

**REVIEW OF LGSS INTERNAL AUDIT (CAMBRIDGESHIRE) COMPLIANCE
WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)**

To: Audit and Accounts Committee

Date: 9th June 2015

From: LGSS Head of Internal Audit

Electoral Division(s): All

Forward Plan Ref: N/A **Key decision:** No

Purpose: To note Internal Audit's continued compliance with the Public Sector Internal Audit Standards.

Key issues: LGSS Internal Audit is required to comply with the Public Sector Internal Audit Standards. This report presents an updated self-assessment against the Standards.

Recommendations: The Audit and Accounts Committee is asked to approve the results of the self-assessment against the Public Sector Internal Audit Standards.

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1.0 BACKGROUND

- 1.1 As previously reported to Audit and Accounts Committee in June 2014, the Chartered Institute of Public Finance and Accountancy (CIPFA) has adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013 and published a local government application note in support of them. These Standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 1.2 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 that 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.
- 1.3 The self-assessment against the Standards has been reviewed and updated and is shown in Appendix 1.
- 1.4 It is intended that a further review and update against the Standards is undertaken in 2015/16. This will involve a review and, if required, a revision of the Internal Audit Charter to ensure continued compliance with the Standards.

2.0 SIGNIFICANT IMPLICATIONS

2.1 Financial, Equality and Diversity Implications

There are no financial, equality and diversity implications from this report.

2.3 Statutory, Risk and Legal Implications

- 2.3.1 The requirement for local authorities to have an internal audit function is determined by Section 151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'.
- 2.3.2 Internal audit work is carried out to provide assurance on the areas identified in the annual risk-based audit plan. The latest plan was approved by Audit and Accounts Committee at its meeting on 17th March 2015.

- 2.3.3 All Internal Audit staff must comply with the requirements of the Standards, the Code of Ethics and the professional standards of their own professional organisations.

3.0 APPENDIX

Appendix 1: Review of Self-Assessment against Public Sector Internal Audit Standards, undertaken in March 2015

Source Documents	Location
LGSS Internal Audit Charter	Box OCT1108 Shire Hall Cambridge CB3 0AP
Public Sector Internal Audit Standards	Box OCT1108 Shire Hall Cambridge CB3 0AP

Review of LGSS Internal Audit (Cambridgeshire) Self-Assessment against the Public Sector Internal Audit Standards, undertaken in March 2015

PSIAS Requirements	Evidence of Achievement	Action Plan for Development
<p>Code of Ethics:</p> <p><i>Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.</i></p> <ul style="list-style-type: none"> • <i>Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement</i> • <i>Objectivity – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.</i> • <i>Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless</i> 	<p>Ongoing staff management/supervision and the Performance Appraisal and Development Programme (PADP) considers these issues; where areas of concern are identified these will be addressed with necessary action taken.</p> <p>However, it was noted that the Performance Appraisal and Development Programme (PADP) was not undertaken in respect of Internal Audit staff in 2014/15.</p> <p>Staff are required to sign an annual Declaration of Interests form, which is subject to management approval and is considered when allocating audit work.</p> <p>To date, no significant points of conflict have been identified.</p> <p>As noted previously, in December 2012, all staff were provided with a copy of the Public Sector Internal Audit Standards, covering requirements to ensure compliance with ethics for internal auditors. Staff are required to comply with the Standards and with their own professional Codes of Conduct.</p> <p>Staff are required to undertake audits across all areas of the annual plan.</p> <p>All new staff are required to sign a confidentiality agreement.</p>	<p>The Performance Appraisal and Development Programme (PADP) will be undertaken in respect of Internal Audit staff in 2015/16.</p> <p>Training sessions covering the requirements of the Public Sector Internal Audit Standards will be conducted in 2015/16 to ensure that all staff have an up to date knowledge of the Standards.</p>

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<p><i>there is a legal or professional obligation to do so</i></p> <ul style="list-style-type: none"> • <i>Competence – Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.</i> 	<p>The internal audit team members are professionally and appropriate qualified or are working towards a professional qualification. Where staff are studying they are appropriately supervised and mentored.</p>	<p>See area for action above re PADP.</p>
<p>1000 Purpose, Authority and Responsibility</p> <p><i>....Purpose, authority and responsibility of Internal Audit is formally defined by the organisation in a charter consistent with these standards.</i></p> <p><i>...This charter is reviewed periodically and approved by senior management and the relevant boards.</i></p> <p><i>...The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics and the Standards with senior management and the board.</i></p> <p><i>....The internal audit charter must cover the arrangements for appropriate resourcing.</i></p> <p><i>...The nature of consulting services must be defined in the internal audit charter.</i></p> <p><i>...The internal audit charter must define the role of internal audit in any fraud-related work.</i></p>	<p>The Audit Charter was issued in June 2014 to take account of the new Public Sector Internal Audit Standards which were effective from April 1st 2013. This Charter was approved by the Audit and Accounts Committee in June 2014.</p> <p>Resource levels within Internal Audit are assessed on an annual basis as part of the internal audit annual planning process.</p> <p>At the time of this review Internal Audit is undergoing a restructure; resource levels within Internal Audit have been considered as part of the restructure.</p> <p>Internal Audit has the capacity to undertake consultancy type reviews as requested by senior management of the Council.</p> <p>The Internal Audit Charter defines audit responsibilities in relation to fraud and corruption. This is reflected within the Authority's Anti-Fraud and Corruption Policy.</p>	<p>The Audit Charter will be reviewed and if appropriate, updated in 2015/16.</p> <p>The Anti-Fraud and Corruption Policy is to be reviewed and updated in 2015/16. This review will include the bribery and</p>

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<p><i>...The internal audit charter must include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.</i></p>	<p>The revised structure includes a Counter Fraud Team, consisting of 6 members of staff.</p> <p>Internal Audit does not undertake non-audit activities. The Head of Internal Audit will ensure staff transferring internally to Internal Audit do not audit activities they were previously responsible for, for at least 18 months. This includes transfers of CIPFA trainees from placements in Professional Finance.</p>	<p>money laundering policies. This review will be undertaken by the newly established Counter Fraud Team.</p>
<p>1100. Independence and Objectivity</p> <p><i>...The internal audit activity must be independent and internal auditors must be objective in performing their work</i></p> <p><i>...The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity</i></p> <p><i>....Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.</i></p>	<p>The Audit Charter sets out and confirms the independence and objectivity of internal audit.</p> <p>Staff must comply with the requirements of the Standards and of their own professional bodies.</p> <p>The Head of Internal Audit has direct access to those charged with governance including the Audit Committee, the Chief Executive, S151 Officer and Senior Management Team.</p> <p>Reports are issued to auditees and the Audit Committee in the name of the Head of Internal Audit.</p> <p>No conflict of interest between operational responsibilities and audit has been found.</p> <p>The approach adopted within the section is to complete an annual Declaration of Interest. This will identify any conflicts of interest, which management will take into account when allocating work from the audit plan. All staff have signed a Declaration of Interest form during 2014/15.</p>	<p>Declaration of Interest forms will be re updated and be completed by all staff by the end of 2015/16. These will be reviewed and authorised by management.</p>
<p>Audit Committee</p> <p><i>...The chief audit executive must communicate and interact directly with the board (Audit Committee).</i></p>	<p>An independent Audit and Accounts Committee exists within the authority which has an independent Chair. The terms of</p>	

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(1111)	<p>reference for the Committee have been formally approved and are regularly reviewed. They include responsibility for the review of the Annual Governance Statement.</p> <p>The Audit and Accounts Committee approves the annual audit plan and monitors the delivery of this.</p> <p>The Head of Internal Audit attends the meetings of the Audit and Accounts Committee, at which he reports on the outcome of internal audit work, identifies necessary changes to the audit plan, and presents an annual report and audit opinion on the internal control and risk management framework.</p> <p>The responsibilities of Internal Audit staff and Members, particularly those of the Audit and Accounts Committee are laid out in the Audit Charter. Training has been given to Audit and Accounts Committee members and specific training is provided upon request.</p>	
<p>Staffing, training and continuing professional development (CPD)</p> <p><i>...Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities (1200)</i></p>	<p>The skills and competencies required of each post have been determined through job descriptions and person specifications. These have been reviewed as part of the re-structure of Internal Audit in 2015.</p> <p>However, no individual performance targets have been set and the individual's completion of their Continuing Professional Development has not been reviewed to confirm</p>	<p>As part of the Performance Appraisal and Development Programme (PADP) (which will be undertaken in 2015/16), individual performance</p>

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	<p>compliance.</p> <p>No supervision has taken place in 2014/15.</p> <p>The Internal Audit team members are either CCAB qualified or are working towards the CIPFA or IIA professional qualifications. Unqualified staff are supervised by a professionally qualified manager. The Internal Audit budget includes a dedicated training budget to support the cost of professional qualifications and support staff in meeting their Continuing Professional Development requirements.</p>	<p>targets to be set and agreed with staff. These targets will be monitored and form part of the six-monthly review and annual completion of the individual's Performance Appraisal and Development Programme,</p> <p>The Performance Appraisal and Development Programme will include a review of an individual's compliance with their Continuing Professional development requirements.</p> <p>An assessment of an individual's skills and competencies will be made as part of the Performance Appraisal and Development Programme. Further training and development needs will be identified, and where possible, will be provided through on the job training and/or external training courses. Formal staff supervision will be implemented in 2015/16.</p>
<p>1300 Quality Assurance</p> <p><i>..... The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.</i></p>	<p>All internal auditors are aware of their individual responsibilities in relation to due professional care.</p> <p>Arrangements are in place to monitor this, which include:</p> <p>Managers conduct a robust review of audit files and draft reports ensuring that the work completed is in accordance with the original scope of work agreed and to the desired quality.</p> <p>The Head of Internal Audit reviews all reports with a moderate or limited assurance level following on from this review prior to the draft / final reports being issued.</p>	

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	Performance of individual auditors to exercise due professional care is, and will continue to be, included within the PADP process.	
<p>2000. Undertaking Audit Work</p> <p>....<i>Planning</i> The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.</p> <p>...<i>Approach</i> The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</p> <p>....<i>Recording and Assignments</i> Internal auditors must document relevant information to support the conclusions and engagement results. Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.</p>	<p>Terms of Reference are prepared and agreed with management for each audit to be undertaken.</p> <p>A risk-based approach is used and an audit opinion is given at the end of every audit undertaken.</p> <p>Significant issues are brought to the attention of auditees at the earliest opportunity during the course of the audit.</p> <p>Draft reports are issued to auditees. The findings and recommendations are discussed at the closure meeting to agree on appropriate actions; responsible officer and the date of implementation of the agreed action. A final report is subsequently issued which incorporates these agree actions.</p> <p>Standards of working papers are specified and checked as part of the file review.</p> <p>Internal audit use an industry standard time recording system (APACE). Reports are produced for management information purposes.</p> <p>Working papers supporting conclusions drawn and recommendations made are maintained and retained on file or</p>	

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	<p>stored electronically with restricted access to audit staff. These are subject to management review.</p> <p>The progress of management to implement agreed recommendations/actions are monitored by Internal Audit via a method of quarterly follow ups and reported to the Audit and Accounts Committee by the Head of Internal Audit.</p>	
<p>2010 Audit Strategy and Planning</p> <p><i>The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.</i></p>	<p>The annual risk-based audit plan is presented to the Audit and Accounts Committee and reflects the Audit Strategy. The Strategy complies with the PSIAS and has been formally endorsed by the Audit and Accounts Committee as part of the planning process.</p> <p>The corporate risk register has been reviewed and there is clear linkage between the audit plan and the corporate risks. Available resources have been compared with the resource need as part of the audit planning process.</p> <p>The plan has been endorsed by the Audit and Accounts Committee.</p>	
<p>Performance, quality and effectiveness</p> <p>.... The chief audit executive must establish policies and procedures to guide the internal audit activity. (2040)</p> <p>....The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. (2030)</p> <p>Interpretation: Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the</p>	<p>Policies and procedures are defined in an audit manual, which is available to all Internal Audit team members. Performance indicators are reported to LGSS Management and the Accounts and Audit Committee.</p> <p>Audits assignments are allocated according to the skills and experience of staff. Auditors may be assigned to assist more experienced audit staff in order to continue their professional development and share knowledge.</p>	

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<p>quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.</p> <p>...The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. (2070)</p> <p>Interpretation: A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.</p>	<p>Performance measures are defined and results reported to the Audit and Accounts Committee and LGSS Management.</p> <p>Customer Feedback Questionnaires are issued with each final report to ascertain the views of auditees on the audit process; these are summarised in the annual report.</p> <p>An annual assessment of the work of internal audit is undertaken by the external auditor and reported to Members in terms of the reliance the external auditors can place on the work of internal audit.</p>	
<p>2100 Nature of Work</p> <p><i>The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.</i></p>	<p>The findings of internal audit contribute to the Annual Governance Statement. The Annual Report by the Head of Internal Audit documents the contribution of internal audit to governance and risk management.</p>	
<p>2200 Engagement Planning</p> <p><i>Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.</i></p>	<p>The engagement planning process is documented within the audit manual. Audits are undertaken in accordance with professional standards.</p>	

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<p>2300 Performing the Engagement</p> <p><i>Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.</i></p>	<p>The engagement performance process is documented within the Audit Manual. Audits are undertaken in accordance with professional standards.</p>	
<p>2400. Communicating Results</p> <p><i>...The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.</i></p> <p><i>...Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.</i></p> <p><i>...Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.</i></p>	<p>All internal audit reports are issued in the name of the Head of Internal Audit.</p> <p>Audit reports give an overall opinion on risks and controls, based on the audit work undertaken and using approved methodology.</p> <p>The scope of each audit is set out in the audit report and the agreed Terms of Reference, which are agreed with the auditee at the commencement of the audit work.</p> <p>Post-audit discussions are held by the assigned audit staff with the relevant auditees.</p> <p>Recommendations/actions are prioritised according to risk. Draft reports are discussed with management and action plans agreed in response to recommendations made.</p> <p>Draft and the subsequent final report are issued to appropriate managers/auditees.</p> <p>Assurances are sought from managers on the delivery of agreed recommendations/actions.</p>	

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<p><i>Interpretation:</i></p> <p><i>Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.</i></p> <p><i>....The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.</i></p> <p><i>The annual report must incorporate:</i></p> <p><i>the opinion;</i></p> <p><i>a summary of the work that supports the opinion; and</i></p> <p><i>a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.</i></p>	<p>Where agreed recommendation/actions are not implemented, an escalation procedure has been defined and has been implemented.</p> <p>Where necessary, the opinion on the audit is revised in the light of the non-delivery of agreed actions.</p> <p>An annual report to support the Annual Governance Statement is presented to the Audit and Accounts Committee. The report includes the opinion on the control environment and any qualifications to that opinion. The work on which the opinion is based is set out in the report.</p> <p>The report highlights significant issues and key themes or trends arising from audit work in the year.</p> <p>Interim progress reports are submitted to the Audit and Accounts Committee. The status of the implementation of agreed recommendations/actions is submitted to the Audit and Accounts Committee.</p>	
<p>2500 Monitoring Progress</p> <p><i>The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.</i></p>	<p>A follow up process is in place and the results are reported to the Audit and Accounts Committee. Managers may be requested to attend Audit and Accounts Committee to explain the reason for non-implementation of agreed recommendations/actions.</p>	

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<p>2600 Communicating the acceptance of risks</p> <p><i>When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.</i></p>	<p>The Head of Internal Audit reports to the Audit and Accounts Committee on the findings and recommendations/actions agreed of all audits undertaken.</p>	