

<b>Report To:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	4 June 2019
<b>Reporting Officer:</b>	Kathy Roe – Director of Finance
<b>Subject:</b>	<b>REVIEW OF INTERNAL AUDIT 2018/19</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>Corporate Plan:</b>	Internal Audit supports the individual operations, which deliver the objectives within the Corporate Plan.
<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> <b>(Authorised by the statutory Section 151 Officer and Chief Finance Officer)</b>	Effective Internal Audit assists in safeguarding assets, ensuring the best use of resources and the effective delivery of services.
<b>Legal Implications:</b> <b>(Authorised by Borough Solicitor)</b>	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, Kathy Roe, Director of Finance by contacting:  Telephone: 0161 342 5609  e-mail: <a href="mailto:kathy.roe@nhs.net">kathy.roe@nhs.net</a>

## 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 it's functions and the achievement of it's 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.

## 2. INTERNAL AUDIT IN TAMESIDE

- 2.1 The function is managed by the Head of Risk Management and Audit Services who during 2018/19 reported directly to the Director of Finance (Section 151 Officer).
- 2.2 Internal Audit now comprises of 9.5 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.

## 3. PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 3.1 The Public Sector Internal Audit Standards (PSIAS) were initially introduced in April 2013 and were updated in 2017. In February 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published a PSIAS Application Note for Local Government to supplement the 2017 standards. The standards provide; the Mission of Internal Audit, a definition of Internal Auditing, Core Principles for the Professional Practice 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 mission for Internal Audit is:-  
  
**"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".**
- 3.3 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".**
- 3.4 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.
- 3.5 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 Audit Executive 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.

3.6 The Core Principles for the Professional Practice of Internal Auditing taken as a whole articulate internal audit effectiveness and confirm that it is achieving the mission of internal audit above. The principles are listed below:-

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive and future focused; and
- Promotes organisational improvement.

3.7 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.

3.8 The standards themselves are divided into two categories and they provide confirmation that both the Core Principles and the Code of Ethics are adhered to by both individuals and entities that deliver internal auditing services:-

- Attribute Standards
- Performance Standards

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

**Table 1 – Public Sector Internal Audit Standards**

<b>Standards</b>
<b>Attribute</b>
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

#### **4. PEER REVIEW OF INTERNAL AUDIT MARCH 2018**

- 4.1 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.
- 4.2 In collaboration the North West Chief Audit Executives' Group (NWCAE) established a 'peer-review' process that was managed and operated by the constituent authorities. The process addressed the requirement of external assessment by 'self-assessment with independent external validation'.
- 4.3 The Peer Review for Tameside was carried out by Blackpool Council and Bolton Council in March 2018 and confirmed that the Internal Audit Service conformed to the 2013 standards.
- 4.4 A summary report has been produced by the North West Chief Audit Executives' Group, summarising the outcomes for the North West Councils that participated in the collaborative approach adopted. The report can be found at **Appendix 1** for information. It identifies that 17 organisations were reviewed and that 14 conformed and 3 were judged to partially conform to the standards. It presents the common themes and findings categorised into the following headings:-
- Positive Feedback
  - Areas of Improvement
    - Purpose and Positioning
    - Structure and Resources
    - Audit Execution
- 4.5 The outcome report for Tameside was presented to the Audit Panel on 29 May 2018 and it contained five recommendations and three additional development areas and they were included in the Quality Assurance and Improvement Plan for 2018/19. Progress against the recommendations and improvements are summarised in Tables 2 and 3 below.

4.6 **Table 2 – Recommendations**

Recommendations	Progress as at 31 March 2019
<p>Consideration should be given to obtaining formal feedback from the Chief Executive and Chair of Audit Committee for the annual appraisal of the Head of Risk Management and Audit.</p>	<p>Implemented. This has been taken on board for the Annual Development Review for the Head of Risk Management and Audit for 2019.</p>
<p>Consider allocating the formal SIRO designation to a chief officer, even if the internal audit team continues to support the SIRO function.</p>	<p>Ongoing. The roles relating to Information Governance are still being assessed as the Council and CCG continue to integrate.</p>
<p>Consideration should be given to demonstrating how the audit plan and priorities align to the corporate risk register, assurance framework, link to the Council's objectives and priorities and the prioritisation of audit assignments.</p>	<p>Implemented. The Audit Plan for both 2018/19 and 2019/20 presented to the Audit Panel included links to the Corporate Plan and Corporate Risk Register.</p>
<p>The audit plan could be more specific to outline what an optimum level of staff would be able to deliver. This would enable the Audit Panel and Senior Management Team to make an informed assessment of the adequacy of staffing levels.</p>	<p>Implemented. This recommendation was built into the 2018/19 Audit Plan Report and has been reflected in the Risk Management and Audit Services Planned Work Report for 2018/19 and will be incorporated in all reports going forward.</p>
<p>The Quality Assurance and Improvement Programme (QAIP) should include an action plan identifying steps which will be taken to continually improve the service and enable the Audit Panel to monitor progress. The Quality Assurance and Improvement Programme should also be referenced in the Annual Report.</p>	<p>Implemented. This was included in Quality Assurance and Improvement Programmes (QAIP) for 2018/19 and 2019/20 and will be incorporated in future years.</p>

4.7 **Table 3 – Improvements**

Improvements	Progress as at 31 March 2019
<p>The Audit Plan and Progress Reports to the Audit Panel are described as reports of the Assistant Director of Finance/Director of Finance with the Head of Risk Management and Audit also listed as a reporting officer. To ensure that audit retains its organisational independence we recommend that the reports go in the name of the Head of Risk Management and Audit Services.</p>	<p>Implemented. The Audit Plan and Progress Reports to the Audit Panel are now presented in the name of the Head of Risk Management and Audit Services.</p>
<p>Consideration should be given to identifying the skills needs by the audit team to assist the Council with its current transformation programme and provide training and development opportunities to address any skills shortage.</p>	<p>Ongoing. This was considered in 2018/19 and is being considered as part of the Annual Development Reviews currently under way and will be further reflected in team development sessions planned for the coming year.</p>
<p>Clearer guidance on the extent of post audit review work should be documented in line with the number and priority of recommendations. In addition, improved transparency could be achieved by including post audit reviews in the periodic progress reports to the Audit Panel. Consideration should also be given to the process for agreeing extensions to target implementation dates and post audit review timings.</p>	<p>Implemented. Guidance has been provided for the team and the detail of Post Audit Reviews completed is now included in Progress Reports presented to the Audit Panel.</p>

**5. SELF-ASSESSMENT AGAINST THE STANDARDS 2018/19**

- 5.1 Table 4 shows the assessment against each of the individual standards within the two categories of Attribute and Performance and provides a comparison of the results presented to the Audit Panel in May 2018. The detailed assessments can be found at **Appendix 2**.
- 5.2 The updated standards have refreshed some of the questions included to add clarity and the standards now contain a mission for internal audit and a set of core principles which articulate internal audit effectiveness.

**Table 4 - Assessment against the Public Sector Internal Audit Standards**

Standard	2019	2018
<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>	Fully Compliant	Fully Compliant
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	✓	✓

- 5.3 The outstanding recommendations from the Peer Review and the development identified as a result of the above assessment are not material enough to generate any issues, in terms of conformance with the standards. The developments detailed below have been built into the Quality and Improvement Programme for 2019/20 and are detailed in Table 5 below.

**Table 5 – PSIAS Developments for 2019/20**

Development	Responsible	Comments
Consider allocating the formal SIRO designation to a chief officer, even if the internal audit team continues to support the SIRO function.	Director of Finance Director of Governance and Pensions	The roles in relation to Information Governance are being reassessed as the Council and CCG continue to integrate.
Consideration should be given to identifying the skills needs by the audit team to assist the Council with its current transformation programme and provide training and development opportunities to address any skills shortage.	Head of Risk Management and Internal Audit	This will be considered as part of the Annual Development Reviews currently under way and will be further reflected in team development sessions planned for the coming year.
Do internal auditors maintain a record of their professional development and training activities?	Head of Risk Management and Internal Audit	A single record is not available at present and the information is contained in Annual Development Review Forms and the Me Learning System. During 2019/20 the service will pilot an electronic training record being developed as part of a self-service option on the Payroll/HR System iTrent.

## **6 Performance Indicators, Value Added and Feedback**

6.1 Internal Audit has three key performance indicators and for 2018/19 all targets were either met or exceeded:-

- 92% of Plan Complete (93% in 2017/18 - Target 90%)
- 93% of Recommendations Implemented (90% in 2017/18 - Target 90%)
- 100% Customer Satisfaction (100% in 2017/18 - Target 90%)

6.2 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 meets the needs and expectations of the Council. 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 2018/19 we worked with Governance (Systems Team and Exchequer), Children's, Cultural and Customer Services and Financial Management on the following projects:-

- UK Mail
- Tapestry – Early Years System
- Agresso
- Blue Badges

6.3 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.

6.4 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;
- In year we receive requests to get involved in new projects; and
- The feedback from the external Peer Review conducted in March 2018 was very positive from senior officers interviewed.

6.5 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.

6.6 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.

## **7. MANAGING THE RISK OF FRAUD AND CORRUPTION**

7.1 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".

7.2 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.

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

8.1 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 organisational requirements 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.

8.2 The five principles are as follows:-

- The HIA plays a critical role in delivering the organisation's strategic objectives by objectively assessing the adequacy of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control;
- The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments;
- The HIA 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 must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively; and
- The HIA must be professionally qualified and suitably experienced.

8.3 A self-assessment has been undertaken against the checklist published in the report by CIPFA on the role of the HIA as part of the review of the system of internal audit and the HIA is in full compliance with the five principles and the supporting standards.

## **9. AUDIT PANEL**

9.1 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 CIPFA for 2018/19.

## **10. CONCLUSIONS**

10.1 The Peer Review conducted in March 2018 and the Self-Assessment conducted in April 2019 confirm that Internal Audit conforms to the requirements of the Public Sector Internal Audit Standards, as demonstrated in **Appendix 2**.

10.2 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.

## **11. RECOMMENDATION**

11.1 As set out at the front of the report.