



<b>Report To:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	31 May 2016
<b>Reporting Officer:</b>	Ian Duncan – Assistant Executive Director (Finance)
<b>Subject:</b>	<b>REVIEW OF INTERNAL AUDIT 2015/2016</b>
<b>Report Summary:</b>	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.
<b>Recommendations:</b>	That the report be noted.
<b>Links to Community Strategy:</b>	Internal Audit supports the individual operations, which deliver the objectives within the Community Strategy.
<b>Policy Implications:</b>	Effective Internal Audit supports the achievement of Council objectives and demonstrates a commitment to high standards of corporate governance.
<b>Financial Implications:</b> (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.
<b>Legal Implications:</b> (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.
<b>Risk Management:</b>	Assists in providing the necessary levels of assurance that the significant risks relating to Council operations are being effectively managed.
<b>Access to Information:</b>	The background papers relating to this report can be inspected by contacting the Report Author, Ian Duncan, Assistant Executive Director (Finance) by contacting:
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## 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).

1.6 Clearly, an important input into the review of Internal Audit is the view of our External Auditors and in their Review of the Council's Arrangements for Securing Financial Resilience for Tameside Metropolitan Borough Council report dated 4 September 2015 they commented as follows:

*"The Council has an effective in-house internal audit function which complies with the Public Sector Internal Audit Standards.*

1.7 Internal audit - as part of their audit strategy and operational plan - undertake detailed reviews of key financial systems and confirm that those systems are appropriate and produce accurate and reliable information from which to produce the quarterly monitoring information and the annual financial statements. We meet regularly with the Head of Risk Management and Audit Services to discuss and share key findings from our respective work. The Council has an effective in-house internal audit function which complies with the Public Sector Internal Audit Standards.

1.8 In common with all Council services, the internal audit function has experienced a reduction in resources over recent years. Whilst this has not impacted on the ability of internal audit to provide a level of assurance over controls to date, internal audit is looking at a number of options and innovative solutions to maintain its audit and assurance coverage in the future".

1.9 In carrying out the review the Public Sector Internal Audit Standards have been extensively relied upon as the format for discussions and conclusions. The focus of the review has been on the delivery of the Internal Audit service to the required standard in order to produce the required outcome which is reliable assurance on internal control, governance and the management of risks in the Council. In carrying out the review reference has also been made to the Key Performance Indicators of internal audit, the value added by internal audit, the extent to which reliance is placed on internal audit by the external auditor and feedback from customers who have been audited.

## **2. INTERNAL AUDIT IN TAMESIDE**

2.1 The function is managed by the Head of Risk Management and Audit Services who during 2015/16 reported directly to the Assistant Executive Director of Finance (Section 151 Officer).

2.2 Internal Audit now comprises of 9.4FTE 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 provides services to the Greater Manchester Pension Fund and the Greater Manchester Debt Administration Fund as well as to the Council itself.

### 3. ASSESSMENT AGAINST THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS – EFFECTIVE FROM APRIL 2013

3.1 The Public Sector Internal Audit Standards became effective from 1 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 are:-
  - **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 other 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 an assessment against each of the individual standards within the above two categories and a comparison of the results presented to the Audit Panel in May 2015 compared to the position as at March 2016.

3.8 **Table 1 – Assessment against the Public Sector Internal Audit Standards - 2016**

<b>STANDARDS</b>	<b>2016</b>	<b>2015</b>
<b>ATTRIBUTE</b>	Fully Compliant	Fully Compliant
1000 – Purpose, Authority and Responsibility	✓	✓
1100 – Independence and Objectivity	✓	✓
1200 – Proficiency and Due Professional Care	✓	✓
1300 – Quality Assurance and Improvement Programme	✓	✓
<b>PERFORMANCE</b>	✓	✓
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	✓	✓

3.9 In relation to Section 1300 shown above, Standard, 1312 covers external assessments and whilst full compliance has been assessed an external assessment has not yet been undertaken in the first three years of the standard. The requirement states that an external assessment must be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

3.10 During 2015/16, the North West Chief Audit Executive Group developed a methodology to deliver the external assessments required by the standard across the group in the form of peer reviews. The initial proposal was shared with and approved by the Chartered Institute of Public Finance and Accountancy. Each review is conducted by a panel of three Heads of Audit and moderated by another panel of three different Heads of Audit. Two pilot reviews have been conducted during January to March 2016 and the results and the final process to be rolled out across the group will be reported to the next meeting of the North West Chief Audit Executive Meeting.

#### **4. PERFORMANCE INDICATORS, VALUE ADDED AND FEEDBACK**

4.1 Internal Audit has three key performance indicators and for 2015/16 and all targets were either met or exceeded:

- 94% of Plan Complete (92% in 2014/15 - Target 90%)
- % of recommendations Implemented (92% - Target 90%)
- Customer Satisfaction (95% - Target 90%)

4.2 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 2015/16 we worked with Resource Management and Digital Tameside on the following projects:

- Bank transfer
- The 'Chest' Procurement Portal
- Online payments

4.3 Furthermore, Internal Audit 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 designed in rather than audit after the event and find issues and concerns.

4.4 Customer feedback is very positive and can be demonstrated in many ways:-

- Customer satisfaction is very high at 95%, 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.
- In year we receive requests to get involved in new projects.

4.5 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, attending AGMA Groups and formally reporting to the Senior Management Team 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. MANAGING THE RISK OF FRAUD AND CORRUPTION**

5.1 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". An initial self-assessment was undertaken during 2014/15 and reported to the Audit Panel back in February 2015.

5.2 The self-assessment has been updated 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.

## **6. CIPFA STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT (HIA)**

6.1 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 HIAs 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.

6.2 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.

6.3 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.

## 7. AUDIT PANEL

7.1 The system of internal control includes the role of the Audit Panel and in particular, its 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 2015/16.

## 8. CONCLUSIONS

8.1 Against each of the standards, Internal Audit has achieved all the requirements of the Public Sector Internal Audit Standards, as demonstrated in **Appendix 1**.

8.2 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.

## 9. RECOMMENDATION

9.1 That the report be noted.