



Report To:	AUDIT PANEL
Date:	29 May 2018
Reporting Officer:	Kathy Roe – Director of Finance
Subject:	REVIEW OF INTERNAL AUDIT 2017/18
Report Summary:	The report reviews the effectiveness of Internal Audit and measures practices and performance of the Internal Audit function with the standards set out in the Public Sector Internal Audit Standards which contributes to the overall effectiveness of the system of internal control.
Recommendations:	That the report be noted.
Links to Community Strategy:	Internal Audit supports the individual operations, which deliver the objectives within the Corporate Plan.
Policy Implications:	Effective Internal Audit supports the achievement of Council objectives and demonstrates a commitment to high standards of corporate governance.
Financial Implications: (Authorised by the Section 151 Officer)	Effective Internal Audit assists in safeguarding assets, ensuring the best use of resources and the effective delivery of services.
Legal Implications: (Authorised by Borough Solicitor)	Demonstrates compliance with the Accounts and Audit Regulations 2015, which require 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 or guidance”. It also must conduct a review of “the effectiveness of the system of internal control annually”.
Risk Management:	Assists in providing the necessary levels of assurance that the significant risks relating to Council operations are being effectively managed.
Access to Information:	The background papers relating to this report can be inspected by contacting the Report Author, Ian Duncan, Assistant Executive Director (Finance) by contacting:  Telephone: 0161 342 3864  e-mail: ian.duncan@tameside.gov.uk

1. INTRODUCTION

- 1.1 The purpose of this report is to provide the Audit Panel with the background to the review of Internal Audit, the requirements of the Public Sector Internal Audit Standards, the process that has been adopted and details of the review itself.
- 1.2 It is the responsibility of the Council to conduct the annual review of the effectiveness of the system of internal control in accordance with the Accounts and Audit Regulations 2015 as detailed below and the review of internal audit is one element of the assurance process in place that culminates in the production of the Annual Governance Statement referred to in section 1.5.

1.3 Part 2, Section 3 – Responsibility for Internal Control

A relevant authority must ensure that it has a sound system of internal control which:

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

1.4 Part 2, Section 5 – Internal Audit

- (1) A relevant body must 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 or guidance.
- (2) Any officer or member of a relevant body must, if required to do so for the purpose of the internal audit:
 - (a) Make available such documents and records; and
 - (b) Supply such information and explanation; as are considered necessary by those conducting the internal audit.
- (3) In this regulation “documents and records” includes information recorded in an electronic form.

This is supported by the Council’s Financial Regulations, which reflect Internal Audit’s statutory authority to review and investigate all areas of the Council’s activities in order to ensure that the Council’s interests are protected.

1.5 Part 2 Section 6 – Review of Internal Control System

- (1) A relevant authority must, each financial year:
 - (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
 - (b) prepare an Annual Governance Statement.
- (2) If the relevant authority referred to in paragraph (1) is a Category 1 authority (Tameside MBC falls into this category), following the review, it must:
 - (a) consider the findings of the review required by paragraph (1)(a):
 - (i) by a committee; or
 - (ii) by members of the authority meeting as a whole; and
 - (b) approve the Annual Governance Statement prepared in accordance with paragraph (1)(b) by resolution of:
 - (i) a committee; or
 - (ii) members of the authority meeting as a whole.
- (3) (Excluded as this clause relates to category 2 authorities and the Council is a category 1.)
- (4) The Annual Governance Statement, referred to in paragraph (1)(b) must be:

- (a) approved in advance of the relevant authority approving the statement of accounts in accordance with regulations 9(2)(b) or 12(2)(b) (as the case may be); and
- (b) prepared in accordance with proper practices in relation to accounts(a).

2. INTERNAL AUDIT IN TAMESIDE

- 2.1 The function is managed by the Head of Risk Management and Audit Services who during 2017/18 reported directly to the Assistant Director of Finance (Section 151 Officer) until 30 September 2017 and then the Director of Finance (Section 151 Officer) from 1 October 2017.
- 2.2 Internal Audit now comprises of 9.3 FTE staff that have a range of experience and relevant qualifications, and includes two dedicated Fraud Investigators/Counter Fraud Specialists.
- 2.3 The Internal Audit Service is provided to all Directorates/Service Areas together with schools and a comprehensive list of all auditable areas is maintained within the Audit Management System "Galileo". A detailed Annual Audit Plan is produced at the start of each financial year after consultation with both officers and members. Internal Audit also provides services to the Greater Manchester Pension Fund and the Greater Manchester Debt Administration Fund.

3. ASSESSMENT AGAINST THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS –

- 3.1 The Public Sector Internal Audit Standards were introduced in April 2013 and comprise a definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all internal auditors working in the UK public sector.
- 3.2 The definition of Internal Audit is:
"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".
- 3.3 The definition recognises the consultancy work undertaken and emphasises the need to ensure that the audit function is adding value to and improving the organisations operations.
- 3.4 It is recognised in the standards that the provision of assurance work is the primary role for Internal Audit in the UK public sector. The role requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 3.5 The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing. It extends beyond the definition of internal auditing to include two essential components:-
 - Principles that are relevant to the profession and practice of internal auditing.
 - Rules of conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors. There are four principles:-

- **Integrity** – the integrity of internal auditors establishes trust and thus provides the basis of reliance on their judgement.
- **Objectivity** – internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- **Confidentiality** – internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency** – internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

3.6 The standards themselves are divided into two categories:-

- Attribute Standards – Purpose, Authority and Responsibility.
- Performance Standards – Managing the Internal Audit Activity.

3.7 Table 1 shows the individual standards within the above two categories.

Table 1 – Assessment against the Public Sector Internal Audit Standards – 2017

STANDARDS
ATTRIBUTE
1000 – Purpose, Authority and Responsibility
1100 – Independence and Objectivity
1200 – Proficiency and Due Professional Care
1300 – Quality Assurance and Improvement Programme
PERFORMANCE
2000 – Managing the Internal Audit Activity
2100 – Nature of Work
2200 – Engagement Planning
2300 – Performing the Engagement
2400 – Communicating the Results
2500 – Monitoring Progress
2600 – Communicating the Acceptance of Risks

4. PEER REVIEW OF INTERNAL AUDIT

- 4.1 The Peer Review was carried out Blackpool Council and Bolton Council during 12–14 March 2018.
- 4.2 The Standards require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
- 4.3 The North West Chief Audit Executives' Group (NWCAE) established a 'peer-review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self-assessment with independent external validation'.

- 4.4 The Peer Review is undertaken in three stages:-
- Pre Review - Self-assessment and supporting documentation provided to review team for desk top review
 - On-site Review - Interviews were conducted with:-
Chief Executive
Director of Finance/Assistant Director of Finance
Director of Governance and Pensions
Chair of Audit Panel
Head of Risk Management and Audit
Principal Auditor
Senior Auditor
Auditor
 - Post Review - Review information collated, resolve queries and produce the draft report for comment and then produce the Final Report.
- 4.5 The report attached at **Appendix 1** details the outcome of the review and confirms that Internal Audit conforms overall to the standards.
- 4.6 Five recommendations and three additional development areas have been included in the report and these have all been included in the Quality Assurance and Improvement Plan for 2018/19 which is a later item on the agenda.

5. PERFORMANCE INDICATORS, VALUE ADDED AND FEEDBACK

- 5.1 Internal Audit has three key performance indicators and for 2017/18 all targets were either met or exceeded:
- 93% of Plan Complete (93% in 2016/17 - Target 90%)
 - 90% of Recommendations Implemented (92% in 2016/17 - Target 90%)
 - 100% Customer Satisfaction (94% in 2016/17 - Target 90%)
- 5.2 With regards to Added Value in the annual plan we endeavour to incorporate a mixture of assurance audits and consultancy reviews requested by management to ensure that the service delivers what the organisation requests. Part of our work involves providing independent assurance regarding the implementation of new systems to ensure that the data is migrated correctly and that the control environment is satisfactory from the outset and this work is valued by managers. During 2017/18 we worked with Exchequer Services, Children's and Resource Management on the following projects:
- UK Mail
 - Tapestry – Early Years System
 - Agresso
 - Oxygen – Supplier Discounts for Early Payment
- 5.3 Furthermore, we get involved in service redesigns and providing advice and support to the process, as it is more efficient and effective if we can ensure that controls are in place at the outset rather than auditing after the event and then finding issues and concerns.
- 5.4 Customer feedback is very positive and can be demonstrated in many ways:-
- Customer satisfaction is very high at 100%, which signifies that auditees appreciate the process, albeit, sometimes they do not like the outcome, especially if a low level of assurance is given;
 - At the planning stage requests for work always outweighs resources available;
 - In year we receive a significant number of requests for advice and support; and
 - In year we receive requests to get involved in new projects.
 - The feedback from the Peer Review was very positive from senior officers interviewed.

- 5.5 The performance of the wider organisation is monitored by the team as we keep a watching brief over the changing profile of risks affecting service delivery from a variety of sources. Through consultation with Executive Members/Senior Managers, facilitating the Information Governance Group, fraud briefings/bulletins and attending AGMA Groups a wealth of intelligence is amassed which enables the internal audit plan and approach to be adapted to keep pace with the changing complexities of local government.
- 5.6 Clearly, an important input into the review of Internal Audit is the view of our External Auditors and a good working relationship is in place and no negative feedback has been received.

6. MANAGING THE RISK OF FRAUD AND CORRUPTION

- 6.1 The Chartered Institute of Public Finance and Accountancy issued, via its Counter Fraud Centre, a Code of Practice in 2014 entitled "Code of Practice on Managing the Risk of Fraud and Corruption".
- 6.2 The self-assessment has been reviewed and the work of Internal Audit in terms of proactive and reactive fraud work does provide assurance that the requirements of the code are being adhered to. This in turn provides evidence for the assessment of Internal Audit against the Public Sector Internal Auditing Standards.

7. CIPFA STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT (HIA)

- 7.1 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:
- the organisation;
 - the role; and
 - the individual.

For each principle, the Statement sets out the governance arrangements required within an organisation to ensure that HIA's are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA. Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their HIA.

- 7.2 The five principles are as follows:-
- The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments;
 - The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control;
 - The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
 - The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose; and
 - The HIA in a public service organisation must be professionally qualified and suitably experienced.

- 7.3 A self-assessment has been undertaken against the checklist published in the report by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the role of the Head of Internal Audit as part of the review of the system of internal audit and the Head of Internal Audit is in full compliance with the five principles and the supporting standards.

8. AUDIT PANEL

- 8.1 The system of internal control includes the role of the Audit Panel and, in particular, it's role in the receipt and evaluation of reports from the Head of Risk Management and Audit Services, both in terms of assurance opinions and in ensuring that appropriate arrangements are in place to evaluate and improve the effectiveness of risk management, control and governance processes across the Council. It has operated in accordance with best practice and guidance from the Chartered Institute of Public Finance and Accountancy for 2017/18.

9. CONCLUSIONS

- 9.1 The Peer Review conducted in March 2018 confirms that Internal Audit conforms to the requirements of the Public Sector Internal Audit Standards, as demonstrated in **Appendix 1**.
- 9.2 From the review of Internal Audit, it can be concluded that it helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes in accordance with the Public Sector Internal Auditing Standard's definition. Taking on board the positive comments received from our External Auditors and the positive comments received from Senior Management Teams/Executive Members assurance can be given that the Council has an adequate and effective Internal Audit function which contributes to the overall effectiveness of the system of internal control.

10. RECOMMENDATION

- 10.1 That the report be noted.