

Report to Audit Committee

Public Sector Internal Audit Standards – Outcome of External Assessment

Portfolio Holder: Councillor Abdul Jabbar MBE – Deputy Leader and Cabinet Member for Finance and HR

Officer Contact: Mark Stenson – Head of Corporate Governance

Report Author: Mark Stenson – Head of Corporate Governance

Ext. 4783

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Reason for Decision

To advise Members of the outcome of the external assessment of the Council's Internal Audit function in order to comply with the requirements of the 2013 Public Sector Internal Audit Standards (revised 2017).

Executive Summary

The work of Internal Audit at Oldham Council is governed by the UK Public Sector Internal Audit Standards (PSIAS), which came into effect on 1st April 2013. The Standards comprise a revised 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 and the Council commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to deliver the external assessment.

PSIAS requires that an external assessment of the Internal Audit function is conducted by 31st March 2018. In accordance with the Council's Contract Procedure Rules, a detailed cost and quality review of the appropriate options was undertaken by the Head of Corporate Governance and reported to the Audit Committee.

At its meeting on 8th September 2016, Members of this Audit Committee approved the selection of CIPFA to conduct this review, which was carried out by CIPFA in September 2017. It was agreed the feedback would be reported to this Committee

Recommendations

That the Audit Committee notes the outcome of the external assessment of Internal Audit and supports the implementation of agreed service suggestions.

Public Sector Internal Audit Standards – Outcome of External Assessment

1 **Background**

1.1 The Accounts and Audit (England) Regulations 2015 require every Local Authority to arrange for an effective Internal Audit service to evaluate the effectiveness of the Authority's risk management, control and governance processes. This should be carried out with regard to public sector internal audit standards and guidance.

1.2 The 2013 Public Sector Internal Audit Standards (revised in 2017) provide this framework and they comprise a revised 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 within the UK public sector.

1.3 The Public Sector Internal Audit Standards (PSIAS) are intended to create consistency for the practice of Internal Audit across public sector bodies and create a framework to facilitate quality assurance, and their objectives are to:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

1.4 PSIAS require the Council's Head of Corporate Governance (the "Head of Audit") to arrange for the development and maintenance of an appropriate Quality Improvement Programme (QAIP) to assess the Internal Audit activity against the agreed professional standards. PSIAS require the QAIP to include **internal** and **external assessments** of Internal Audit, as set out below:

- The **internal assessment** should be conducted on a regular basis and by periodic review through a self-assessment process or by other persons within the organisation with sufficient knowledge of Internal Audit practices. At Oldham Council, the Head of Corporate Governance conducts this annual review and reports the conclusions to the Audit Committee, via the "Balanced Scorecard" Report. The 2016/17 review was presented to the Audit Committee on 11th May 2017.
- The **external assessment** should be undertaken at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The external assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. This new requirement requires the first external assessment is completed by **31st March 2018**.

1.5 At its meeting on 8th September 2016, Members of the Audit Committee

approved the selection of the Chartered Institute of Public Finance and Accountancy (CIPFA) to conduct this review, which was carried out by CIPFA in September 2017. This report sets out the outcome of this review.

2. External Assessment Outcome

2.1 The CIPFA review was conducted on site on 4th and 5th September 2017 and it comprised the following:

- Review of documentation provided in advance to CIPFA, this included the following:
 - 2017/18 Audit and Counter Fraud Plan;
 - 2017/18 Audit Charter;
 - 2017/18 Audit Manual;
 - 2017/18 Self-Assessment; and
 - Review of written customer/stakeholder feedback around the effectiveness of the Internal Audit service.
- Review of working papers for three audit reviews.
- Interviews with members of the Audit and Counter Fraud Team.
- Meetings with key stakeholders.

2.2 **Appendix 1** sets out the Final agreed report arising from the CIPFA External Review. In summary, the review concluded that the service “Generally Conforms” to the standards. In addition, the review reported that Internal Audit is a “well respected service, which follows best practice”.

2.3 The report contains four recommendations, which have been fully agreed by the Head of Corporate Governance. The changes relate to the Audit Charter and the Annual Report, and they will be fully implemented at the next revision of the documents and incorporated into the 2018/19 Audit and Counter Fraud Plan. These are:

- “Mission of Internal Audit” to replace the role and purpose be clarified in the Charter.
- Incorporate a statement to the Audit Charter to confirm whether the Service has sufficient resources to deliver an effective internal audit service to the Council.
- Review the 2018/19 Audit Plan to incorporate audits of the risk management and annual governance statement processes.
- Expand the Head of Governance’s annual opinion to include the risk management and governance arrangements.

2.4 The review also identified some suggestions for change for the service to consider. These suggestions have also been agreed by the Head of Corporate Governance and they will also be implemented in 2018/19. The suggestions are:

- Evaluate the specialist computerised audit management systems that are available and obtain the one that best meets the current and future needs of the Service.
- Expand the Audit Plan Report to set out how the overall internal audit service

and specific types of audits will be delivered.

- Evaluate the specialist data interrogation and analysis software applications that are available and obtain the one that best meets the needs of the service.

2.5 In summary, in accordance with the findings in **Appendix 1**, the review of the service went well and it was concluded that there no areas of non-compliance and that the self-assessment was a good reflection of Internal Audit's practices. As above the actions will be fully implemented and reported to future meetings of the Audit Committee.

2.6 The Head of Corporate Governance would like to thank the Audit and Counter Fraud Team, and those key stakeholders who supported this external review, including a Member of this Audit Committee. The external assessment provides the Committee assurance about the effectiveness of the Internal Audit function, as those charged with Governance.

3. **Options/Alternatives**

3.1 The Audit Committee can either accept the findings of the external assessment or consider an alternative approach to obtaining the necessary assurance.

4. **Preferred Option**

4.1 It is therefore recommended that Members note the outcome of the external assessment of the Internal Audit service and support the implementation of the agreed recommended service suggestions.

5 **Consultation**

5.1 When undertaking the external assessment, there was consultation with a wide range of stakeholders across the Council.

6 **Financial Implications**

6.1 A robust Internal Audit Service assists the Director of Finance to discharge their duties as Section 151 Officer. (Anne Ryans)

7. **Legal Services Comments**

7.1 N/A.

8 **Cooperative Agenda**

8.1 N/A.

9 **Human Resources Comments**

9.1 N/A.

10. **Risk Assessments**

10.1 The independent assessment highlights a Service following best practice which minimises the risk to the Council. (Mark Stenson)

11	IT Implications
11.1	N/A.
12	Property Implications
12.1	N/A
13	Procurement Implications
13.1	None.
14	Environmental and Health & Safety Implications
14.1	N/A.
15	Equity, Community Cohesion and Crime Implications
15.1.	None.
16	Equality
16.1	No.
17	Forward Plan Reference
17.1	N/A.
18	Key Decision
18.1	N/A
19	Background Papers
19.1	<p>The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act.</p> <ul style="list-style-type: none">• File Ref: Background records are included as Appendix 1• Officer Name: Jane Whyatt• Contact No: 4773
20	Appendices
20.1	<ul style="list-style-type: none">• Appendix 1: CIPFA Validated Self-Assessment Final Report

Appendix 1

This Appendix sets out the External Quality Assessment - Validation of Client's Self-Assessment of Conformance to the Public Sector Internal Audit Standards

**Oldham Metropolitan Borough Council's
Internal Audit Service**

Final Report