

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	5th December 2017	AGENDA ITEM NUMBER
TITLE:	Public Sector Internal Audit Standards	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Public Sector Internal Audit Standards – Self Assessment Conformance RAG.</p> <p>Appendix 2 – Internal Audit Charter</p>		

1 THE ISSUE

- 1.1 The Relevant Internal Audit Standards setters (including HM Treasury, Department of Health and CIPFA for Local Government) have adopted a set of Public Sector Internal Audit Standards (PSIAS). The PSIAS, originally introduced on 1 April 2013 were revised on 1 April 2017.
- 1.2 The purpose of this report is to provide the Committee with the results of a self-assessment undertaken to review B&NES Council Internal Audit Service (Audit West) conformance with the revised Standards.
- 1.3 Audit West must be subject to an external assessment by a qualified, independent assessor or assessment team from outside the Council, once every five years. The next external assessment must be completed by 30 March 2018. The process followed and the evidence compiled by the self-assessment will assist the external assessor and minimise the time spent to complete the external assessment.

2 RECOMMENDATIONS

- 2.1 The Corporate Audit Committee is asked to:
 - 1) Note that the Council's Internal Audit Service (Audit West) has to comply with the revised PSIAS which came into effect from 1st April 2017.
 - 2) Note the Self-Assessment PSIAS RAG and approve the associated Action Plan (Appendix 1).
 - 3) Approve the revised Internal Audit Charter (Appendix 2).

3 FINANCIAL IMPLICATIONS

- 3.1 The implementation of an action plan to ensure compliance with the PSIAS will be carried out using existing resources, i.e. Internal Audit management time. It is proposed that the external assessment will be carried out between January and March 2018 by the Head of Devon Audit Partnership (DAP) and there will be a charge for this work.

4 THE REPORT

- 4.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS. The PSIAS was revised wef 1st April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS 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.
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

- 4.2 In common with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) on which they are based, the PSIAS comprise Attribute Standards (characteristics of organisations and parties performing internal audit activities) and Performance Standards (nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated).

- 4.3 A key requirement of the PSIAS is an Internal Audit Charter which defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes its position within the organisation; the nature of the CAE's functional reporting relationship with the Corporate Audit Committee; formally records its access to property, records and personnel; and defines the scope of internal audit activities. The CAE must periodically review the Internal Audit Charter and present it to senior management and the Corporate Audit Committee for approval.

- 4.4 A Quality Assurance and Improvement Programme (QA&IP) will need to be in place requiring both internal and external assessments. The external assessment will be required at least every 5 years. The CAE is required to communicate the results of the QA&IP to senior management and the Corporate Audit Committee including the conclusions of the assessors and details of the corrective action plans.

- 4.5 An initial desk top review of the Standards has been carried out to confirm

compliance and also to identify work required to be fully compliant. The RAG assessment of conformance with the PSIAS is attached (Appendix 1).

- 4.6 The external assessment process must be carried out by a qualified and independent assessor from outside the organisation. An external assessment of Audit West must be completed by 30 March 2018. As stated in 3.1, the Head of Devon Audit Partnership will be carrying out the assessment between January and March 2018.
- 4.7 The assessment will also involve interviews with key officers and members of the Audit Committee (including the Chair) and a more detailed timetable will be made available to those included once it has been agreed with the assessor.

5 RISK MANAGEMENT

- 5.1 An effective Internal Audit function demonstrates good governance to the public and stakeholders at large. This helps to ensure that the Council is transparent about the delivery of its functions and how it attempts to deliver good value to its residents from its services

6. EQUALITIES

- 6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

- 7.1 The report was distributed to the S151 Officer for Consultation.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	

Public Sector Internal Audit Standards - Self Assessment Conformance RAG (Appendix 1)			
Reference	Code Title	Assessment Rating	Action Plan
Code of Ethics			
1	Integrity	Green	
2	Objectivity	Green	
3	Confidentiality	Green	
4	Competence	Green	
Attribute Standards			
1000	Purpose, Authority and Responsibility	Amber	A review of the current Internal Audit Charter will be undertaken to ensure the content is in line with PSIAS Standards and the revised document will be submitted to the December 2017 Corporate Audit Committee for approval. A process of annual review of the Internal Audit Charter will be established.
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	Red	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards will be included in the revised Internal Audit Charter (See Code 1000).
1100	Independence and Objectivity	Green	
1110	Organisational Independence	Green	
1111	Direct Interaction with the Board	Green	
1112	CAE Roles Beyond Internal Auditing	Amber	A policy should be established which will ensure that assurance engagements over areas that are under the control or direct influence of the CAE (Information Governance) are overseen by a party external to the CAE. The CAE must highlight to the CAC any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong.
1120	Individual Objectivity	Green	
1130	Impairments to Independence or Objectivity	Amber	A process is established to remind Audit West staff of their responsibilities with regard to Independence and Objectivity on an annual basis including a signed declaration that they have read and understood the policies in respect of Code of Conduct, Declarations of Interest and Gifts and Hospitality.
1200	Proficiency and Due Professional Care (The sum of Standards 1210-1230)	Amber	
1210	Proficiency	Green	
1220	Due Professional Care	Green	
1230	Continuing Professional Development	Amber	A training record for each member of the Audit West Team whereby CPD /CPE can be demonstrated and monitored for 2017/18 and beyond will be established. A training strategy for Audit West will be introduced which links to CPD / CPE training needs and the skills and competencies matrix.
1300	Quality Assurance and Improvement Programme (The sum of Standards 1310 - 1320)	Red	
1310	Requirements of the Quality Assurance and Improvement Programme	Amber	A Quality Assurance and Improvement Programme (QAIP) will be developed that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated. It will need to be maintained by the CAE and assess efficiency / effectiveness and opportunities for improvement.
1311	Internal Assessments	Amber	A plan or schedule will be established which sets out the type, nature and timing of future self assessments including ongoing monitoring the performance of Audit West through benchmarking and a revised customer feedback process.
1312	External Assessments	Red	Based on the requirements of PSIAS external assessment will be completed at least every 5 years commencing with an external validation of the Audit West self assessment in March 2018.
1320	Reporting on the Quality Assurance and Improvement Programme	Red	The CAE will communicate the results of both external and periodic internal assessments upon completion to senior management and the CAC.
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	Green	
1322	Disclosure of Non-conformance	Green	

Performance Standards			
2000	Managing the Internal Audit Activity (Sum total of Standards 2010 - 2030)	Amber	
2010	Planning	Green	
2020	Communication and Approval	Green	
2030	Resource Management	Green	
2040	Policies and Procedures	Amber	A procedural guidance manual is established to guide auditors in performing their duties in a manner that conforms to PSIAS / IPPF. The manual should include detailed guidance on how to conduct an audit i.e. planning (understanding objectives and risks of the area to be audited), sample sizes, evidence recording, control identification and assessments.
2050	Coordination	Amber	An assurance mapping exercise is undertaken as part of the planning process for the 2018/19 Annual Audit Plan to identify and determine the approach to using other sources of assurance effectively.
2060	Reporting to Senior Management and the Board	Green	
2100	Nature of Work (Sum of Standards 2110 - 2130)	Green	
2110	Governance	Green	
2120	Risk Management	Green	
2130	Control	Green	
2200	Engagement Planning (Sum of Standards 2201 - 2240)	Amber	
2201	Planning Considerations	Amber	See Standard 2310 - An Audit Planning Document will be established to document / evidence that internal auditors have adequately researched, scoped and planned the internal audit engagements to provide assurance on the key risks.
2210	Engagement Objectives	Amber	See Standard 2310 - An Audit Planning Document will be established to document the rationale used to identify the objectives of the audit review.
2220	Engagement Scope	Green	
2230	Engagement Resource Allocation	Green	
2240	Engagement Work Programme	Green	
2300	Performing the Engagement (The Sum of the Standards 2300 - 2340)	Amber	
2310	Identifying Information	Amber	An Audit Planning document is produced for each audit which documents the key planning information for the audit including the business and process objectives, risk appetite and identified risks, background information, a walkthrough (system narrative) of in scope processes (includes key risks and controls) use of data analytics and the approach to be adopted. This will help keep the focus of the audit on the key risks.
2320	Analysis and Evaluation	Green	
2330	Documenting Information	Amber	The current Record Retention Policy is reviewed to ensure timescales and document areas are still relevant and appropriate. A process of formal review should be established on an annual basis with details of the review and any amendments recorded (version control). A formal process for the review of the documents held electronically and in paper format should be established to ensure documents are destroyed in line with the the Record Retention Policy.
2340	Engagement Supervision	Green	
2400	Communicating Results (Sum of Standards 2410 - 2440)	Green	
2410	Criteria for Communicating	Green	
2420	Quality of Communications	Green	
2421	Errors and Omissions	Green	
2430	Use of conducted in conformance with the International Standards for the Professional Practice of Internal Auditing	Green	
2431	Engagement Disclosure of Non-conformance	Green	
2440	Disseminating Results	Green	
2450	Overall Opinions	Green	
2500	Monitoring Progress	Green	
2600	Resolution of Senior Management & Acceptance of Risks	Green	

Internal Audit Charter

This document sets out the purpose, authority and principal responsibilities of the Internal Audit Service for Bath & North East Somerset Council.

1 Internal Audit's Purpose and Mission

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control, processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight

2 Internal Audit's Statutory Role

- 2.1 The Accounts & Audit Regulations 2015 (Local Government England & Wales) states that:
- “A relevant authority 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”.
- 2.2 Section 151 of the Local Government Act 1972 requires the Council to designate an Officer to be responsible for “making arrangements for the proper administration” of the Council's financial affairs. One of the ways by which this duty is discharged is by maintaining an adequate and effective Internal Audit Service.
- 2.3 The Corporate Audit Committee responsibilities are recorded in its' own Terms of Reference, and are also subject to regular review.

3 Standards for Professional Practice of Internal Auditing

- 3.1 Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.
- 3.2 The Head of Audit West will report periodically to the Council's Chief Executive, Chief Financial Officer (S151 Officer) and the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards.

4 Management's Responsibilities for Internal Control

- 4.1 Responsibility for internal control rests fully with Management, who shall ensure that arrangements are appropriate and adequate. Management shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner intended. This includes responsibility for the prevention and detection of fraud.

5 Internal Audit Responsibility & Objectives

- 5.1 Internal Audit is responsible for carrying out an appraisal of all the Council's activities, financial or otherwise, in line with this Internal Audit Charter. Internal Audit will provide an annual opinion to the Council (Corporate Audit Committee), and will carry out Audits and other assurance work in order to deliver this opinion. In addition, Internal Audit will report to Management any material facts that may affect the delivery of the opinion.
- 5.2 As stated in Section 3 Internal Audit will be governed and will comply with the Professional Practices Framework, (including the Public Sector Internal Audit Standards), and will complete an annual fully evidenced internal assessment of compliance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The findings and any required actions will be reported to the Council's Corporate Audit Committee. Compliance will also be verified through an external review assessment every five years.
- 5.3 Internal Audit and its overall resources and objectives are part of an independent arrangement (Audit West) which is hosted by Bath & North East Somerset Council and subject to overall approval by the Cabinet Member for Resources.
- 5.4 One of the key service objectives of Internal Audit will be to produce a risk based Annual Audit Assurance Plan for approval by the Council's Corporate Audit Committee. The Audit Plan will remain flexible to take account of the Council's changing environment and risk profile.
- 5.5 Completion of all or a significant proportion of the approved Audit Plan will be a key performance measure of the Internal Audit Service.
- 5.6 Internal Audit will directly employ staff and contract as necessary to provide a service to the Council.

6 The Scope of Internal Audit

- 6.1 Internal Audit's work is not limited to the Council's financial systems and records, but extends to all activities of the Council. This enables Internal Audit to give an independent and objective opinion on the adequacy and effectiveness of governance, risk management and the control environment as a source of assurance to management. This will include: reviewing and evaluating compliance with policies, laws and regulations; assessing the reliability and integrity of information; and, safeguarding Council assets. In addition to this core internal audit work, it will undertake, where appropriate, other non-assurance work at the request of management. This may include consultancy and fraud / irregularity related work.

- 6.2 Where appropriate, there may be instances whereby Internal Audit works in partnership to meet objectives and deliver services. In these instances, Internal Audit will decide whether to conduct the work required itself or can place reliance on the work carried out by other Auditors or sources of assurance. If Internal Audit were to carry out the work, then access rights need to be established to all systems and documents. Management should ensure these are established as part of the partnership arrangements.

7 Internal Audit Reporting Lines

- 7.1 The Head of Audit West fulfills the role of the Council's "Chief Internal Auditor" and is fully independent. In relation to the delivery of the function for Bath & North East Somerset Council he reports to the S151 Officer who acts as Client. The Head of Audit West has freedom of reporting access without fear or favour to all relevant Members and Officers (including the Leader of the Council, the Chair of the Corporate Audit Committee and the Council's Statutory Officers - Chief Executive {Head of Paid Service}; Chief Financial Officer {Section 151} and the Head of Legal & Democratic Services {Monitoring Officer}).
- 7.2 The Council has a Corporate Audit Committee whose Terms of Reference include responsibility for monitoring the performance of the Internal Audit Service and approving its Annual Audit Plan. The Head of Audit West reports regularly to the Corporate Audit Committee and is required on an annual basis to provide a formal opinion of the adequacy of the Internal Control Framework and systems to manage risk.

8 Internal Audit Independence

- 8.1 A critical element of the performance of Internal Audit is independence from the activities it audits. This enables Internal Audit to form impartial and effective judgment for the opinions and recommendations made. To help ensure independence Internal Audit is allowed unrestricted access to Senior Management & Members, as stated in Section 7.1. The Head of Audit West reports in his own name.
- 8.2 Internal Auditors will be impartial, have an unbiased attitude and avoid any conflict of interest. Auditors will not undertake audit reviews in services where they have previously worked (directly working for the function or carrying out 'consultancy services') in the last two years. In terms of 'consultancy services' this is work which is going beyond providing an opinion on the control environment, i.e. they are designing or developing systems to fulfil an objective.
- 8.3 Internal auditors will disclose any impairments of independence or objectivity, in fact or appearance, to appropriate parties.
- 8.4 Before Internal Audit agrees to carry out consultancy services consideration will be given to any potential conflicts of interest. If it is concluded that the proposed work would compromise delivery of the service's prime function then the work would be declined.

- 8.5 Where the Head of Audit West has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- 8.6 The Head of Audit West will confirm to the Corporate Audit Committee at least annually of the independence of the internal audit activity.

9 Internal Audit Fraud related work

- 9.1 Internal Audit does not have responsibility for the prevention and detection of fraud. However, Internal Audit staff shall be alert in all their work, to risks and exposures that could allow fraud or corruption. Internal Audit work alone cannot guarantee that fraud and irregularities will be picked up even when work is performed in compliance with the Public Sector Internal Audit Standards.
- 9.2 The main source for Internal Audit to be alerted to possible fraud and irregularities will be through the awareness of Council Officer and Members of the Council's Counter Fraud Strategy and associated policies (Money Laundering Policy; Anti-Bribery Policy and Whistleblowing Policy). Internal Audit maintain the Council's Strategy and Policies and report on this to the Corporate Audit Committee.
- 9.3 Internal Audit assist in the detection of fraud by assisting the Council's Chief Financial Officer in taking the key co-ordination role related to the Cabinet Office National Fraud Initiative. Internal Audit assists Council Services in the preparation and submission of data to the Cabinet Officer and then the review and investigation of data matches.
- 9.4 Internal Audit may also be requested by Management to assist with the investigation of potential cases of fraud and financial irregularities. The objective of the Internal Audit Service is to ensure that: 1) the matter is fully investigated and if necessary referred for Police or disciplinary action; and 2) the system of internal control is enhanced to avoid a repeat of the issue. All reported irregularities would be investigated in line with adopted Strategies, Policies and protocols.

10 Internal Audit's Right of Access

- 10.1 The Accounts & Audit Regulations 2015 provides that any Officer of the Council must make available such documents of the Council which relates to its' accounts and other records as appear to be necessary for the purpose of the Audit.

In addition the Council's Financial Regulations state that The Chief Audit Executive or their authorised representative, shall have authority to:

- Enter at any reasonable times, any operational or administrative Council premises or land and have access to all Council property;
- Have access to (and where necessary to copy or retain) all records whether manually or electronically held, documentation, correspondence and computer systems relating to any transaction of the Council, or non-official funds operated by Council staff;
- Require and receive such explanations as are necessary concerning any matter under examination;

- Require any employee of the Council to produce or account for cash, stores or any other property under their custody or control,
- Examine any work or services carried out for the council by an employee or contractor, and any goods purchased on behalf of the Council,
- Review appraise and report on the soundness, adequacy and application of internal controls. This includes those controls to protect Council resources, property and assets from loss / waste.

11 Relationship with External Audit & other assurance providers

- 11.1 The relationship between Internal Audit and the Council's External Audit should take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst Internal Audit is responsible for assessing the adequacy and evaluate the effectiveness of its risk management, control and governance processes and advise Management accordingly.
- 11.2 Internal Audit will co-operate and co-ordinate with External Audit and any other review agencies to:
- Ensure that duplication of work is minimised
 - Consider joint delivery where appropriate
 - Determine the level of assurance that can be obtained from their work
 - Review the reliance that can be placed on that assurance as part of Internal Audit's opinion on the control environment
 - To enable access to all Internal Audit records as appropriate.
- 11.3 As part of its drive to secure efficiencies, Internal Audit will use all sources of assurance available to it to inform its opinion.

12 Quality Assurance and Improvement Plan

- 12.1 The Head of Audit West has developed a quality assurance and improvement programme that covers all aspects of the internal audit activity. It has been designed to enable an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Institute of Internal Auditors Code of Ethics. Identifying opportunities for improvement is a key requirement of the programme.
- 12.2 An annual internal assessment will be carried out using a methodology developed to review compliance with the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. The results of the internal assessment including any action plans will be reported in the annual report to the Council's Corporate Audit Committee.
- 12.3 An external assessment will be carried out at least every five years by a qualified, independent assessor from outside the organisation.
- 12.4 The Head of Audit West will inform the Corporate Audit Committee of the form of the external assessment and clarify the qualifications and independence of the external assessor. The results of the external assessment including any action

plans will be reported in the relevant annual report to the Corporate Audit Committee.

- 12.5 Any non-conformance to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics will be highlighted for consideration for inclusion in the Council's Annual Governance Statement.