

Meeting:	Audit & Governance Committee	Date:	01 July 2015
Subject:	Review of Effectiveness of Internal Audit (2014-15)		
Report Of:	Head of Finance		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Jon Topping, Head of Finance		
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Appendices:	1. Review of Effectiveness of Internal Audit 2014-15 2. Table of Non/Partial Conformance to the PSIAS		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the outcome of the review of the effectiveness of Internal Audit as required under the Accounts & Audit (England) Regulations 2011.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RESOLVE** that the review process be approved and note the outcome of the review of the effectiveness of Internal Audit.

3.0 Background and Key Issues

- 3.1 The Accounts and Audit (England) Regulations 2011 includes the requirement for authorities to review the effectiveness of its internal audit once a year. The Regulations further state that the findings of this review should be considered in a wider review of the Council's effectiveness of its system of internal control prior to the approval of the Annual Governance Statement.
- 3.2 The Department for Communities and Local Government (DCLG) has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of the review.
- 3.3 Guidance issued by the IPF Finance Advisory Network (FAN) on how the review might be undertaken suggests that the Head of Internal Audit could carry out a self-assessment and that following the completion of this self-assessment, this would then have to be independently reviewed before being submitted to the audit committee. The outcome of the self-assessment carried out by the Audit, Risk & Assurance Manager is detailed in Appendix 1, and this has been reviewed by the Head of Finance.

4.0 Alternative Options Considered

- 4.1 The option not to carry out an assessment was considered, however this was discounted as it would not be in accordance with the Accounts & Audit Regulations.

5.0 Reasons for Recommendations

- 5.1 The Accounts and Audit (England) Regulations 2011 includes the requirement for authorities to review the effectiveness of its internal audit once a year. Guidance issued by the IPF FAN suggests that, following the completion of the self-assessment, this would then have to be independently reviewed before being submitted to the audit committee.

6.0 Future Work and Conclusions

- 6.1 The Accounts & Audit Regulations 2015, which came into effect on 1st April 2015, does not include the requirement for the Council to review the effectiveness of its internal audit once a year. However, the new regulations includes the requirement for the Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance'. These standards are known as the PSIAS.
- 6.2 The PSIAS include a requirement for the Audit, Risk & Assurance Manager to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit activity to be assessed against the PSIAS for conformance.
- 6.3 The PSIAS also state that a QAIP must include both internal and external assessments. Internal assessments should be both ongoing and periodical and external assessments must be undertaken at least once every five years. Whilst an internal assessment will continue to be carried out on an annual basis, the arrangements for the external assessment have still to be agreed.
- 6.4 The overall conclusion is that internal audit at the Council is effective. Although the self-assessment has identified a number of 'gaps' in conformance with the PSIAS (detailed at Appendix B), these do not materially effect the reliance the Council can place on the Audit, Risk & Assurance Manager's opinion on the adequacy of the control environment.

7.0 Financial Implications

- 7.1 None specific to the recommendation made in this report.

(Financial Services have been consulted in the preparation this report.)

8.0 Legal Implications

- 8.1 As noted in paragraphs 3.1 and 5.1 the Accounts & Audit (England) Regulations 2011 contain a requirement for the Council to review the effectiveness of its internal audit. The relevant provision is contained in Regulation 6.

- 8.2 The findings of the review must be considered by the Committee as part of a wider review of the Council's system of internal control which, under Regulation 4(2), must be conducted at least once a year. Following conclusion of that wider review the Committee should approve an annual governance statement.
- 8.3 As noted in paragraph 6.1 the Accounts & Audit Regulations 2015, came into effect on 1st April 2015. However, they explicitly state that the 2011 Regulations continue to have effect in financial years ending on or before 31st March 2015.

(One Legal have been consulted in the preparation this report.)

9.0 Risk & Opportunity Management Implications

- 9.1 In essence, the need for the review is to ensure that the opinion on the adequacy of the control environment, contained in the annual report of the Audit, Risk & Assurance Manager, may be relied upon as a key source of evidence in the Annual Governance Statement. The focus of this self-assessment has been on the delivery of the internal audit service to the required standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the authority.

10.0 People Impact Assessment (PIA):

- 10.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.
- 10.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

- 11.1 There are no community safety implications arising out of this report.

Sustainability

- 11.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

- 11.3 There are no staffing and trade union implications arising out of this report.

Background Documents: Accounts & Audit (England) Regulations 2011
Accounts & Audit (England) Regulations 2015
Public Sector Internal Audit Standards (PSIAS)
Local Government Application Note for the UK PSIAS –
CIPFA 2013

Report to Head of Finance

Review of Effectiveness of Internal Audit – 2014/15

1.0 Background

- 1.1 The Accounts and Audit (England) Regulations 2011 include the requirement for authorities to conduct a review of the effectiveness of internal audit, at least once a year.
- 1.2 The Department for Communities and Local Government (DCLG) has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of this review.
- 1.3 Guidance issued by the IPF Finance Advisory Network (FAN) on how the review might be undertaken suggests that the Head of Internal Audit could carry out a self-assessment and that following the completion of this self-assessment, this would then have to be independently reviewed before being submitted to the audit committee. The outcome of the self-assessment carried out by the Audit, Risk & Assurance Manager is detailed in Appendix 1.

2.0 Results of the Review

2.1 Definition of 'Effectiveness'

For the purposes of this review, the effectiveness of internal audit has been taken to mean 'an assurance function that provides an independent and objective opinion to the organisation on the control environment'.

2.2 Internal Audit

Two authorities, Gloucester City Council (GCC) and Stroud District Council (SDC), formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The provision of the internal audit service at GCC is by a team consisting of 4 staff (including one vacancy) which includes the Audit, Risk & Assurance Manager.

The mission statement of the service, as identified in the Business Plan, is 'to provide an efficient cost effective Audit & Assurance service which gives a professional, independent and objective opinion on the adequacy and effectiveness of the council's control environment comprising risk management, internal control, and, governance'.

2.3 Public Sector Internal Audit Standards (PSIAS)

The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced. These Standards are intended to promote further improvement in the professionalism, quality, consistency, and, effectiveness of internal audit across the public sector. The Chartered Institute of Public Finance

and Accountancy (CIPFA) has produced a Local Government Application Note to provide guidance to local authorities on how to apply the new Standards.

One of the specific requirements of the Accounts & Audit Regulations 2011 is that 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*'. CIPFA have advised that 'proper practices' for UK local government is the PSIAS plus the Local Government Application Note. Therefore the content of both these documents must be followed in order to satisfy proper internal audit practices. The Local Government Application Note includes a checklist which is useful for assessing conformance with the PSIAS and therefore informing the review of the effectiveness of internal audit.

A table identifying the areas of partial/non conformance with the Standards is included at Appendix 2.

2.4 Key Performance Indicators for Internal Audit

The PSIAS state that performance monitoring should include performance targets.

- a) One of the performance measures in place which is regularly reported to Members as part of the Internal Audit Plan Monitoring Report is the percentage completion of the Annual Plan.

The results for 2014/15, and the preceding two years, are shown below:-

Indicator	Target	Performance 2012-13	Performance 2013-14	Performance 2014-15
% of Audit Plan Completed	Min 90%	86% (Revised Plan)	88%	90% (Revised Plan)

- b) In previous years, benchmarking data relating to the cost of providing the internal audit service has been obtained from the CIPFA Benchmarking Club. During 2014-15, a decision was made not to participate in the Benchmarking Club therefore no detailed benchmarking data is available. However, as part of the business case that has been developed for the new internal audit shared service with Glos. County Council and Stroud District Council, some benchmark costs were obtained for comparison and it was established that the new shared service would benchmark in the bottom quartile.

- c) Customer Feedback

At the completion of an audit, the auditee is asked to complete a questionnaire giving their views (on a scale of 1-4:- 1 = Poor; 2 = Fair; 3 = Good; 4 = Very Good) on the audit. This is in accordance with PSIAS which states that performance monitoring should include stakeholder feedback.

Although there is anecdotal evidence that a 'good' service is being provided, as at the end of March 2015, none of the effectiveness survey forms that were sent out had been completed and returned. Due to this lack of response, a revised

method of obtaining feedback is to be introduced during 2015/16. This should make the task of providing feedback a simpler process, which, together with some support from SMT, should hopefully increase the level of feedback.

2.5 External Audit

The Audit & Assurance team have a Joint Working Protocol with the Council's External Auditors. Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the Joint Working Protocol is for External Audit to place a high degree of reliance on the work of the Internal Audit team. This will help inform their judgement on the Council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

The following comments have been received from the Council's External Auditor KPMG:-:

'Based on the files reviewed, KPMG did not identify any significant issues with Internal Audit's work and considered that Internal Audit's files contained appropriate evidence to support the conclusions reached and clear evidence of management review of work completed.'

3.0 Conclusions

In essence, the need for the review is to ensure that the opinion on the adequacy of the control environment, contained in the annual report of the Audit, Risk & Assurance Manager, may be relied upon as a key source of evidence in the Annual Governance Statement. The focus of this self-assessment has been on the delivery of the internal audit service to the required standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the authority.

The overall conclusion is that internal audit at Gloucester City Council is effective. Although this self-assessment has identified a number of 'gaps' in conformance with the PSIAS (detailed at appendix B), it is the author's view that these do not materially effect the reliance the Council can place on the Audit, Risk & Assurance Manager's opinion on the adequacy of the control environment.

Terry Rodway
Audit, Risk & Assurance Manager
18th May 2015

Table of Non/Partial Conformance to the PSIAS

The following narrative provides a commentary on those areas where it has been assessed that the Audit & Assurance service does not fully conform to the PSIAS.

Non-Conformance

Standard	Conformance to the Standard	Evidence	Action	Date
1110 – Organisational Independence	<p>The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:</p> <ul style="list-style-type: none"> - The Audit & Governance Committee approves the internal audit budget and resource plan. - The Audit & Governance Committee approves decisions relating to the appointment and removal of the Audit, Risk & Assurance Manager. - The chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Audit, Risk & Assurance Manager. - Feedback is sought from the chair of the Audit & Governance Committee for the Audit, Risk & Assurance Manager's performance appraisal. 	Recognised as non-conformance items – reported to Audit & Governance Committee 23/09/13.	<i>Accepted by Audit & Governance Committee and Head of Finance (s151 Officer).</i>	N/A

Standard	Conformance to the Standard	Evidence	Action	Date
1312 – External Assessments	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	Whilst the requirement to carry out an external assessment is known, this has not been carried out or planned to be carried out.	<i>Discuss and agree with the Head of Finance (s151 Officer) and the Chair of Audit & Governance Committee the scope and timetable for the external review.</i>	<i>By 31/03/16</i>
2500 – Monitoring Progress	Where issues have been identified during the follow-up process, has the CAE considered revising the internal audit opinion?	A revised internal audit opinion is not produced.	<i>The AR&AM to consult further on this. Standard to obtain details of best practice.</i>	<i>By 30/09/15</i>

Partial Conformance

Standard	Conformance to the Standard	Evidence	Action	Date
1 - Definition of IA	Is the internal audit activity independent?	Audit, Risk & Assurance Manager also has responsibility for risk management.	<i>Accepted by Head of Finance (s151 Officer). Internal audit of risk management arrangements sourced externally.</i>	<i>N/A</i>
1000 – Purpose, Authority & Responsibility	Does the Internal Audit Charter establish the responsibility of the Audit & Governance Committee and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?	IA Charter refers to the role of the CFO, (Head of Finance s151 Officer)), and Monitoring Officer (Para 8.2) – Head of Paid Service not specifically referred to.	<i>To be included as part of the review of the Internal Audit Charter by the Audit, Risk & Assurance Manager.</i>	<i>By 31/12/15</i>
1130 – Impairment to Independence or Objectivity	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	Wherever possible, however, scope for rotation is limited within a small internal audit team.	<i>Accepted by Head of Finance (s151 Officer).</i>	<i>N/A</i>

Standard	Conformance to the Standard	Evidence	Action	Date
1300 – Quality Assurance and Improvement Programme	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	The main elements of a QAIP are in place e.g. ongoing performance monitoring; periodic assessment, however the 'Programme' has not been formally documented.	<i>Produce a formal Quality Assurance and Improvement Programme. This will be undertaken as part of the new Internal Audit shared service with Glos. County Council and Stroud District Council.</i>	<i>By 31/3/16</i>
1310 – Requirements of the Quality Assurance and Improvement Programme	Does the QAIP include both internal and external assessments?	The internal assessment is carried out on an annual basis as per the requirements of the Accounts & Audit Regs 2011. Whilst the requirement for an external assessment is recognised, the timing of the review is still to be agreed.	<i>Discuss with the Head of Finance (s151 Officer) and the Chair of Audit & Governance Committee the scope and timetable for the external review.</i>	<i>By 31/3/16</i>
1311 – Internal Assessments	Does ongoing performance monitoring include comprehensive performance targets?	The performance targets in place relate to the number of days to complete an individual audit (individual – based on audit budget) and target % completion of the annual plan (team). Limited cost comparison carried out during 2014/15. Nil response rate to Effectiveness Surveys during 2014/15.	<i>Discuss with Head of Finance (s151 Officer) the future potential use of the CIPFA Benchmarking Club. A revised method of inviting stakeholder feedback is to be introduced during 2015/16.</i>	<i>By 30/09/15</i>

Standard	Conformance to the Standard	Evidence	Action	Date
1320 – Reporting on the Quality Assurance and Improvement Programme	Has the CAE reported the results of the QAIP to senior management and the board? Note that:- (a) The results of both external and periodic internal assessment must be communicated upon completion.	The results of the periodic internal assessment are reported to SMT and Audit & Governance Cttee. Whilst the requirement for an external assessment is recognised, the timing of the review is still to be agreed.	<i>Discuss with the Head of Finance (s151 Officer) and the Chair of Audit & Governance Committee the scope and timetable for the external review.</i>	<i>By 31/3/16</i>
2010 - Planning	Does the risk based plan take into account the organisation's assurance framework?	No formal assurance mapping framework in place. Assurance arrangements in place identified via 'local knowledge' of the organisation.	<i>This issue will be discussed at the officer Corporate Governance Group to determine the extent of the work required.</i>	<i>By 31/12/15</i>
2040 – Policies and Procedures	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	The Internal Audit Charter is the main policy that guides audit procedure. This was last updated as at Sept 13. Other policies and procedures (e.g. audit manual; standard working papers; standard report template) are in place, however some are either out of date or are inconsistent between audit sites.	<i>This will be undertaken as part of the new Internal Audit shared service with Glos. County Council and Stroud District Council.</i>	<i>Complete review by 31/03/16</i>