

Name of meeting: Corporate Governance & Audit Committee

Date: 7th September 2018

Title of report: External Assessment of Internal Audit, as required by Public sector Internal Audit Standards

Purpose of report; To provide the external assessment of the Internal Audit and the proposed actions

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports)?	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name Is it also signed off by the Service Director for Finance, IT & Transactional Services? Is it also signed off by the Service Director for Legal Governance and Monitoring?	Not applicable
Cabinet member portfolio	Not applicable

Electoral wards affected: All

Ward councillors consulted: Not applicable

Public

1. Summary

- 1.1 Internal Audit activity in local authorities is required to comply with the Public Sector Internal Audit Standards (PSIAS), which are an interpretation of international internal audit standards, applicable to most of the UK Public sector.
- 1.2 One of the requirements of the standard is that as a part of quality assurance, every 5 years an external assessment of compliance with the standards is carried out by an independent person or organisation.
- 1.3 In August 2017 this Committee agreed to appoint an external assessor from Wakefield Council, in accordance with the scheme agreed mutually by South and West Yorkshire Auditors Group.(SWYAG).
- 1.4 The assessment was carried out during January and February 2018, and the assessor sent written confirmation that the activity achieved the highest of three standards (Generally Compliant).
- 1.5 However, the written report was only provided last month. This report is attached for consideration by the Committee. Appendix A.
- 1.6 Section 2.2 contain proposals to address the issues raised in the report.
- 1.7 The report also proposes an updated Audit Charter document (to March 2020).

2. Information required to take a decision

- 2.1 The Public Sector Internal Audit Standards (PSIAS) are a statement of standards, processes, expectations, qualities and ethics which an internal audit function in a public sector body should meet. The Chartered Institute of Public Finance and Accountancy have a responsibility to help codify the operation of PSIAS in local authorities. They have done this by the production of an assessment conformation checklist that runs to 34 pages. The standards require that the head of internal audit carry out periodic assessments that the operations align with these requirements, and the outcomes from these assessments feature in the Annual Report of Internal Audit. The standards also require that every 5 years there is an external assessment.
- 2.2 The full assessment report has now been received. The report finds that the standards such as the Audit Charter and the processes that govern the detailed work and quality assessment are broadly sound. The report makes recommendations in relation to;
 - (a) Ensuring that the head of internal audit devotes a sufficient amount of time to the effective strategic and operational management of the internal audit function.(1.1)
 - (b) Promoting an effective split between the process for creating and managing risk information, and the role of internal audit in providing challenge and the role of this Committee in overseeing the councils risk management processes.(1.2, 5.1)
 - (c) Accessing the skills necessary to address speciality work areas (eg cyber IT) and more generally to secure a sustainable workforce. (2.1)
 - (d) Increasing the number of performance measures that are used to assess the effectiveness of internal audit (3.1)
 - (e) The need to improve feedback/ client engagement information (4.2)
 - (f) Making sure that process documentation is fully completed.(8.1)

- 2.3 The recommendations made in 2.2 are all considered to be appropriate and reasonable, with a couple of provisos as explained below;
- (a) It is accepted that the time devoted to the head of internal audit role should be reported, and subject to performance management by the head of internal audits supervisor (the Service Director Legal ,Governance and Commissioning) and the Chair of the Committee, and the proportion of time should be reported to the Committee. The post holder is not employed full time, and the workloads and needs vary depending on consultancy and investigation engagements, and across the annual calendar.
 - (b) This observation relates again to the role of the Head of Risk- who is also the head of internal audit. The combination of these roles is not unusual, and the operational internal audit work is supervised and delivered by staff with no input into the corporate risk management processes. At the time of the assessment the council was still revising its approach to risk management, and a new approach is now being implemented, that will be subject to a further report to tis committee at a future meeting.
 - (c) Although the level of internal audit staffing has the capability to do all general and some specialist work (including IT), some areas of potential review may require very specific knowledge. In some cases it is possible, practical and indeed desirable to use the generic internal audit skills to undertake such work using expert guidance; it may be that specific circumstances would require a specialist contractor (which would be an additional cost). More generally it is appropriate to consider ways of ensuring the general skill base of IA staff is sustainable. Successive reductions in budgets and changes in the way that staff within the general finance function are recruited and trained have potentially compromised the ability to access staff who have the appropriate skills and behaviours (a regionally acknowledged problem). Options for this are currently being considered.
 - (d) The recommendation to have additional monitoring targets is acknowledged, although what these are need to be carefully considered; A measure based on audit recommendations that are agreed by management may simply result in IA not making recommendations that are believed to be professionally correct, but unacceptable to management. The KMC Audit Strategy & Charter already requires that fundamental disagreements between management and IA are reported to this Committee. Member will be aware of the very limited circumstance where this arises. All limited assurance opinions are followed up, and the progress on implementation of recommendations is reported. KNH and other clients maintain implementation records of recommendations. This is not wholly practical for the Council, given the volume of work and number of recommendations overall. In 2017/18 IA did follow up progress on the implementation of recommendations with those schools that had received positive assurance, with the outcome reported to this Committee. There is scope to do similar follow up for other council activity, although as the assessors report acknowledges there is a need to be sure of the opportunity cost of carrying out this type of assessment.
 - (e) A number of different attempts at client engagement have been tried recently, and a further one is currently about to be trialled. Additional feedback will be sought from Strategic and Service Directors, and a report prepared for consideration by this Committee.
 - (f) This is about making sure that the administration of audits is done correctly. It is accepted and staff/supervisors will be reminded of the need for compliance.

- 2.4 Subject to the indications of the Committee, the proposed recommendations and actions will be incorporated in a Quality Improvement Programme and progress reported to a future meeting of this committee. (January 2019). The Annual Governance Statement for 2018/19 will need to refer to this assessment.
- 2.5 It is normal practice to review the Audit Charter each year. The 2017 Strategy & Charter was retained pending any modifications required or recommended as a result of this assessment. None have been identified, but there are some procedural and title changes incorporated into a new proposed which it is proposed remain in effect until March 2020, unless any further revisions are required by way of national or international regulatory standards or local practice.(Appendix B)

3. Implications for the Council

- 3.1 Early Intervention and Prevention (EIP) -None directly
- 3.2 Economic Resilience (ER) -None directly
- 3.3 Improving Outcomes for Children -None directly
- 3.4 Reducing demand of services -None directly
- 3.5 Although each of the sub categorisations above suggest no direct implications, the work of internal audit covers all aspects of the Councils operations, including elements of the above, either specifically, indirectly or on a commissioned basis.
- 3.6 The assessment has provided assurance about the operation of internal audit; quality and compliance.

4. Consultees and their opinions

- 4.1 The Chief Executive, Service Director of Legal Governance & Commissioning and the Service Director Finance have seen the external assessor's report and the actions proposed in this report. The external assessor has also seen this report.

5. Next steps

- 5.1 Subject to any other recommendations of the Committee, work will be progressed on the Quality Improvement Programme.

6. Officer recommendations and reasons

- 6.1 The Committee thanks the external assessor for her report, consider the report of the assessor, and determine any actions that they consider are appropriate.
- 6.2. The Committee consider the proposed recommended actions (2.2) and note the intended reactions by the Head of Risk (2.3), and the intention to report progress to a future meeting.(2.4)
- 6.3 That the proposed Audit Strategy & Charter be approved to March 2020.

7. Cabinet portfolio holder recommendation

Not applicable.

8. Contact officer

Martin Dearnley, Head of Risk 01484 221000 (73672)

9. Background Papers and History of Decisions

Public Sector Internal Audit Standards
CIPFA Local Government Application Note

10. Director responsible

Not applicable.

