

Committee: General Purposes Committee

Date: 5th November 2013

Agenda item:

Wards:

Subject: Public Sector Internal Audit Standards

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Mark Allison, Cabinet Member for Finance

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Internal Audit

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Recommendation:

- A. That Members note the report and comment upon matters arising from the Internal Assessment and the action plan
- B. That Members agree the External Assessment

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Council has, for a number of years, managed its Internal Audit function in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit.
- 1.2 This code has now been replaced by the Public Sector Internal Audit Standards which came as a result of collaboration between CIPFA and the Chartered Institute of Internal Auditors (CIIA) which aims to develop the internal audit profession in the public sector.
- 1.3 The PSIAS came into force from 1st April 2013 and consists of the following:
 - Definition of Internal Auditing;
 - Code of Ethics; and
 - Standards for the Professional Practice of Internal Auditing.
- 1.4 In local government, the PSIAS are mandatory for all principal Local Authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011.
- 1.5 The role of the board (General Purposes Committee) under PSIAS is to:

- Approve the Internal Audit Charter (agreed by GP Committee in September 2013).
- Approve the risk based Internal Audit Plan (Approved annually by GP Committee – March).
- Approve the Internal Audit budget and resource plan (budgeted days are included in audit plan – approved by GP Committee).
- Receive communications from the Head of Audit on internal audit's activity performance relative to its plan, and other matters (progress reports issued twice yearly to GP Committee).
- Making appropriate enquiries of management and the Head of Audit to determine whether there is inappropriate scope to the plan or individual audits, or resource limitations (Internal Audit Plan and progress report)

1.6 Although the above role has been undertaken by the General Purposes Committee. Consideration needs to be given to reviewing the terms of reference of this committee to reflect the requirements of the PSIAS. (see Action Plan A2).

2. DETAILS

2.1 In accordance with the Accounts and Audit Regulations 2011 the Council is required to make arrangement for, and conduct, at least an annual review of its systems of Internal Audit. One of the requirements of the PSIAS is that the results of this review are reported to GP Committee

2.2 The new Standards are very comprehensive consisting of over 345 separate criteria all of which have been considered. This has shown that the Internal Audit Service is mainly compliant with the requirements of the new Standards but has identified a relatively small number of areas where action is required. The findings of the self-assessment are in Appendix 1 and 2 for the Committee to consider

2.3 The main areas of change identified are as follows:

- Audit Charter has been agreed by GP Committee and now needs to go to senior managers with audit plan for 14/15 and to be available on the intranet.
- The Director of Corporate Services is to seek comments from the Chair of General Purposes in relation to the completion of the Head of Audits appraisal.
- Improvements to quality assurance processes, including the adoption of a formal Quality Assurance and Improvement Programme incorporating the need for an external inspection every 5 years;

- Revisions to the current Internal Audit manual to align it fully with the new Standards;
- The Terms of Reference of the Council's General Purposes Committee are to be reviewed and consideration given to ensuring their compliance with the PSIAS.
- Policies in respect of document confidentiality, retention requirements and the release to internal and external sources as to be documented.

3. EXTERNAL ASSESSMENT

- 3.1 One of the fundamental changes introduced by the Standards is a requirement for Local Authorities to be subject to an independent external assessment at least once every five years.
- 3.2 The Council participates in the London Audit Group and it is recommended that an external assessment is completed by a peer London Authority. This is currently being co-ordinated by the London Borough of Croydon. The proposal is that Merton's review will be carried out in January/February 2014.
- 3.3 Consideration has been given to the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation') and it has been decided that a Internal Assessment with independent validation is the most appropriate way forward. The scope of the external assessor has been agreed with the sponsor, the Director of Corporate Services.
- 3.4 The review will cover compliance with the standard and will include interviews with the Chair of GP Committee, Chief Executive, Section 151 and Monitoring Officer and members of CMT. The review will include the effectiveness of the GP Committee in progressing Internal Audit issues.
- 3.5 The results of External and Internal assessments and the degree of conformance and ongoing monitoring will be reported back to GP Committee at least annually.
- 3.6 Progress against any agreed improvement plans, following an external assessment, will also be included in the Internal Audit annual report.

4. ALTERNATIVE OPTIONS

- 4.1 None for the purposes of this report.

5. CONSULTATION UNDERTAKEN OR PROPOSED

- 5.1. None for the purposes of this report.

6. TIMETABLE

6.1. None for the purposes of this report.

7 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

7.1 The planned work and unplanned work is undertaken within the budget allocated.

8 LEGAL AND STATUTORY IMPLICATIONS

8.1 This report sets out the Internal Assessment of Merton's Internal Audit Service. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other councils to make arrangements for the proper administration of their financial affairs. The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of these statutory duties.

9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

9.1 Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers, members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

10 CRIME AND DISORDER IMPLICATIONS

10.1 There are no specific crime and disorder implications arising from this report.

11 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

11.1. The PSIAS set out the 'proper practices' for Internal Audit for the purpose of the Regulations and are intended to ensure that the Council has in place an adequate and effective Internal Audit of the system of internal controls. The Standards provide a comprehensive framework for an effective Internal Audit service for the Council and, by complying with the Standards; the Council will ensure that its Internal Audit service is professional, independent and objective.

11.2 The annual Internal Assessment, and this resulting report to the General Purposes Committee, assists the Committee in fulfilling its governance role by providing assurance that the Council's Internal Audit is complying with professional standards, best practice and regulatory requirements, and that any aspects of the service requiring further development are identified so that appropriate management action can be undertaken. An effective Internal Audit enables the

organisation to identify and mitigate risks that may otherwise arise as the result of failure to maintain satisfactory internal controls.

APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1 – Internal Assessment results 13/14
- Appendix 2 - Action Plan

BACKGROUND PAPERS

- i. Documents held in Internal Audit Files

Internal Assessment 13/14

1. INTRODUCTION

1.1 The internal Assessment has been completed using the Local Government Application Note and checklist produced by CIPFA. This report provides details of any areas of non-compliance which have been identified and actions to address them.

2 KEY ISSUES

2.1 The new Public Sector Internal Audit Standards (PSIAS) are primarily based on the International Standards set by the Institute of Internal Auditors and seek to provide a universal standard for internal audit which cuts across both the private and public sector.

2.2 There is much commonality between the former CIPFA standards and the new PSIAS and compliance has helped to ensure that the need for further change/development is minimal. In relation to the overall number of criteria involved the degree of noncompliance is considered minimal with many being concerned with minor changes to existing arrangements. The most significant changes to current practices required are in the following areas:

- To include the Audit Charter with the Audit plan for 14/15 and circulate it to senior managers. To add Audit Charter to the intranet.
- The Director of Corporate Services to seek comments from the Chair of General Purposes in relation to the completion of the Head of Internal Audits appraisal.
- Improvements to quality assurance processes, including the adoption of a formal Quality Assurance and Improvement Programme incorporating the need for an external assessment every 5 years;
- Revisions to the current Internal Audit manual to align it fully with the new Standards;
- The Terms of Reference of the Council's General Purposes Committee to be reviewed and consideration given to ensuring their compliance with the PSIAS.
- Policies in respect of document confidentiality, retention requirements and the release to internal and external parties to be developed.

Internal Assessment results 13/14

Ref	ref	Details	Fully Compliant	Partially Compliant	Not Compliant	Action Plan
1.		Definition of Internal Auditing	Y			
2.		Code of Ethics	Y			
3.		Attribute Standards				
3.1	1000	Purpose, Authority and Responsibility		Y		A1/A2
3.2	1100	Independence and Objectivity	Y			
	1110	Organisational Independence		Y		A3
	1111	Direct Interaction with the Board	Y			
	1120	Individual Objectivity	Y			
	1130	Impairment to Independence or Objectivity	Y			
3.3	1200	Proficiency and Due Professional Care				
	1210	Proficiency	Y			
	1220	Due Professional Care	Y			
	1230	Continuing Professional Development	Y			
3.4	1300	Quality Assurance and Improvement Programme		Y		A4
	1310	Requirements of the Quality Assurance and Improvement Programme		Y		A4
	1311	Internal Assessments	Y			
	1312	External Assessments	Y			A4
	1320	Reporting on the Quality Assurance and Improvement Programme	Y			A4
	1321	Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'		Y		A4
	1322	Disclosure of Non-conformance	Y			
4		Performance Standards				
4.1	2000	Managing the Internal Audit Activity	Y			
	2010	Planning	Y			
	2020	Communication and Approval	Y			
	2030	Resource Management	Y			
	2040	Policies and Procedures		Y		A5/A6
	2050	Co-ordination	Y			

	2060	Reporting to Senior Management and the Board				
	2070	External Service Provider and Organisational Responsibility for Internal Auditing				
4.2	2100	Nature of Work				N/A
	2110	Governance		Y		
	2120	Risk Management		Y		
	2130	Control		Y		
4.3	2200	Engagement Planning		Y		
	2210	Engagement Objectives		Y		
	2220	Engagement Scope		Y		
	2230	Engagement Resource Allocation		Y		
	2240	Engagement Work Programme		Y		
4.4	2300	Performing the Engagement		Y		
	2310	Identifying Information		Y		
	2320	Analysis and Evaluation		Y		
	2330	Documenting Information		Y		
	2340	Engagement Supervision		Y		
4.5	2400	Communicating Results		Y		
	2410	Criteria for Communicating		Y		
	2420	Quality of Communications		Y		
	2421	Errors and Omissions		Y		
	2430	Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'		Y		
	2431	Engagement Disclosure of Non-conformance		Y		
	2440	Disseminating Results		Y		
	2450	Overall Opinion		Y		
4.6	2500	Monitoring Progress		Y		
4.7	2600	Communicating the Acceptance of Risks		Y		

PUBLIC SECTOR INTERNAL AUDIT STANDARDS ACTION PLAN

No	Findings	Risk	Recommendations	Responsible Officer	Target Date For implementation
A1	The internal audit Charter has been approved by the GP Committee. It now needs regularly review, and communication to all senior management and other relevant people	Senior Management and other relevant people may not be aware of the responsibility and scope of Internal Audit	To include Audit Charter with audit plan for 14/15 to be circulated to senior managers. To add audit charter to the intranet.	Head of Internal Audit	January 2014
A2	The Terms of Reference of the Council's General Purposes Committee do not currently make reference to the PSIAS standard.	The General Purposes Committee terms of reference may not be clear on its role	A review of the terms of reference for the GP Committee will be undertaken to ensure compliance with PSIAS	Head of Democratic Services	March 2014
A3	The PSIAS states that it is good practice for the Chair of the GP Committee's to provide feedback for the appraisal process for the Head of Internal Audit. This does not currently occur.	Less assurance that Internal Audit is providing an effective service to the GP Committee and specifically to the Chair of the Committee	The Director of Corporate Services to seek comments from the Chair of General Purposes in relation to the completion of the Head of Audits appraisal	Director of Corporate Services	June 2014

A4	<p>The PSIAS requires the quality and assurance programme (QAIP) to include internal and external assessment This is the first annual Internal Assessment the external assessment is scheduled for January 2014.</p>	<p>The current absence of a QAIP, as defined by the new Standards, reduces the ability of the service to demonstrate that it is complying with the Standards and increases the risk that aspects of the Internal Audit service may fail to meet the required Standards</p>	<p>Improvements to quality assurance processes, including the adoption of a formal Quality Assurance and Improvement Programme incorporating the need for an annual assessment and an external inspection every 5 years</p>	<p>Head of Internal Audit</p>	<p>Internal Assessment – November 2013. External Assessment by March 2014</p>
A5	<p>The Audit Manual has not been updated to ensure it is aligned to the PSIAS</p>	<p>The current guidance for Internal Auditors as detailed in the audit manual may not be consistent with the requirements of the new standards. This leads to a risk that audits may be less effective</p>	<p>Revisions to the current Internal Audit manual to align it fully with the new Standards</p>	<p>Head of Internal Audit</p>	<p>January 2014</p>
A6	<p>Policies in respect of document confidentiality, retention requirements and the release to internal and external parties have not yet been developed.</p>	<p>Data Protection and other requirement may not be adhered to.</p>	<p>A policy detailing the confidentiality, retention and release of information to internal and external parties will be prepared to ensure consistency with the organisation's guidelines and any pertinent regulatory or other requirements</p>	<p>Head of Internal Audit</p>	<p>January 2014</p>