

Report to	-	Audit and Standards Committee
Date	-	26 March 2018
Report of the	-	Executive Director of Resources
Subject	-	Review of Internal Audit 2017/18

Recommendation: It be **RESOLVED:** That the Review of Internal Audit 2017/18 be approved.

Audit Manager: Gary Angell

Introduction

1. The Council's Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards. These Standards require the Audit Manager to undertake periodic self-assessments of the effectiveness of Internal Audit but they do not specify how frequently these reviews should take place. The Audit Manager considers it beneficial for annual reviews to be carried out, and for Members to receive the findings, prior to 31 March each year so that reliance can be placed on the effectiveness of Internal Audit when reviewing the Annual Governance Statement.

Quality Assurance and Improvement Programme

2. The Public Sector Internal Audit Standards (hereafter referred to as 'the Standards') aim to achieve consistent industry standards for Internal Audit. The Standards also require the Audit Manager to develop and maintain a Quality Assurance and Improvement Programme that covers all aspects of the Internal Audit activity. This includes both internal and external assessments.
3. Periodic internal assessments are necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and Attribute and Performance Standards. The Audit Manager therefore carries out an annual self-assessment review of the Internal Audit function in order to meet this requirement and uses a comprehensive checklist to ensure that all aspects of the Standards are covered. Given the length of this document, the results of the review have been summarised for this report but the detailed checklist is also available to view upon request. The Summary Compliance Checklist can be found at Appendix A.
4. Internal Audit teams are expected to comply with the Standards as far as possible and where compliance is not possible, to explain why. The level of compliance with each aspect of the Standards is indicated in the checklist by a tick in the relevant column; **Y** (Yes - Compliant), **P** (Partial Compliance) or **N** (Not Compliant). Where an item on the checklist is not compliant or only partially compliant, there is an explanatory comment and, where further work is required, there is a corresponding item in the Action Plan for 2018/19 (shown at Appendix B).

5. Any material non-compliance with the Standards would need to be highlighted in the Annual Governance Statement but no such issues were found.
6. Members will recall that an external peer review was also carried out earlier in the year and the results were reported to the Audit and Standards Committee on 26 June 2017 (Minute AS17/14 refers). No significant issues were found and the Assessment Team concluded that “the Internal Audit Service of Rother District Council generally conforms with the Public Sector Internal Audit Standards (PSIAS) and general good practice for the profession”.
7. A progress update on the Action Plan from last year's review (plus recommendations made at the external peer review) is provided in Appendix C. This shows that most of the points raised have either been completed or are on target for completion by 31 March 2018. The three remaining items are all low priority issues. Two of these have been carried forward into the Action Plan for 2018/19, but there are currently no plans to pursue the third item. This is because the external peer review did not highlight the need for a specific Ethics Audit and any significant governance issues would be highlighted in other audit work.

Conclusion

8. In summary, no new issues have come out of the latest internal assessment and there are only two action points which will need to be carried forward to 2018/19.
9. The results of this assessment, and the earlier peer review, therefore demonstrate the Internal Audit Service continues to achieve a good level of compliance with the Standards and none of the areas of partial compliance are significant in nature. On this basis, the Audit Manager concludes that **there is a high level of effectiveness overall.**
10. The Section 151 Officer and Monitoring Officer support the conclusion.

Malcolm Johnston
Executive Director of Resources

Risk Assessment Statement

A strong, independent and well supported Internal Audit function ensures that the Council does not suffer from poor internal control systems.

Review of Internal Audit 2017/18 – Summary Compliance Checklist

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
1.0	Definition of Internal Auditing				
1.1	Using evidence gained from assessing conformance with other Standards, is the Internal Audit activity:				
	a) Independent?	✓			
	b) Objective?	✓			
1.2	Using evidence gained from assessing conformance with other Standards, does the Internal Audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓			
2.0	Code of Ethics				
2.1	Integrity Using evidence gained from assessing conformance with other Standards, do Internal Auditors:				
	a) Perform their work with honesty, diligence and responsibility?	✓			
	b) Observe the law and make disclosures expected by the law and the profession?	✓			
	c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of Internal Auditing or to the organisation?	✓			
	d) Respect and contribute to the legitimate and ethical objectives of the organisation?	✓			
2.2	Objectivity Using evidence gained from assessing conformance with other Standards, do Internal Auditors display objectivity by not:				
	a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?	✓			
	b) Accepting anything that may impair or be presumed to impair their professional judgement?	✓			
	c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?	✓			

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
2.3	Confidentiality Using evidence gained from assessing conformance with other Standards, do Internal Auditors display confidentiality by: <ul style="list-style-type: none"> a) Acting prudently when using information acquired in the course of their duties and protecting information? 	✓			
	<ul style="list-style-type: none"> b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation? 	✓			
2.4	Competency Using evidence gained from assessing conformance with other Standards, do Internal Auditors display competency by: <ul style="list-style-type: none"> a) Only carrying out services for which they have the necessary knowledge, skills and experience? 	✓			
	<ul style="list-style-type: none"> b) Performing services in accordance with the Standards? 	✓			
	<ul style="list-style-type: none"> c) Continually improving their proficiency and effectiveness and quality of their services, for example through Continuing Professional Development schemes? 	✓			
	Standards				
3.0	Attribute Standards				
3.1	1000 Purpose, Authority and Responsibility	✓			
3.2	1100 Independence and Objectivity	✓			
3.2.1	1110 Organisational Independence	✓			
3.2.2	1111 Direct Interaction with the Board	✓			
3.2.3	1120 Individual Objectivity	✓			
3.2.4	1130 Impairment to Independence or Objectivity	✓			This situation has not arisen in 2017/18.
3.3	1200 Proficiency and Due Professional Care	✓			
3.3.1	1210 Proficiency	✓			
3.3.2	1220 Due Professional Care	✓			
3.3.3	1230 Continuing Professional Development	✓			

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
3.4	1300 Quality Assurance and Improvement Programme (QAIP)	✓			
3.4.1	1310 Requirements of the Quality Assurance and Improvement Programme	✓			
3.4.2	1311 Internal Assessments	✓			
3.4.3	1312 External Assessments	✓			Peer Review – Completed April 2017
3.4.4	1320 Reporting on the Quality Assurance and Improvement Programme	✓			
3.4.5	1321 Use of “Conforms with the Public Sector Internal Audit Standards”	✓			
3.4.6	1322 Disclosure of Non-conformance	✓			This situation has not arisen in 2017/18.
Part 4	Performance Standards				
4.1	2000 Managing the Internal Audit Activity	✓			
4.1.1	2010 Planning	✓			
4.1.2	2020 Communication and Approval	✓			
4.1.3	2030 Resource Management	✓			
4.1.4	2040 Policies and Procedures	✓			
4.1.5	2050 Coordination		✓		(1) The peer review recommended that an assurance mapping exercise is carried out. (2) Coordination with External Audit but no meetings with BDO manager since August 2017 owing to further personnel changes in BDO.
4.1.6	2060 Reporting to Senior Management and the Board	✓			
4.1.7	2070 External Service Provider and Organisational Responsibility for Internal Auditing	-	-	-	N/A - Service provided by in-house team.
4.2	2100 Nature of Work	✓			
4.2.1	2110 Governance		✓		Internal Audit has never specifically evaluated the design, implementation and effectiveness of the Council's ethics-related objectives, programmes and activities but any significant governance issues would be highlighted in other audit work.
4.2.2	2120 Risk Management	✓			
4.2.3	2130 Control	✓			

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
4.3	2200 Engagement Planning	✓			
4.3.1	2210 Engagement Objectives	✓			
4.3.2	2220 Engagement Scope	✓			
4.3.3	2230 Engagement Resource Allocation	✓			
4.3.4	2240 Engagement Work Programme	✓			
4.4	2300 Performing the Engagement	✓			
4.4.1	2310 Identifying Information	✓			
4.4.2	2320 Analysis and Evaluation	✓			
4.4.3	2330 Documenting Information	✓			
4.4.4	2340 Engagement Supervision	✓			
4.5	2400 Communicating Results	✓			
4.5.1	2410 Criteria for Communicating	✓			
4.5.2	2420 Quality of Communications	✓			
4.5.3	2421 Errors and Omissions	✓			
4.5.4	2430 Use of “Conducted in Conformance with the Public Sector Internal Audit Standards”	✓			Conformance with the Standards is not something that is stated in individual audit reports but overall conformance with the Standards is confirmed each year in the Audit Manager’s annual report.
4.5.5	2431 Engagement Disclosure of Non-conformance	✓			
4.5.6	2440 Disseminating Results	✓			
4.5.7	2450 Overall Opinion		✓		Possibly needs to include assurance from other providers – see <i>Section 4.1.5</i> .
4.6	2500 Monitoring Progress	✓			
4.7	2600 Communicating Results	✓			

Key to level of compliance: **Y** (Yes - Compliant), **P** (Partial Compliance) or **N** (Not Compliant)

Quality Assurance and Improvement Programme

Action Plan for 2018/19

Reference	Standard	Action	Officer Responsible For Delivery	Due Date
4.1.5	2050	Carry out an assurance mapping exercise.	Audit Manager	31 March 2019
		Establish quarterly meetings with the new External Auditor (Grant Thornton).	Audit Manager	30 September 2018

Quality Assurance and Improvement Programme

Part 1 – Previous Year's Action Plan (2017/18) – Progress Update

Reference	Standard	Action Required	Officer Responsible For Delivery	Target Date	Progress
3.4.3	1312	Report the results of Rother Internal Audit's first external peer review to the Audit and Standards Committee.	Audit Manager	26 June 2017	Complete – The peer review report was issued in April 2017 and the results reported to the Audit and Standards Committee on 26 June 2017.
4.1.5	2050	Carry out an assurance mapping exercise if the external peer review recommends that a more detailed assurance map is required.	Audit Manager	31 March 2018	In Progress – The Annual Governance Statement prepared by the Service Manager (Finance & Welfare) already includes a diagram showing the main sources of internal and external assurance that form part of the Annual Governance Framework. However, the peer review recommended that a more detailed assurance mapping exercise is carried out.
		Reinstate quarterly meetings with External Audit once Rother's new BDO manager is confirmed.	Audit Manager	30 June 2017	In Progress – Contact was made with the new BDO manager but only one meeting has so far been held owing to further personnel changes in BDO.
4.2.1	2110	Review the scope of the proposed Ethics Audit in light of the outcomes of the external and corporate peer reviews and then, if still required, carry out an initial desktop review of the adequacy of the framework of policies and procedures governing ethical standards at the Council.	Audit Manager	31 March 2018	Withdrawn – Neither the external peer review of Internal Audit nor the more recent LGA peer challenge review highlighted any concerns about ethics. No further action is therefore proposed at the present time.

Quality Assurance and Improvement Programme

Part 2 – Additional Actions Required as a Result of the External Peer Review – Progress Update on Items Outstanding as at June 2017

Recommendation		Action Required	Officer Responsible For Delivery	Target Date	Progress
D	Council senior management should be requested to agree an appropriate statement of risk appetite for inclusion in the Council's risk management strategy.	Consideration will be given to defining the Council's risk appetite and this point will be discussed at SMT to determine the best way forward.	Executive Director of Resources	31 March 2018	On Target for Completion – The Executive Director of Resources stated that he is aware that this item is still outstanding and confirmed that he still plans to discuss the matter at SMT by the due date.
E	Consideration should be given to assessing the risks that the audit service itself faces and communicating these to the Audit and Standards Committee – possibly through inclusion in the annual audit report.	A risk assessment of the Internal Audit Service's own risks will be carried out and the findings will be reported to the Audit and Standards Committee if relevant.	Audit Manager	31 March 2018	On Target for Completion – The Audit Manager will be carrying out this assessment before the end of the month. Should any significant issues be found, these will be reported to the Audit & Standards Committee in June 2018.
F	The Action Plan from the annual review has identified the need for an assurance mapping exercise to be performed to determine the Internal Audit approach to using other sources of assurance.	This action point has already been identified by the Audit Manager as part of his own annual assessment. An assurance map will be produced in 2017/18.	Audit Manager	31 March 2018	Withdrawn – This point is covered above in Action Plan for 2017/18. The peer review recommendation will be removed from next year's action plan to avoid duplication.
J	Consideration should be given to raising the profile of internal audit with a view to promoting greater understanding of its purpose and objectives.	Consideration will be given as to the best way forward.	Audit Manager	31 March 2018	Complete – The Audit Manager has already emailed all staff to raise awareness of how Internal Audit can help them improve their business processes and will be putting information about the service on the Council's intranet in 2018/19.