

ANNUAL REVIEW: EFFECTIVENESS OF INTERNAL AUDIT

2014 / 2015

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1 BACKGROUND

- 1.1 The Accounts and Audit Regulations 2011 require all Councils to annually review the effectiveness of its internal audit and to present the results of that review to the appropriate committee.
- 1.2 An assessment of Internal Audit has been carried out which is presented for consideration by Audit Committee. It contains an opinion on the effectiveness of the Internal Audit Service including a self-assessment against *“The Public Sector Internal Audit Standards 2013”*. An action plan has been put in place to ensure future compliance.

2 CURRENT ARRANGEMENTS FOR INTERNAL AUDIT

- 2.1 Internal Audit at Peterborough is provided through an in-house team (see 3.1) which is part of Strategic Resources, headed up by the Chief Internal Auditor (CIA). It works closely with others in the Council tasked with assurance, governance and risk management but retains a separate identity in relation to the performance of Internal Audit.
- 2.2 The CIA reports to the Service Director Financial Services and the Executive Director of Strategic Resources but also has direct access, if required to the Chief Executive, Council Leader, Executive Members and the Chair of Audit Committee.
- 2.3 Due to its size, the section is not structured around client / service based teams or Council directorates. This has allowed the opportunity for auditors to develop a depth of knowledge / relationships with customers in relation to the work of a number of services rather than specific areas. However, a number of officers have specific technical attributes that provide the organisation with a “first point of contact”. This provides some continuity to the customer who can regularly deal with the same auditor over a period of time.
- 2.4 The overarching strategy for the service is set out in the Annual Audit Plan (approved in March each year by Audit Committee) and this is reiterated in its Audit Charter. Internal Audit work follows recognised best practice standards and is independently reviewed by External Audit.

2.5 To examine the system of internal audit, this review considered several key elements and assessed their contribution to enabling the section to fulfil its responsibilities. These were:

- The structure and resourcing level, including qualifications and experience of the audit team;
- The extent of compliance with the Public Sector Internal Audit Standards;
- Comparison with the Statement on the Role of the Head of Internal Audit;
- Ensuring that the Section successfully audits the most appropriate areas on a prioritised (risk) basis; and
- The performance of the audit team (details of which are reported in the Annual Internal Audit Opinion report).

3 BASIS FOR OPINION

3.1 Staff Resources

3.1.1 During 2014 / 2015, resources were made up as follows:

- Chief Internal Auditor. 1 officer. 1.00 FTE which is shared between Peterborough (40%), Cambridge City (40%) and South Cambridgeshire (20%).
- Group Auditor. 2 officers. 1.46 FTE
- Principal Auditor. 1 officer. 0.60 FTE.
- Senior Auditor. 2 posts. 2.00 FTE.
- Auditor. 1 post. 1.00 FTE.

3.1.2 As well as undertaking the 2014 / 2015 plan, there were some audits carried forward from 2013 / 2014 to be completed in Quarter 1.

3.2 Training and Experience

3.2.1 Training plans encourage ongoing improvement via both career progression and continuing professional development. There is a varied mix of qualifications / experience within the team such as:

Audit experience:

- Peterborough City Council service ranges from a minimum of 7 years to over 26 years (22 of which within the Internal Audit environment); and
- Previous work experience with banks, accountancy firms, other local authorities and public sector organisations.

Qualifications:

- Qualified Accountants – CIPFA (x1);
- Institute of Internal Auditors – Member (CFIIA x2); Practitioner Level (PIIA x1); Certificate Level (CIIA x1)
- Association of Accounting Technicians – Member (MAAT x1)

3.2.2 The level of experience of audit staff remained constant during the year. There was some staff rotation to enable a breadth of experience and for continuing professional development and this will continue based on operational need and the priority and timing of work. This approach provides increased flexibility to meet audit needs, particularly in time specific and statutory audits.

3.3 External Audit Opinion

3.3.1 External Audit comment in the Annual Audit Letter on the adequacy, or otherwise, of Internal Audit as well as other governance arrangements. The latest report taken to Audit Committee concluded that they could place reliance on the work of Internal Audit.

3.3.2 Liaison with the external auditor continues to be productive and offers the opportunity to co-ordinate audit plans and to share information and to inform risk assessments. The Section agreed the scope and approach to auditing the core financial systems enabling Internal Audit to deliver work of increased value to the Council whilst ensuring that the needs of the external auditor are addressed.

3.4 **Public Sector Internal Audit Standards (PSIAS)**

- 3.4.1 PSIAS came into effect from 1 April 2013, although demonstrating compliance against them is not required until 31 March 2014. A copy of the standards was on the Audit Committee agenda in March 2013 together with an initial overview to provide a checklist for establishing the degree of compliance. Following analysis, a summary improvement plan (as per Standard 1320) is set out in Section 5 below.
- 3.4.2 Following the review, in accordance with standard 1322, significant deviations to the standards must be reported. It is pleasing to note that only minor issues have been identified – such as continuing to regularly review our procedures (which are undertaken anyway) and the new requirement for an external appraisal of the service. It can be concluded therefore that there are **no significant areas** to be addressed.
- 3.4.3 An external assessment is required every 5 years. We have planned for this to be undertaken in 2015 / 2016 (the third year). We have been advised that the current standards are being updated / amended which may have some impact on any assessment. Due to the cost of an external assessment we will await clarification as to the changes made before committing ourselves to the assessment. If the evaluation has to be deferred in to 2016 / 2017, this would still be within the 5 year timeframe.

3.5 **Statement on Role of Head of Internal Audit**

- 3.5.1 CIPFA published its Statement on the role of the Head of Internal Audit (HIA) in public service organisations in December 2010 following widespread consultation. The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against. As well as articulating the core responsibilities of the HIA, it also identifies the personal and professional skills needed.
- 3.5.2 Based on five principles, it defines the core activities and behaviours that belong to the role of the HIA and the organisational arrangements needed to support them. For each principle it sets out the governance arrangements required to ensure that HIAs are able to operate effectively and perform their core duties. It also sets out the core responsibilities of the HIA.
- 3.5.3 There are a series of attributes and personal qualities which sit below these principles, some subjective. A full review against the standards was undertaken and reported to Audit Committee in June 2012. This indicated that the role of the Head of Internal Audit at Peterborough met the underlying aims of the five principles. Minor improvements were identified and these are also highlighted within the new PSIAS.

3.6 **Risk Management and Governance Arrangements**

- 3.6.1 Prioritisation of the work of the Audit Section is achieved by the development and delivery of an annual risk based Audit Plan. This describes the assurance plans for the Section and includes some capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and risk based work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources.
- 3.6.2 The Section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The Section reviews corporate risk registers, business plans and discusses Council objectives and priorities with Directors and Heads of Service to assess assurance needs. The Audit Plan is discussed and approved by Audit Committee in March each year.
- 3.6.3 It is considered that the 2014 / 2015 Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with senior management and Committee. During the year some audit work was deferred or cancelled due to the timing of the audits and additional coverage elsewhere – either due to increased risk or special requests.
- 3.6.4 For 2014 / 2015, the agreed Audit Plan again show links to the corporate aims / objectives in order to clearly demonstrate how audit work relates to the achievement of Council objectives.

3.7 **Audit Committee**

- 3.7.1 The system of Internal Audit includes the role of the "Audit Committee" and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Committee increased in 2012 / 2013 with there amalgamation with the previous Standards Committee although there was continuity of membership. Regular briefings took place with the Chair of Audit Committee and separate training sessions provided when requested. In addition there is an Audit Committee handbook.
- 3.7.2 All final audit reports are issued to appropriate Officers / Members in accordance with the service protocols. Key issues are referred to Audit Committee as part of ongoing progress reports.

4 CONCLUSION

4.1 Consideration of a range of views on the effectiveness of Internal Audit operating within the Council during 2014 / 2015 indicates that this has been both appropriate and effective. **The report demonstrates that the Council has an effective system of internal audit including a policy framework, internal audit function, audit committee and effective management engagement.**

5 COMPLIANCE AND QUALITY IMPROVEMENT PLAN (PSIAS 1320)

For the purposes of the review, the following definitions are used:

- Chief Audit Executive (CAE) = Chief Internal Auditor
- Board = Audit Committee
- Senior Management = Corporate Management Team

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Ref.	STANDARD	COMMENTARY	ACTION
1000	Purpose, Authority and Responsibility		
	The purpose, authority and responsibility of Internal Audit activity must be defined in an Internal Audit charter, consistent with the <i>Definition of Internal Auditing</i> , the <i>Code of Ethics</i> and the <i>Standards</i> . This should be approved by Senior Management and the Board.	<p>The Audit Charter should be regularly reviewed.</p> <p>There is a separate Audit Manual which details the processes/practices followed within the Section. While not a document which is not required to be approved, it needs to be consistent with the approved Charter.</p>	<p>The Audit Charter and Audit Manual will be compared with the new Standards to ensure compliance.</p> <p>The Charter will be submitted to senior management and the Board for approval with the Audit Plan the next Audit Plan.</p> <p><u>PROGRESS:</u> Audit Committee annually approve the updated Charter, Code of Ethics, Performance Indicators and the Audit Plan. This was last in March 2015.</p>

1110	Organisational Independence		
	<p>The CAE must establish effective communication links with the Chair of the Board and Chief Executive</p> <p>The CAE must not report to or be managed at a lower level within the organisation than the Corporate Management Team</p>	<p>There are formal meetings (briefings) with the Audit Committee chair prior to each Committee. While there are no formal meetings with the Chief Executive scheduled, access is available to the Chief Executive on request to discuss control issues / concerns as and when they arise.</p> <p>Functionally, the CIA reports to the Audit Committee and to s.151 Officer (Executive Director of Strategic Resources) who is a member of CMT. For line management purposes, CIA is managed by the Service Director Strategic Finance (who is NOT a member of CMT).</p>	<p>Agree with Chair of Audit Committee if there is a need for additional arrangements for liaison / communication meetings</p> <p><u>PROGRESS:</u> Formal briefings have continued, there has not been a need to change this but is verified quarterly in line with committee deadlines.</p>
1220	Due Professional Care		
	<p>Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.</p>	<p>The Audit Manual sets out the standards individual auditors must meet in their allocated assignments. The Manual is based on the previous Code of Practice and therefore needs to be reviewed to take account of any changes required to meet the PSIAS and to reflect improvement made locally since it was last reviewed.</p>	<p>Review and update the Audit Manual</p> <p><u>PROGRESS:</u> Ongoing</p>
1300	Quality Assurance and Improvement Programme		
	<p>The CAE must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.</p>	<p>The objective is to provide for an assessment of compliance with the PSIAS, together with efficiency and effectiveness of internal audit activity. Previous annual reviews against Code of Practice have been referred to Audit Committee. The programme should also identify opportunities for improvement</p>	<p>This section is to be referred to as the Improvement Programme</p> <p><u>PROGRESS:</u> Updated</p>

<p>1312</p>	<p>External Assessments</p>	<p>External assessments must be conducted at least once every 5 years by a qualified independent assessor from outside the organisation. The CAE must discuss with the Board:</p> <ul style="list-style-type: none"> - The form of external assessments. - The qualifications and independence of the external assessor – including conflicts of interest. 	<p>NEW REQUIREMENT.</p> <p>External assessment can be either “full” assessment or self-assessment with independent external evaluation.</p> <p>Ongoing discussions with other local authorities within the county to look to undertake a peer review in order to minimise costs.</p>	<p>Proposals will be submitted to Audit Committee detailing future arrangements and timescales agreed.</p> <p><u>PROGRESS:</u> It is proposed for external assessment to be undertaken during 2015 for consistency across the partnership. However comments in 3.4.3 above should be noted.</p>
<p>2030</p>	<p>Resources Management</p>	<p>The CAE must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.</p>	<p>The Audit Plan identified the resource gaps between what ideally should be the audit coverage level based on risk assessment and what can be delivered with current staffing levels. Existing vacancies were factored in to be recruited into by the mid point of the year and agreed by Audit Committee. In future years, subject to filled vacancies, the practical reality is that current staffing levels drive the total amount of audit activity given that there is no prospect of any increase in resources in the current economic climate.</p> <p>Resources are deployed subject to the mix of skills, competencies and experience required by each assignment – together with recognition of individual auditors’ development needs. The timing of audits is planned with relevant senior management to minimise abortive work and time – except where unannounced visits are necessary.</p>	<p>Resources will be regularly reviewed to ensure appropriate coverage can be maintained. This will enable the CIA Opinion to be annual provided.</p> <p>Any significant changes will be reported to Audit Committee.</p> <p><u>PROGRESS:</u> Vacant posts have been appointed to and an appropriate plan set in order to deliver an overarching opinion.</p>

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