

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) UPDATE REPORT
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Senior Auditor 01530 454728 anna.wright@nwleicestershire.gov.uk
Purpose of report	To update the Audit Committee on progress towards achieving conformance with the Public Sector Internal Audit Standards.
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	Not Applicable
Equalities Impact Assessment	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Corporate Leadership Team
Background papers	Public Sector Internal Audit Standards
Recommendations	THAT THE COMMITTEE NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.

1. INTRODUCTION

- 1.1 Since April 2013, internal audit services across the public sector have been governed by the Public Sector Internal Audit Standards (the Standards). The Standards apply to all internal audit service providers, whether in-house, shared services or outsourced. The Chartered Institute of Public Finance and Accountancy (CIPFA) have also produced an Application Note as the sector-specific requirements for local government organisations. A report providing an overview and the implications of the Standards was reported to this committee in June 2013.

2. SELF ASSESSMENT AND ACTION PLAN

- 2.1 A self assessment using the CIPFA Checklist for assessing conformance with the Public Sector Internal Audit Standards and the Local Authority Application Note was carried out in January 2014 by the Senior Auditor and reviewed by the Head of Finance. Conformance with the Standards was assessed at approximately 40%.
- 2.2 An action plan has been produced (Appendix A), identifying the actions required to ensure conformance with the Standards by 31st March 2015. It was originally anticipated that Internal Audit would be in conformance with the Standards by the 31st March 2014, however when the Application Note was released in April 2013, more actions were required to be undertaken than originally forecast and there is limited resources available within the audit team to undertake the work required. It should also be noted that due to the size of the Internal Audit team and the resources available, 100% conformance with the Standards is not feasible. All areas of non-conformance will be reported in the Internal Audit Annual Opinion report.

3. UPDATE ON ACTIONS DUE

- 3.1 Table 1 below details an update on the actions scheduled to be completed during quarter 4.

Table 1: Progress against PSIAS Action Plan

Action		Progress
1	Set-up quarterly meetings with the Chair of the Audit Committee.	Chair briefing meeting arranged prior to the Audit Committee meeting.
2	Develop comprehensive performance targets for Internal Audit.	Comprehensive performance targets have been produced for 2014-15 and are documented in Appendix B for review and comment.
3	Review the format of the Engagement Plan (Terms of Reference) to ensure conformance with the PSIAS.	A revised template for the Engagement Plan has been produced and is documented in Appendix C for review and comment.
4	Review the format of the Engagement Programme (Audit Programme) to ensure conformance with the PSIAS.	The format of the Engagement Programme has been updated.
5	Update the Internal Audit Report format to ensure conformance with the PSIAS.	The Internal Audit Report format has been revised and is documented in Appendix D for review and comment.
6	Update the 'Issuing of reports and the monitoring and follow up of management actions' process.	The Issuing of Reports and the Monitoring of Management actions' process has been updated and is documented in Appendix E for review and comment.

Action		Progress
7	Produce a risk based annual audit plan.	A risk based plan has been produced for 2014-15 and is included as a separate item on the agenda.
8	Update the Progress Report to Managers and Audit Committee Members to ensure conformance with the PSIAS.	The Progress Report format has been updated and is included as a separate item on the agenda.
9	Update the Declaration of Interest Form for Internal Audit Staff.	The Declaration of Interest form has been revised and will be signed after the training in relation to the Bribery Act 2010.
10	The Senior Auditor to provide the Internal Auditors with training in relation to the Bribery Act 2010.	Training is scheduled for week commencing the 24 th March 2014.

Appendix A

Public Sector Internal Audit Standards (PSIAS) – Action Plan

Action		Target Date
1	Set-up quarterly meetings with the Chair of the Audit Committee.	28 th February 2014
2	Develop comprehensive performance targets for Internal Audit.	28 th February 2014
3	Review the format of the Engagement Plan (Terms of Reference) to ensure conformance with the PSIAS.	28 th February 2014
4	Review the format of the Engagement Programme (Audit Programme) to ensure conformance with the PSIAS.	28 th February 2014
5	Update the Internal Audit Report format to ensure conformance with the PSIAS.	28 th February 2014
6	Update the issuing of reports and the monitoring and follow up of management actions process.	28 th February 2014
7	Produce a risk based annual audit plan.	31 st March 2014
8	Update the Progress Report to Managers and Audit Committee Members to ensure conformance with the PSIAS.	31 st March 2014
9	Update the Declaration of Interest Form for Internal Audit Staff.	31 st March 2014
10	The Senior Auditor to provide the Internal Auditors with training in relation to the Bribery Act 2010	31 st March 2014
11	Review the Annual Internal Audit Opinion Report to ensure conformance with the PSIAS.	31 st May 2014
12	The Head of Finance to obtain feedback on the performance of the Chief Audit Executive from the Chief Executive, the Chair of the Audit Committee and Blaby District Council as part of the appraisal process.	31 st May 2014
13	Undertake a self-assessment against the PSIAS.	30 th June 2014
14	Agree the process for the acceptance and authorisation of consulting engagements.	30 th June 2014
15	Develop a Quality Assurance and Improvement Programme.	30 th September 2014
16	Review and update the job descriptions and personal specifications for Internal Audit Staff.	30 th September 2014
17	Assess the collective skills, knowledge and competencies of the Internal Audit Team.	31 st December 2014
18	Develop a programme of continuing professional development	31 st December 2014
19	Update the Internal Audit manual.	31 st December 2014
20	Review the computer assisted audit techniques available and access whether they could be used to perform audit testing.	31 st December 2014
21	Undertake an assurance mapping exercise.	31 st January 2015
22	Produce an Internal Audit Strategy in conformance with the PSIAS.	28 th February 2015
23	Produce a risk based annual audit plan in conformance with the PSIAS.	28 th February 2015
24	Undertake a fraud evaluation of the authority.	31 st March 2015

2014/15 Internal Audit Performance Targets

Deliver the Internal Audit Service within Budget

Achievement of the Internal Audit Plan

Quarterly Progress Reports to Management Team and Audit Committee

Completion of the PSIAS Action Plan

Follow up testing completed in month agreed in final report

Annual Opinion Report - June 2014 Audit & Governance Committee Meeting

2015/16 Audit Plan approved by 31st March 2015

100% Customer Satisfaction with the Internal Audit Service

Unproductive time less than 25%



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council Engagement Plan – Title of Audit Area

1. Introduction

1.1 This audit is being undertaken as part of the agreed audit plan for 2014/15.

2. Scope and Limitations of the Review

2.1 To evaluate the adequacy of *title of audit area* and the controls within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put into place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The scope will include:

- *systems, records, personnel & premises*
- *time period to be examined: e.g. transactions between 1st April 2013 and 31st March 2014*
- *areas that will not be covered.*

2.2 Internal Audit will undertake a review of the *title of audit area*, subject to the limitations outlined below:

Internal Control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Our assessment of controls relating to *title of audit area* is as at April 2014 to xxx. Historical evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavour to plan its work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

3. Audit Methodology

- 3.1 Internal Audit works to an risk based methodology which entails identifying risks to the governance, risk and control framework for the area under review – internal audit them seeks to collate and analyse information to understand how these risks are or have been managed.

4. Management Concerns

- 4.1 *Any management concerns will be documented.*

5. Risk Assessment

- 5.1 *A risk assessment will be completed in conjunction with management for the area under review.*

6. Objectives

- 6.1 The overall objective in undertaking this internal audit is to ensure, through a process of systems evaluation and compliance testing, that there is an appropriate control framework in place to achieve the following key control objectives for the system:

- *these will be identified by management based on the areas that they require assurance/risks identified.*

The Engagement Programme will detail the testing to be carried out.

7. Timing

- 7.1 The audit is planned to commence during x.

8. Resource Allocation

8.1 The audit review is planned to take x days.

Internal Audit will also require xxx to complete the audit.

9. Reporting

9.1 The reporting will be as detailed in the table below:

	Management Review	Draft Report	Final Report
Head of Service	✓	✓	✓
Team Manager	✓	✓	✓
Director		✓	✓
Portfolio Holder		✓	✓
External Audit (Key Financial Systems Only)			✓
Audit Committee Members (Grade 3 & 4 Reports Only)			✓

10. Contacts

10.1 The key contact for Internal Audit is Anna Wright, Senior Auditor and is available on 01530 454728 or anna.wright@nwleicestershire.gov.uk.

The auditor undertaking the audit will be x and is available on 01530 454xxx or xxx@nwleicestershire.gov.uk.

11. Objectives Agreed:

Signed:

Date:

Access to engagement records is restricted to NWLDC management, the Audit and Governance Committee and specific external agencies such as the Council's external auditors.



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

Internal Audit Report 2014/15

No – Audit Report Title

Auditor:

Date of Issue:

Version Number: 1.1

Status: Draft/Final

Assurance: Grade x
 Internal Controls xxxx

This report is confidential and produced solely for the purpose of North West Leicestershire District Council's management and the Audit and Governance Committee.

Details may be made available to specific external agencies, including the council's external auditors, but otherwise the report should not be quoted or referred to in whole or part without prior consent.

No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Contents:

	Page No
Executive Summary	
Introduction	
Scope and Limitations of the Review	
Audit Methodology	
Objectives of the Audit	
Audit Opinion	
Findings	
Action Plan	
Definitions	

Report Circulation:

	Management Review	Draft Report	Final Report
Head of Service	✓	✓	✓
Team Manager	✓	✓	✓
Director		✓	✓
Portfolio Holder		✓	✓
External Audit (Key Financial Systems Only)			✓
Audit Committee Members (Grade 3 & 4 Reports Only)			✓

Executive Summary

Assurance Opinion

Grade X Internal Controls require xxx

Key Findings

The main areas identified for improvement are:

- x;
- x; and
- x.

Recommendations

	High	Medium	Low	Advisory
Made				
Agreed				
Risk Accepted				

1. Introduction

- 1.1 An internal audit review of the x function has been completed in accordance with the agreed 2014-15 audit plan during the period xxx to xxx 2014.
- 1.2 The assistance and co-operation of management and staff during the course of this audit is gratefully acknowledgment.

2. Scope and Limitations of the Review

- 2.1 To evaluate the adequacy of the x function and the controls within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.
- 2.2 Internal Audit have undertaken a review of the x function, subject to the limitations outlined below:

Internal Control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Our assessment of controls relating to the x function is as at xxx to xxx 2014. Historical evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavour to plan its work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

3. Audit Methodology

- 3.1 Internal Audit works to an risk based methodology which entails identifying risks to the governance, risk and control framework for the area under review – internal audit then seeks to collate and analyse information to understand how these risks are or have been managed.

4. Objectives of the Audit

- 4.1 The overall objective in undertaking this internal audit was to ensure, through a process of systems evaluation and compliance testing, that there is an appropriate control framework in place to achieve the following key control objectives for the system:

- x;
- x;
- x;
- x; and
- x.

- 4.2 This report highlights findings on an exception basis and does not therefore include detail of controls that audit found to be operating satisfactorily. The Internal Audit Opinion, detailed in section 5 of the report, provides an overall assessment regarding the level of control operating in the system.

5. Audit Opinion

5.1 Overall Opinion

Our findings indicate that internal controls require **xxx** and accordingly the report is graded x within the following scale:

Grade 1	Internal Controls are adequate in all important aspects
Grade 2	Internal Controls require improvement in some areas
Grade 3	Internal Controls require significant improvement
Grade 4	Internal Controls are inadequate in all important aspects.

5.2 Opinion for each control objective

Key Control Objective:		Level of Assurance				N/A
		1	2	3	4	
1						
2						
3						
4						
5						

5.3 The matters raised in this report are only those which came to our attention during internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care has been taken to ensure that the information contained in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

6 Detailed Findings

6.1 Objective x:

Audit Findings	
Risk	
Recommendation	Priority
Management Response	
Officer Responsible	Target Date

6.2 Objective x:

Audit Findings	
Risk	
Recommendation	Priority
Management Response	
Officer Responsible	Target Date

Appendix A

Action Plan

	Recommendation	Officer Responsible	Target Date	Audit Follow Up Date
1				
2				
3				

Definitions

Audit Opinion

Grade	Definition
1	Internal Controls are adequate in all important aspects
2	Internal Controls require improvement in some areas
3	Internal Controls require significant improvement
4	Internal Controls are inadequate in all important aspects

Recommendation Priority

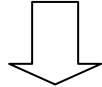
Level	Definition
High	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made,
Low	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
Advisory	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Issuing of Internal Audit Reports and Follow Up of Management Actions Process

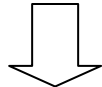
Issuing of Internal Audit Reports:

Management Review Stage:

Draft Report issued as per agreed Engagement Plan
(5 days prior to Audit Closure meeting)

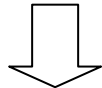


Audit Closure Meeting – agree audit report findings, recommendations, officer responsible, target dates for implementation of management actions, audit follow up date and any management comments

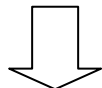


Draft Report Stage:

Draft Report issued as per agreed Engagement Plan including management comments, agreed dates and officer responsible, allowing 2 weeks for any additional comments.



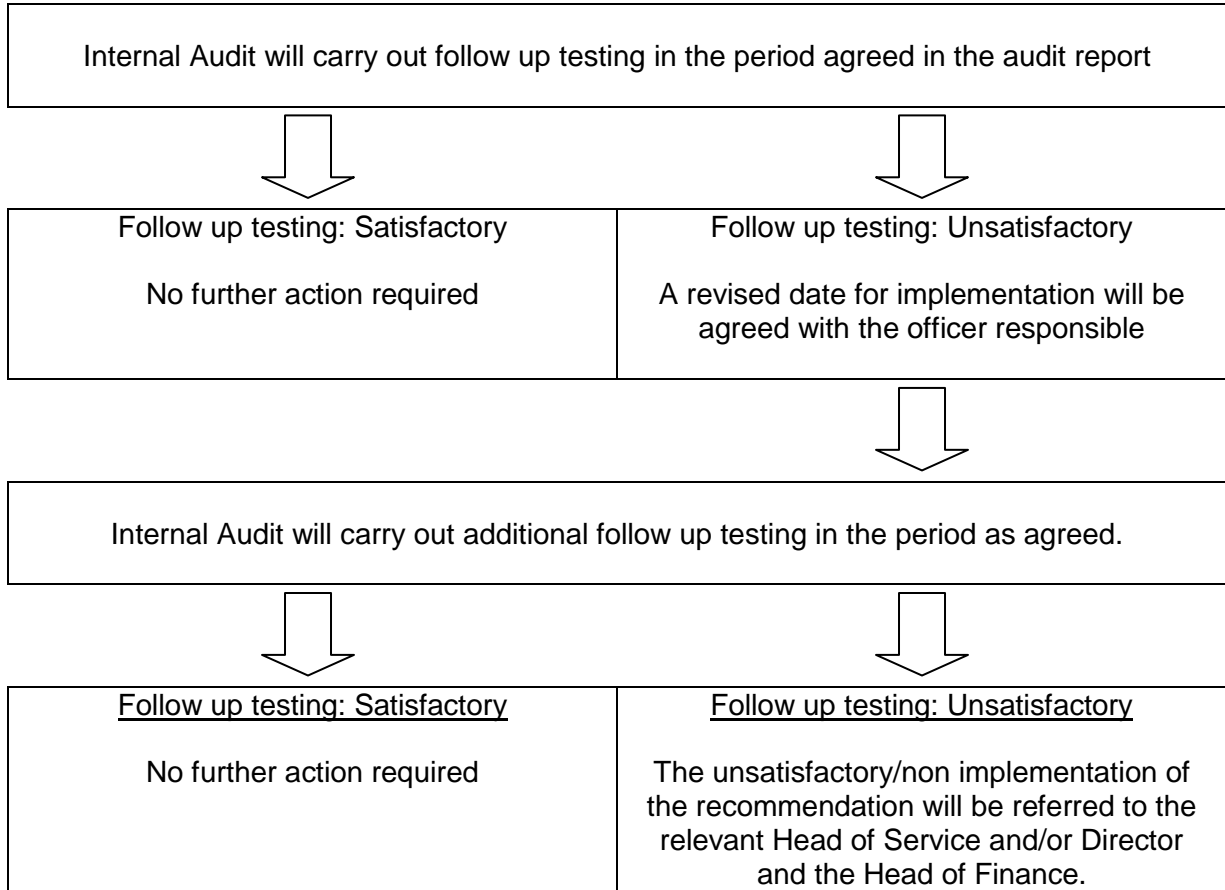
Management to return any additional comments to Internal Audit within the 2 week timeframe or request a meeting with the Senior Auditor.



Final Report Stage:

Final Report issued as per agreed Engagement Plan.

Follow-up of High & Medium Recommendations:



Monitoring of Recommendations:

