

Report To:	AUDIT PANEL
Date:	27 July 2021
Reporting Officer:	Kathy Roe – Director of Finance
Subject:	REVIEW OF INTERNAL AUDIT 2020/21
Report Summary:	The report reviews 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.
Corporate Plan:	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 statutory Section 151 Officer and Chief Finance 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)	<p>This report demonstrates compliance with the Accounts and Audit Regulations 2015 (as amended) 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 the public sector internal auditing standards or guidance.</p> <p>The Regulations also require councils to conduct a review of the effectiveness of the system of internal control annually. This review is set out in the main body of the report for Members to consider.</p>
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:	<p>The background papers relating to this report can be inspected by contacting the Report Author, Kathy Roe, Director of Finance by contacting:</p> <p> Telephone: 0161 342 5609</p> <p> e-mail: kathy.roe@nhs.net</p>

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 2017, the CIPFA Local Government Application Note 2019 and the process that has been adopted, along with 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 amended) 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 **Accounts and Audit Regulations 2015 (as amended) 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 **Accounts and Audit Regulations 2015 (as amended) 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 **Accounts and Audit Regulations 2015 (as amended) 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 2020/21 reported directly to the Assistant Director of Finance (Deputy Section 151 Officer).
- 2.2 Internal Audit now comprises of 9.53 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) 2017 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Application Note for Local Government provide the standards for the review.
- 3.2 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 requirements 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 (Head of Risk Management and Audit) 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

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. EXTERNAL PEER REVIEW OF INTERNAL AUDIT

- 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. The next review will be conducted during 2022/23.

5. SELF-ASSESSMENT AGAINST THE STANDARDS 2020/21

- 5.1 Table 2 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 June 2020. The detailed assessments can be found at **Appendix 1**.

Table 2 - Assessment against the Public Sector Internal Audit Standards

Standard	2021	2020
Attribute	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	✓	✓
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	✓	✓

- 5.2 Internal Audit comply with the requirements of the standards, however, there are two areas to note that affect the independence of the Team:-
- The Head of Risk Management and Audit (CAE) is the Senior Information Risk Owner (SIRO); and
 - Several members of the Team were involvement in the actual processing of COVID-19 Business Support Grants during 2020/21.
- 5.3 However, controls are in place to ensure that Internal Audit's independence is managed and maintained, in that the Head of Risk Management and Audit would not be involved in any audits relating to her other areas of responsibility and those staff involved in processing grants will not be involved in any audits relating to the work they have undertaken.
- 5.4 The developments highlighted from the 2018 External Peer Review are detailed in Table 3 together with a position statement as at March 2021 and new developments identified as part of the 2020/21 self-assessment have been added to the bottom of the table. The Quality Assurance and Improvement Programme will be updated to capture the new developments and progress will be reported to future meetings of the panel.

Table 3 – PSIAS Developments from 2018 External Peer Review

Developments	Responsible	Position Statement – March 2021
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	Carry Forward to 2021/22 A review of the roles relating to Information Governance has been included in the 2021/22 Work Plan for the Risk, Insurance and Information Governance Team and the Information Governance Group. Guidance identifies that the SIRO should be an Executive Director or other senior member of the Board. Discussions will also take place with the new Assistant Director of Finance (Deputy Section 151 Officer).
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 Audit	Complete Addressed as part of the Annual Development Review (ADR) process with the team and is kept under review during the year at supervision meetings and as Seminars, Workshops and Webinars become available. The additional of the competency assessment for 2021 ADRs will assist to identify any gaps in skills or experience
Internal auditors maintain a record of their professional development and training activities.	Head of Risk Management and Audit	Complete The information is currently contained in the Annual Development Review Forms, which capture all training and development undertaken. This is supported by the Me Learning System for all E-Learning courses completed and Excel spreadsheets.

Developments	Responsible	Position Statement – March 2021
New Developments for 2021/22		
A formal assurance mapping exercise needs to be undertaken and documented.	Head of Risk Management and Audit and Principal Auditors Dec 2021	An Assurance Framework is being developed in conjunction with the North West Chief Audit Executive Group.
An independent review needs to be undertaken to evaluate the effectiveness of the organisation's risk management processes.	Principal Auditors March 2022	An audit has been included in the Internal Audit Plan for 2021/22 and will be undertaken in the second half of the year.
The audit process needs to be reviewed to ensure that reports are issued in a timely manner.	Head of Risk Management and Audit and Principal Auditors Dec 2021	

6 Performance Indicators, Value Added and Feedback

- 6.1 Internal Audit has three key performance indicators and for 2020/21, only two were achieved:-
- 94% of Plan Complete (92% in 2019/20 - Target 90%)
 - 88% of Recommendations Implemented (87% in 2019/20 - Target 90%)
 - 100% Customer Satisfaction (100% in 2019/20 - Target 90%)
- 6.2 The Percentage of Recommendations Implemented has been affected by COVID-19 and capacity within teams to address improvements identified.
- 6.3 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 2020/21 we provided assurance on the following projects:-

System Sign Offs

- Adults Services - Rosta System
- Children's Services – Music Service Speedadmin System
- Children's Services – Early Years Module
- Pension Fund – iKen System
- Growth – Planning System
- Operations and Neighbourhoods – Markets System
- Operations and Neighbourhoods – Special Education Needs and Adults Transport
- Agresso Upgrade
- Pension Fund Microsoft 365

Verification and Assurance Work

- Mossley Hollins High – Grant Assurance

- George Byrom Trust – Final Accounts Audit 2019/20
- COVID-19 Business Support Grants
- HR/Payroll iTrent Self Service
- Annual Car Allowance Review
- Pension Fund – My Pension Upgrades
- Pension Fund - iConnect

6.4 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.

6.5 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 outweigh 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 and changes to system and processes to ensure the control environment is robust and not undermined by the proposed changes.

6.6 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 Greater Manchester 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 the Council.

6.7 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 positive feedback has been received during review meetings.

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”. The Fighting Fraud and Corruption Locally 2020 is the updated Counter Fraud and Corruption Strategy for Local Government. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities.

7.2 Work to assess the team against the requirements has been delayed due to the COVID-19 pandemic and the increased number of fraud referrals received in relation to business support grants during 2020/21.

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 (Head of Risk Management and Audit) 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 the Chartered Institute of Public Finance and Accountancy 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 (Head of Risk Management and Audit) 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, 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. The Audit Panel has operated in accordance with the Chartered Institute of Public Finance and Accountancy guidance for 2020/21.

10. CONCLUSIONS

10.1 The Self-Assessment conducted in April 2021 confirms that Internal Audit conforms to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note 2019, as demonstrated in **Appendix 1**.

10.2 From the review of Internal Audit, it can be concluded that Internal Audit 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 Senior Management Teams, Executive Members and the Audit Panel, 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 on the front of the report.