

Leicester
City Council

WARDS AFFECTED
All

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Corporate Management Team

6 September 2017

Audit & Risk Committee

28 September 2017

Internal Audit Annual Report and Opinion for the financial year 2016-17

Report of the Director of Finance

1. Purpose of Report

- 1.1.** The report provides the Authority with an Internal Audit Annual Report and Opinion for 2016-17, drawing upon the outcomes of Internal Audit work performed over the course of that year. The report also concludes on the Effectiveness of Internal Audit.

1.2 Recommendations

The Audit & Risk Committee is recommended to:

- Receive and approve the contents of the Annual Report and Opinion
- Note that for the year ended 31 March 2017, an internal audit opinion of 'substantial assurance' has been given in relation to the overall adequacy and effectiveness of the Authority's control environment
- Note that the individual assignment opinions expressed together with significant matters arising from internal audit work (see separate report brought to this meeting 'Internal Audit Update Report 2016-17') have been given due consideration when developing and reviewing the Authority's Annual Governance Statement for 2016-17 (also presented to this meeting for approval)
- Note the conclusions of the self-assessment of the internal audit function's effectiveness
- Make any recommendations it sees fit to the Director of Finance or the Executive.

2. Summary

In line with the Public Sector Internal Audit Standards (PSIAS), which were revised from April 2016, the Head of Internal Audit should provide an annual report to 'the Board' (defined in the City Council's Internal Audit Charter as the

Audit and Risk Committee) timed to support the annual governance statement. The annual report must include:

- a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment, i.e. its framework of governance, risk management and control
- b. a summary of the audit work from which the opinion is derived (given in 'Internal Audit Update Report 2016-17' also presented to this Committee)
- c. reliance placed on any other assurance providers
- d. any qualifications to the opinion, together with the reason for qualification
- e. disclosure of any impairments or restriction to the scope of the opinion
- f. a comparison of actual audit work undertaken with planned work (given in 'Internal Audit Update Report 2016-17' presented to this Committee)
- g. the performance of Internal Audit against its performance measures and targets (given in 'Internal Audit Update Report 2016/17' also presented here to this Committee)
- h. any other issues the Head of Internal Audit considers relevant to the Annual Governance Statement

2.2 This report also contains conclusions following an internal self-assessment of the function's effectiveness which included:

- The degree of conformance with the PSIAS and the results of any quality assurance and improvement programme
- The outcomes of the performance indicators
- The degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit

It should be noted that during the financial year 2017-18 an external review of the internal audit function's conformance with PSIAS will be undertaken to satisfy requirements to have such a review once in every five years.

2.3 The Internal Audit Annual Report and Opinion 2016-17 and the Review of Effectiveness of Internal Audit are shown at Appendix A.

2.4 On the basis of the Internal Audit work performed during 2016-17 and input from the former Head of Internal Audit and Risk Management (in post for the financial year in question), the Head of Finance is able to give an opinion of **substantial** assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control..

2.5 The outcomes of the self-assessment of the function's effectiveness review conducted by the former Head of Internal Audit and Risk Management, and reviewed by the Head of Assurance Services at Leicestershire County Council, confirm that Internal Audit:

- On the whole, conforms with the Public Sector Internal Audit Standards;
- Is continually monitoring performance and looking for ways to improve; and,

- Is compliant with CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations.

These findings, therefore, indicate that reliance can be placed on the opinions expressed by the former Head of Internal Audit and Risk Management, which have then been used to inform the Authority’s Annual Governance Statement.

3. Report

- 3.1 Please refer to Appendix A – Internal Audit Annual Report and Opinion 2016-17.

4. Financial, Legal and Other Implications

4.1. Financial Implications

As defined in the Public Sector Internal Audit Standards (PSIAS), internal audit is an independent, objective assurance and consulting activity designed to improve and add value to the Council’s operations. It should help the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The self-assessment against PSIAS has concluded that there are no significant areas of non-conformance; however, some areas for improvement have been identified.

Colin Sharpe, Head of Finance, ext. 37 4081

4.2. Legal Implications

Internal audit aids the fulfilment by the Council of its statutory responsibilities under the Accounts and Audit (England) Regulations 2015 (which were applicable throughout the financial year 2016-17) for independently evaluating the Council’s system of internal control. It is an important part of the way the duties of the Director of Finance are met as the responsible financial officer under s151 of the Local Government Act 1972.

Kamal Adatia, City Barrister and Head of Standards – 37 1401

5. Other Implications

Other Implications	Yes/No	Paragraph/reference within supporting information
Equal Opportunities	No	-
Policy	No	-
Sustainable and Environmental	No	-
Climate Change	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-
Corporate Parenting	No	-
Health Inequalities Impact	No	-
Risk Management	Yes	The whole report concerns the Internal Audit process and its outcomes, a main

Other Implications	Yes/No	Paragraph/reference within supporting information
		purpose of which is to give assurance to Directors and this Committee that risks are being properly identified and managed appropriately by the business.

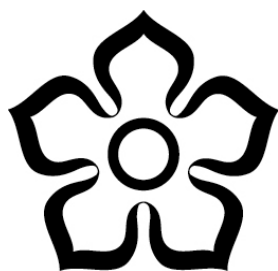
6. Consultations

The Corporate and Finance Management Teams have been consulted on this report. Information relating to Internal Audit reports referred to has been shared with members of the Audit & Risk Committee and relevant Directors.

7. Report Author

Colin Sharpe, Head of Finance, ext. 37 4081

Based on a draft report by the former Head of Internal Audit and Risk Management; and reviewed by Neil Jones, Head of Assurance Services, Leicestershire County Council



Leicester
City Council

Internal Audit
Leicester City Council

**Internal Audit
Annual Report and
Opinion 2016-17**

August 2017

Table of Contents

	Page no.
1. Introduction	1
2. Annual Opinion of the Head of Internal Audit	2
3. Audit Work Undertaken during the Year	3
4. Third Party Assurances	4
5. Self-Assessment of the Effectiveness of Internal Audit	4
6. Annual Review of the Effectiveness of Audit and Risk Committee	6
Annex 1 – Internal Audit Assurance Levels	7
Annex 2 – Conformance to the Public Sector Internal Audit Standards (PSIAS) & position of the Quality Assurance & Improvement Programme (QAIP)	8

1 Introduction

- 1.1 The duties of the Audit & Risk Committee as set out in its terms of reference include:

On behalf of the Council, to approve the Head of Internal Audit's annual report and opinion, considering the level of assurance given over the Council's corporate governance arrangements and decide on appropriate actions.

and

To consider, challenge and approve (but not direct) Internal Audit's strategy and plan and monitor performance on an annual basis.

- 1.2 The Authority is required by the Accounts and Audit Regulations 2015 to 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. The standards are set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013 and were revised from April 2016 and guidance is provided by CIPFA's Local Government Application Note (2013).

- 1.3 The standards require the person acting in the capacity of 'Chief Audit Executive' (during 2016-17 this was the City Council's former Head of Internal Audit and Risk Management); to provide a written report to those charged with governance (known in this context as the Audit and Risk Committee) to support the Annual Governance Statement (AGS). This report must set out:-

- The opinion on the overall adequacy and effectiveness of the Authority's control environment i.e. its framework of governance, risk management and control during 2016/17, together with reasons if the opinion is not favourable;
- A summary of the internal audit work carried out from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;
- Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.

1.4 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the Authority's Annual AGS, but there are also a number of other important sources to which the Audit and Risk Committee (and statutory officers of the Council) should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully throughout the rest of this report.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

2.1 Roles and responsibilities

- The Authority's management, statutory officers and executive is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement that records and publishes the Authority's governance arrangements.
- An annual internal audit opinion is required on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Internal Audit Plan discussed and approved at Corporate Management Team (CMT) and then approved by the Audit and Risk Committee (ARC) at its meeting on the 23 March 2016. Any justifiable adjustments to the plan are requested during the year and are agreed with senior management and are then approved by ARC in the quarterly plans brought to Committee throughout the year. The annual internal audit opinion does not imply that Internal Audit has reviewed all risks and assurances, but it is one component to be taken into account during the preparation of the AGS.

The Audit and Risk Committee should consider the opinion, together with any assurances from management, its own knowledge of the Authority and any assurances received throughout the year from other review bodies such as the external auditor.

2.2 The overall opinion itself is that the Authority's framework of governance, risk management and controls is overall **substantial** – for a reminder of the levels of assurance and their definitions please see **Annex 1**. It is noted that the assurance levels given in the 48 reports assessed in the year 2016/17 break down as below:

- Full – 5
- Substantial 27
- Partial – 15
- Little or No – 1

In providing the opinion the Authority's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified therefrom have been taken into account. The opinion has been discussed with the Chief Operating Officer and the Director of Finance prior to publication.

3. AUDIT WORK UNDERTAKEN DURING THE YEAR

3.1 The Committee has been informed in detail of the internal audit work delivered during the 2016-17 year and the levels of assurance used in the 'Internal Audit Update Report 2016-17' presented separately to this Committee meeting.

3.2 Internal audit work is divided into four broad categories:

- Annual opinion audits;
- Fundamental financial systems that underpin the Authority's financial processing and reporting;
- Other systems identified as worthy of a review by the risk assessment processes within the authority;
- Significant computer systems which provide the capability to administer and control the Authority's main activities.

3.3 The internal audit plan allows an amount of time for follow up work to be carried out to ensure that significant recommendations are implemented properly. In addition, this Committee receives regular reports from the Head of Internal Audit in relation to implementation of Internal Audit recommendations and thus keeps a watching brief on progress throughout the financial year.

3.4 Internal Audit work has not identified any weaknesses that are considered significant enough for disclosure within the Annual Governance Statement.

4. THIRD PARTY ASSURANCES

- 4.1** In arriving at the overall opinion reliance has not been placed on any third party assurances.

5. SELF ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Degree of conformance with Public Sector Internal Audit Standards (PSIAS) & results of the Quality Assurance Improvement Programme (QAIP)

- 5.1.1** A checklist for conformance with the PSIAS and CIPFA's Local Government Application Note was completed by the former Head of Internal Audit and Risk Management for 2016-17. This covered the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.
- 5.1.2** The Attribute Standards address the characteristics of organisations and parties performing internal audit activity, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme (which requires both internal and (every 5 years) external assessments).
- 5.1.3** The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.
- 5.1.4** On conclusion of completion of the checklist full conformance was ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards.
- 5.1.5** In relation to the Attribute Standards in order to achieve full conformance an external assessment would be required. This must be done within 5 years of the PSIAS coming into force, i.e. by 31 March 2018. The City Council plans to delegate its internal audit function to the County Council, and as such the County's Head of Assurance Services will be responsible for arranging an assessment and reporting the outcomes to the Head of Finance and this Committee.
- 5.1.6** In relation to the Quality Assurance and Improvement Programme (QAIP), internal assessments were undertaken on a regular basis and performance was regularly assessed and reported upon.
- 5.1.7** The detailed checklists were shared and discussed with the Chief Operating Officer and Director of Finance for independent scrutiny and verification. They are contained in Annex 2

5.2 Performance Indicator outcomes

5.2.1 The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Audit and Risk Committee. Actual performance against these targets is outlined below:

5.2.2 Where appropriate audit briefs are issued shortly after the audits are started and within 10 days. Feedback forms are issued when the final report is issued. However, returns are increasingly 'patchy'. Nevertheless, of the nine received the responses were very positive, with over 95% indicating that the overall service was good to excellent. If there was any dissatisfaction, then this would become known in other ways, but there have not been any such cases that have come to attention.

5.2.4 A key measurement is plan delivery. The 'Internal Audit Update Report - 2016-17' also on today's agenda, revealed that 95% of all audits had been completed to at least the draft report stage.

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 This Statement sets out the five principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- To be professionally qualified and suitably experienced.

5.3.2 Completion of the checklist confirmed full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the five principles set out within.

5.3.3 The detailed checklist has been forwarded to the Chief Operating Officer and the Director of Finance for independent scrutiny and verification.

6. ANNUAL REVIEW OF THE EFFECTIVENESS OF AUDIT AND RISK COMMITTEE

- 6.1** In its publication *Audit Committees – Practical Guidance for Local Authorities*, CIPFA provided a self-assessment checklist to assist Councils in reviewing the effectiveness of their Audit Committees.
- 6.2** Using this checklist, it is considered that the Audit and Risk Committee meets all the requirements for an effective Audit Committee.
- 6.3** In summary:
- The Committee meets regularly and its chair and membership are sufficiently independent of other functions in the Council. Meetings are conducted constructively and are free and open and are not subject to political influences;
 - The Committee's terms of reference, which were formally revised and approved during the year, provide a sufficient spread of responsibilities covering internal and external audit, risk management and governance;
 - The Committee plays a sufficient role in the management of Internal Audit, including approval of the audit plan, review of Internal Audit's performance and the outcomes of audit work and management's response to that; and
 - The Committee receives reports from KPMG as the Council's external auditor and maintains an overview of the external audit process including the fees charged.
- 6.4** However, it is acknowledged that Committee members need suitable training. Arrangements have been made to provide training on a relevant topic at the beginning of every meeting of the Committee. The Committee is subject, of course, to the risk of turnover of membership each municipal year, which is an inevitable consequence of the political environment in a local authority. Should this happen, 1 to 1 training for new members is offered.

ANNEX 1 - Internal Audit Assurance Levels

1. Most reports issued by Internal Audit provide an assessment of the assurance that can be derived from its work in relation to the system or activity reviewed.
2. This assurance refers to the effectiveness of controls in operation, in the context of managing identified risks to an acceptable level. It also reflects the materiality of any weaknesses identified, and is determined in parallel with the significance allocated to each recommendation.
3. The table below shows levels of assurance with the relevant indicative overall audit conclusions and the significance of recommendations:

Level of Assurance	Audit Conclusion	Significance of Audit Recommendations
Full	Controls are in place to reduce the risks to an acceptable level.	No recommendations or very few, low significance, recommendations.
Substantial	Controls sufficiently reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.	Some medium, mostly low significance recommendations.
Partial	Only some of the risks are adequately managed; for others, there are significant issues that need to be addressed by management.	Many recommendations, some high, many medium significance.
Little or No	The level of risk remains high and immediate action is required by management.	Many high significance recommendations, addressing all or most of the risks.

4. It is stressed that the levels of assurance in the accompanying analysis are based on Internal Audit's findings during the particular audit and are not a summary of the whole of the activity itself. The level of assurance in each case does not necessarily mean that a system or process is either entirely sound or fundamentally flawed. For practical reasons, audit reviews focus on key risk areas and do not always encompass the full range of activity. Furthermore, it is almost inevitable that there will be material findings in audit reviews at any large organisation; the City Council is no different in this respect.
5. In each case, our audit reports make recommendations we feel are necessary to address any weaknesses identified. Service management have generally responded positively to the audit work and the recommendations made and have agreed steps to strengthen procedures accordingly. Implementation of our recommendations is a management responsibility and Internal Audit follows up the implementation of recommendations after issuing the final audit report, with summaries regularly reported to the Audit & Risk Committee.

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

The PSIAS define Internal Audit as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Standards are lengthy and detailed. Set out below is a summary of Leicester City Council Internal Audit's 2017 self-assessment of conformance against each of the headings. It is worthy of note that the requirement is conformance rather than strict compliance. In other words, it is sufficient for the intentions to be met even if the specified requirements are not, provided that suitable identified compensating measures are in place. Those items specifically identified as remaining to be addressed are included in the Quality Assurance and Improvement Programme, QAIP, as identified in the table below.

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
1	Definition of Internal Audit (IA)					
	a) Independent	Y			IA Charter, audit plans, working relationship with management and Audit & Risk Committee	
	b) Objective	Y			IA Charter	
2	Code of Ethics					
	• Integrity	Y			IA Charter, codes of conduct, conditions of service.	
	• Objectivity	Y			Allocation of work, supervisory review, declarations of interests.	
	• Confidentiality	Y			Information governance law and policy, codes of conduct, conditions of service.	
	• Competency	Y			Allocation of work, professional qualifications and continuing professional development.	
	Standards					
3	Attribute Standards					
3.1	1000 Purpose, Authority and Responsibility	Y			IA Charter, Audit & Risk Committee Terms of Reference (both subject to annual review), Finance Procedure Rules.	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
	1010 Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter	Y			Explicitly stated in the introductory paragraphs of the IA Charter on the first page.	
3.2	1100 Independence and Objectivity	Y			IA Charter, status of Head of Internal Audit & Risk Management.	
	1110 Organisational independence	Y			<p>In most important respects there is full conformance with the details of the Standard.</p> <p>However:</p> <ul style="list-style-type: none"> The Audit & Risk Committee as ‘the Board’ does not approve the Internal Audit budget and resource plan. These are part of the overall Finance divisional budget and are subject to the associated approval processes. The Audit & Risk Committee is kept informed about IA developments and resources. The Committee would also be advised about any inappropriate limitations on IA’s scope or resources. The Audit & Risk Committee does not appoint or remove the chief audit executive (the Head of Internal Audit & Risk Management). This is an officer decision but the Committee would be kept informed. Feedback is not sought from the Chair of the Audit & Risk Committee for the Head of Internal Audit & Risk Management’s performance appraisal. However, the Director of Finance would know whether or not the Chair of Audit & Risk Committee was happy with the Head of Internal Audit & Risk Management’s performance. 	<p>None.</p> <p>The exceptions identified are considered to be sufficiently covered by compensating measures and are therefore not in need of further resolution.</p>
	1111 Direct interaction with the Board	Y			The Audit & Risk Committee formally has the responsibility as ‘The Board’ for Leicester City Council.	
	1120 Individual Objectivity	Y			Professional standards apply to all staff. Avoidance of conflicts of interest in e.g. allocation of work.	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
	1130 Impairment to Independence or Objectivity	Y			The Head of Internal Audit & Risk Management has operational responsibility for Risk Management. In the event of an audit of the Risk Management function, the Audit Manager (or from late 2015 a Principal Auditor) would assume the 'chief audit executive' responsibility for the audit and reserve the right to report independently to senior management should the need arise. Regular rotation of staff responsibility is limited by a small team but there is sufficient supervisory review. Audit plans are approved by the Audit & Risk Committee as 'the Board' except for very urgent work, which would be reported in the next IA update report to the Committee.	
3.3	1200 Proficiency and Due Professional Care	Y				
	1210 Proficiency	Y			All members of the IA team have sufficient qualifications, knowledge and experience.	
	1220 Due Professional Care	Y			All audits have agreed terms of reference and there are sufficient audit methods and work plans in place to ensure adequate coverage of governance, risk and control processes.	
	1230 Continuing Professional Development (CPD)	Y			Individual CPD for qualified staff. Annual performance and development reviews (appraisals) for all staff.	
3.4	1300 Quality Assurance and Improvement Programme	Y			The annual review of effectiveness of whole internal audit function is no longer required under the new Accounts & Audit Regulations.	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
	1310 Requirements of the Quality Assurance and Improvement Programme		P		The reviews of conformance, including this one, have all been internal self-assessments. The PSIAS require at least one external assessment every five years; this is to be arranged following the delegation of the IA function for 2017/18 to the County Council.	Arrangement of an external assessment by a professionally competent external assessor for the annual review in 2017-18. QAIP ref 1.
	1311 Internal Assessments	Y				
	1312 External Assessments			N	Not done yet, and therefore no assessment of the professional competence of the external assessor. All this is planned.	Arrangement of an external assessment by a professionally competent external assessor for the annual review 2017-18. QAIP ref 1.
	1320 Reporting on Quality Assurance and Improvement Programme		P		The QAIP had not been reported upon until the report to Audit & Risk Committee 02/12/2015. Now part of the 'Annual Report and Opinion Paper' which goes to A&RC each September. Broad results of assessments and statements of conformance have been included in IA annual Reports 2013-14 and 2014-15.	QAIP reported to Audit and Risk Committee 02/12/2015 and as part of the Report and Opinion paper in September 2017.
	1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	N/A			This wording has not hitherto been used by IA. See QAIP, Appendix 2 below.	Once the QAIP has been completed, IA will conform as stated. QAIP ref 1.
	1322 Disclosure of Non-conformance	Y			None identified beyond those items mentioned in this report. None are fundamental.	
4	Performance Standards					
4.1	2000 Managing the Internal Audit Activity	Y			There is nothing in the IA Charter or IA plans or the Council's assurance framework that was not fulfilled by IA in 2016-17.	
	2010 Planning	Y			IA planning is risk-based, by way of reference to the Council's risk registers, consultation with all directors and by means of quarterly plans that enable emerging risks to be accommodated.	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
	2020 Communication and Approval	Y			All IA plans (annual and quarterly) and update reports (half-yearly and annual) are reported to senior management and the Audit & Risk Committee as 'the Board'. These identify any constraints such as resource shortages.	
	2030 Resource Management	Y			Constraints on audit planning and resources are reported to senior management and the Audit & Risk Committee.	
	2040 Policies and Procedures		P		There was an audit manual but it was largely superseded by the detailed guidance built in to the Pentana audit IT system supplemented by information available online via the Council's intranet. The manual was, therefore, abandoned in 2015.	
	2050 Coordination		P		The Council's assurance framework refers to other sources of assurance and IA works in close coordination with the external auditor. Assurance mapping is not done in any comprehensive way by IA but it was to have been developed under the partnership agreement with Assurance Lincolnshire, where the process is well established. This arrangement ended prematurely late in 2016. Implementation at Leicester would need senior management agreement and may be pursued under the new Internal Audit delivery arrangements with the County Council.	Exploration of the potential for assurance mapping now that the City's IA is to be delivered by the County. QAIP ref 2.
	2060 Reporting to Senior Management and the Board	Y			There are regular, roughly quarterly, update reports to senior management and the Audit & Risk Committee. Respective reports cover both IA and Risk Management; the latter include 'horizon-scanning' for emerging risks. As the Head of Internal Audit & Risk Management is responsible for both functions, there is a high degree of coordination between the two.	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
	2070 External Services Provider and Organisational Responsibility for Internal Auditing	N/A			Not applicable. The IA service is entirely in-house.	
4.2	2100 Nature of Work	Y			The requirements of the definition of IA (see above at the head of Appendix 1) are clearly the essential purpose of IA and underpin the way in which Leicester City Council IA operates.	
	2110 Governance	Y			<p>IA fulfils the requirements as written, except to the extent that IA is not intended to take the place of service management in ensuring effective organisational performance management and accountability. IA takes a leading role in reviewing and updating the governance processes by way of the annual review of the assurance framework and the local Code of Corporate Governance and coordinating the production of the Council's Annual Governance Statement.</p> <p>The Head of Internal Audit & Risk Management coordinates the Audit & Risk Committee's work programme, i.e. its timetable of reports and training, involving all relevant parties. Most such reports are also taken to senior management and this is coordinated by the Head of Internal Audit & Risk Management.</p> <p>IA does not do this more generally, however; nor should it as that is management's role.</p>	
	2120 Risk Management	Y			<p>The required activities fall within the remit of the Head of Internal Audit & Risk Management in his risk management role. As IA reports to the Head of Internal Audit & Risk Management, there has not been a recent detailed IA review of the RM function. However, the proactive approach taken by RM and the close working with IA mean that IA can derive a high level of assurance on the identification and management of risk and its alignment with the objectives of the Council.</p> <p>IA activity is risk-based and reference is made to the relevant risk registers both in audit planning and operational audits.</p> <p>Though relevant to IA, the risk of fraud is covered specifically by the Corporate Investigations Team, which currently sits outside IA. There is regular liaison between the two functions.</p>	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
	2130 Control	Y			Evaluation of the adequacy, effectiveness, design and operation of controls in place is the principal function of IA.	
4.3	2200 Engagement Planning	Y			All audits have agreed terms of reference or an engagement letter covering the objectives, scope, timing and reporting. Arrangements were in place for planning audit engagements for organisations other than the City Council under separate trading agreements; for example, Assurance Lincolnshire and RMBC.	
	2210 Engagement Objectives	Y			The objectives of each audit engagement are agreed at the start of the Audit. Whether they include all the items listed in the Standards depends on the individual audit.	
	2220 Engagement Scope	Y			The scope of each audit engagement is agreed at the start of the audit. Whether all the items listed in the Standards are included depends on the individual audit.	
	2230 Engagement Resource Allocation	Y			Audits are allocated to staff according to skills, knowledge and Availability (which has been a key factor in the decision to delegate the City's function to the County, due to inability to recruit to the three vacancies carried through most of the FY 2016-17).	
	2240 Engagement Work Programme	Y			The requirements for audit work programmes are largely set out in the Work plans and steps in the Pentana audit IT system.	
4.4	2300 Performing the Engagement	Y			Work is performed in the way specified by the Standard, as follows:	
	2310 Identifying Information	Y			Sufficient, reliable, relevant and useful information is identified subject to IA's general principle of 'we report as we find'; if necessary information is not available, IA will report the fact.	
	2320 Analysis and Evaluation	Y			IA conclusions are based on appropriate analysis and evaluation of the information available. Auditors are alert to the risks of such things as fraud, error and conflict of interests on the part of audit clients when conducting audits. Results of audit work are documented; usually in electronic form, to which access is restricted. IA is bound by the Council's corporate records retention policy.	

**Annex 2 - Review of Conformance to the Public Sector Internal Audit
Standards – 2017**

	2330 Documenting Information	Y			Documenting of evidence – usually now electronic – is fundamental to the audit process. It is the policy of IA that all audits are performed to the re-performance standard (i.e. such that another competent auditor could re-perform the test and come to the same conclusion) and all audits are subject to supervisory review.	
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Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
	2340 Engagement Supervision	Y			All audits are subject to supervisory review and sign-off by means of the structured approach enforced by the Pentana audit IT system. Evidence is retained.	
4.5	2400 Communicating Results	Y			All audits result in a report of some kind, either a formal report or a Memo or email. There is also a closing meeting unless the client declines the opportunity for this. Reports are mostly by exception, i.e. only adverse findings are reported in detail.	
	2410 Criteria for Communicating	Y			Audit reports are based on standard templates that include all of the Standard's requirements. Audit clients have the opportunity to discuss findings and recommendations prior to finalisation. Recommendations are graded according to materiality based on risk. Each report gives an overall opinion in the form of a level of assurance or other statement.	
	2420 Quality of Communications	Y			Supervisory review processes are in place to ensure that IA reports are accurate, objective, clear, concise, constructive, complete and timely.	
	2421 Errors and Omissions	Y			There are processes to ensure that IA reports do not contain errors or omissions, including supervisory review and the opportunity for clients to confirm factual accuracy by means of closing discussions or draft reports. If an error were identified in an IA report, a corrected report would be issued.	
	2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	Y			Individual audit reports do not say this, and we do not see the need. In overall terms, IA operates in conformance with the PSIAS and this is specifically stated, as required, in the IA Annual Report.	
	2431 Engagement Disclosure of Non-conformance	N/A			The situation has not arisen and is not anticipated where non-conformance with the PSIAS affects a specific audit engagement. Full conformance with PSIAS across the entire audit service is the aim and no specific engagement would be considered to fall outside the Standards in whole or in part.	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Ref	Conformance with the Standard	Yes	Part	No	Notes	Areas to be addressed
	2440 Disseminating Results	Y			Distribution of IA reports to client management follows agreed protocols. All reports are available to the external auditor. The outcomes of all except externally traded audits are reported in summary to the Audit & Risk Committee, with particular attention drawn to those identifying material concerns. Reports are not divulged to anyone else without the client's permission.	
	2450 Overall Opinion	Y			The IA annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control is set out in the IA Annual Report. It makes clear that it refers to work completed within the financial year in question and is based solely on IA work done including any assurance derived from other sources. Any qualification of the opinion would be specified but this has never arisen.	
4.6	2500 Monitoring Progress	Y			Implementation of IA recommendations is followed up by IA, usually by means of re-testing the exceptions previously identified and reporting on the outcome. Any significant non-response or non-implementation is reported to the Audit & Risk Committee. The IA opinion (level of assurance) on the audited activity is not revised as the follow-up testing is concentrated on the previous adverse findings, not the whole system. However, many audits include follow-up of previous recommendations and the degree of implementation will influence the ensuing level of assurance.	
4.7	2600 Communicating the Acceptance of Risks	N/A			The situation has never arisen where client management has accepted an unacceptable level of risk. Under the IA Charter, IA reserves the right to escalate such matters to more senior management, the Audit & Risk Committee or the City Mayor.	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

Introduction

Under the Public Sector Internal Audit Standards (ref 1300): the Quality Assurance and Improvement Programme (QAIP) 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*'.

Set out below is the QAIP for Leicester City Council Internal Audit for 2017-18. This will be subject to agreement with and possible amendments by the Head of Assurance Services at the County Council once the function is fully delegated to the County Council.

Conformance with the Definition of Internal Auditing and the PSIAS:

This was subject to a detailed self-assessment against all aspects of the Standards and the results were summarised in Appendix 1. All are deemed to be sufficiently achieved subject to the following exceptions or opportunities to strengthen conformance that have been identified:

No.	PSIAS Ref	Standard	Action needed	Action taken or planned	Notes
1	3.4	1310 Requirements of the Quality Assurance and Improvement Programme 1312 External Assessments 1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	Arrangement of an external assessment by a professionally competent external assessor for the annual review in 2017-18.	Identification and engagement of a professionally competent external assessor.	

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

No.	PSIAS Ref	Standard	Action needed	Action taken or planned	Notes
2	4.1	2050 Coordination	Exploration of the potential for assurance mapping.	The IA function is being delegated to the County Council with whom this will be fully discussed and solutions explored.	

The QAIP process involves ongoing monitoring of the performance of the internal audit activity. In practice, this means:

Internal Assessment

Continuing assessment and quality assurance includes the following:

- A structured process for conducting audits, largely governed by procedural steps specified within the Internal Audit IT database system (Pentana) for the various types of audit work. The steps and methods themselves are subject to continuing review and update.
- Agreement of terms of reference or equivalent at the outset of every audit.
- Documented supervisory review of all audit work.
- Review and approval of all draft and final audit reports by the Head of Internal Audit and Risk Management or nominated deputy.
- Feedback received via client satisfaction survey questionnaires at the end of each audit.
- All Internal Audit staff are subject to the Council's code of conduct and other conditions governing ethical conduct including independence, objectivity and impartiality. This includes measures to avoid conflicts of interest.

Periodic assessment includes the following:

- Annual review of conformance to the Public Sector Internal Audit Standards. The outcome of the 2017 review is given above and the 2018 review will be by independent, external assessors.

Annex 2 - Review of Conformance to the Public Sector Internal Audit Standards – 2017

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- Quarterly and annual reporting to senior management and the Audit & Risk Committee on the performance of Internal Audit and the outcomes of audit work including the annual audit opinion.
 - Annual review of the Internal Audit Charter and the Internal Audit Plan and Strategy.
 - Reference to, but no longer reliance upon, Internal Audit work by the external auditor, with particular reference to coverage of the main financial systems.

External Assessment

Under the PSIAS (ref 1321), *'External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.'*

This requirement came into force in 2013 and for Leicester City Council has not yet taken place. As identified in the table above, an external assessment will need to be undertaken by March 2018. The outcome of this will be reported to the Audit & Risk Committee in accordance with the Standards.
