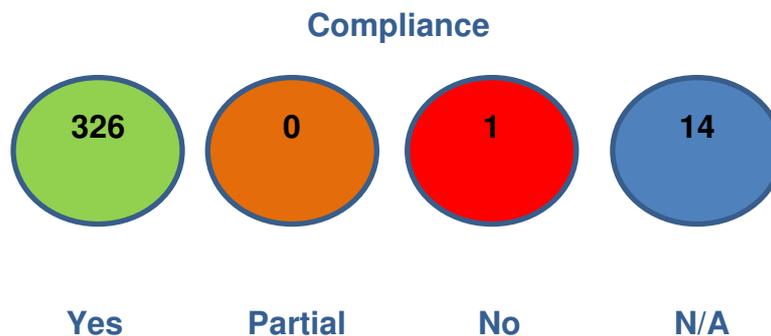
- 4.5 The Southern Internal Audit Partnership operates a quality system (ISO 9001:2008) which covers all our audit reviews including irregularity reviews. Compliance against our quality processes are regularly assessed by an external/independent accreditor from the British Standards Institution (BSI).
- 4.6 On-going performance monitoring also incorporates:
- A set of targets to measure performance, developed in consultation with appropriate parties. Such measures are monitored and regularly reported through quarterly progress reports to 'senior management' and 'the board'.
 - Stakeholder feedback in the form of Quality Appraisal Questionnaires; and
 - An action plan to implement improvements (QAIP).

5 Internal Self Assessment 2013-14

- 5.1 For 2013/14 a self-assessment against the Public Sector Internal Audit Standards has been undertaken.
- 5.2 The 'Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards' provides a checklist that has been developed to enable periodic self-assessment as part of the Quality Assurance and Improvement Programme. It is this checklist that has been used as the basis of the 2013-14 self-assessment review.
- 5.3 In compiling the self-assessment, the Head of the Southern Internal Audit Partnership undertook an initial evaluation of the audit service against the checklist, and compiled documentary evidence to verify compliance.
- 5.4 To provide independent scrutiny the Deputy Monitoring Officer at Hampshire County Council then considered the Standards for compliance against the self assessment and supporting documentation, concluding:

'I am satisfied that this is an accurate assessment of the internal audit function'.

- 5.5 The summary of the self-assessment against the 341 Standards highlights



- 5.6 In areas where the Southern Internal Audit Partnership do not meet 'the Standards' an action plan has been compiled to explain non-conformance or stimulate improvement (Appendix 2).

6 External Assessments

- 6.1 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation.
- 6.2 The Head of the Southern Internal Audit Partnership must agree with the sponsor (the S151 or Chair of the Board):
- The form of external assessments;
 - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

7 Form of External Quality Assessment (EQA)

- 7.1 External assessment can be in the form of a full external assessment or a self-assessment with external validation.

Full External Assessment

- 7.2 A full EQA incorporates surveys and interviews with the Head of the Southern Internal Audit Partnership, internal audit staff, customers and stakeholders. This is supported by examination of the internal audit approach and methodology leading to the completion of an independent report.

Validated self-assessment

- 7.3 An initial self-assessment is carried out by the Head of Southern Internal Audit Partnership. The external assessment team will review / validate evidence produced and conduct interviews with internal audit staff, senior management and the chair of the board.

7.4 A validation report will be appended to the Head of the Southern Internal Audit Partnership's self-assessment.

8 Qualification and Independence of the External Assessor

8.1 A qualified assessor or assessment team must demonstrate competence in two areas:

- the professional practice of internal auditing; and
- the external assessment process.

8.2 Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience.

8.3 An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

8.4 The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form, timing and scope of the external assessment in September 2014.

OTHER CONSIDERATIONS:

9 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

9.1 The Internal Audit work supports the Council's strategies and change plans.

10 RESOURCE IMPLICATIONS:

10.1 None directly from this report.

11 RISK MANAGEMENT ISSUES

11.1 The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

BACKGROUND DOCUMENTS:

None

APPENDICES:

Appendix 1 – Summary of Compliance against the Public Sector Internal Audit Standards

Appendix 2 - Compliance against the Public Sector Internal Audit Standards / Local Government Application Note - Action Plan

Summary of Compliance against the Public Sector Internal Audit Standards

Section	Standard	Compliant				Total
		Yes	Partial	No	N/A	
1	Definition of Internal Auditing	3	-	-	-	3
2	Code of Ethics	13	-	-	-	13
3	Attribute Standards					
3.1	Purpose, Authority and Responsibility	23	-	-	-	23
3.2	Independence and Objectivity	30	-	1	3	34
3.3	Proficiency and Due Professional Care	21	-	-	-	21
3.4	Quality Assurance and Improvement Programme	20	-	-	7	27
4	Performance Standards					
4.1	Managing the Internal Audit Activity	46	-	-	1	47
4.2	Nature of Work	31	-	-	-	31
4.3	Engagement Planning	58	-	-	-	58
4.4	Performing the Engagement	23	-	-	-	23
4.5	Communicating Results	52	-	-	3	55
4.6	Monitoring Progress	4	-	-	-	4
4.7	Communicating the Acceptance of Risks	2	-	-	-	2
Total		326	-	1	14	341

Compliance against the Public Sector Internal Audit Standards / Local Government Application Note

Public Sector Internal Auditing Standards – No Compliance – Action plan

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Does the board: e) approve decisions relating to the appointment and removal of the CAE	No	Such actions are not constitutionally permissible to be undertaken by 'the board' (Local Authorities (Standing Orders) (England)Regulations 2001)	-	-	-

Public Sector Internal Auditing Standards - Action Plan – Not Applicable

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain	-	-	-
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-
3.4 - Quality Assurance and Improvement Programme					
Has the CAE considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
		March 2018.			
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?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014
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?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014
Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.	Head of Southern Internal Audit Partnership	September 2014
Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new.	The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the	Head of Southern Internal Audit	September 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<p>process?</p> <p>Competence can be determined in the following ways:</p> <p>a) experience gained in organisations of similar size</p> <p>b) complexity</p> <p>c) sector (ie the public sector)</p> <p>d) industry (ie local government), and</p> <p>e) technical experience.</p> <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>		<p>The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>options, form timing and scope of the external assessment.</p>	<p>Partnership</p>	
<p>How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?</p>	<p>N/A</p>	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.</p>	<p>Head of Southern Internal Audit Partnership</p>	<p>September 2014</p>
<p>Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity</p>	<p>N/A</p>	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed</p>	<p>The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form timing and scope of the external assessment.</p>	<p>Head of Southern Internal Audit Partnership</p>	<p>September 2014</p>

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
belongs.		an external assessment until 31 March 2018.			
4.1 - Managing the Internal Audit Activity					
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	Internal audit is not provided by an external service provider.	-	-	-
4.5 - Communicating Results					
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 <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
b) The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-

