

Appendix 1 - Assessment of conformance to the core principles of the Public Sector Internal Audit Standards

For the purposes of PSIAS, 'Senior Management' refers to the corporate management team, the 'Board' refers to the Audit Committee and the 'Chief Audit Executive' (CAE) refers to the Internal Audit Manager.

1.Demonstrates integrity.			<u>Improvement Actions in adherence with PSIAS</u> There are none arising.
Having regard to your review of conformance with the Code of Ethics (Integrity, Seven Principles of Public Life), do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating integrity?			
<u>Evaluation and areas to highlight</u> (i) Internal Auditors perform their work with integrity and are required to adhere to the PSIAS Code of Ethics in acting honestly, diligently and responsibly in performing duties. The Quality Assurance process (covered under principle 6) considers the adequacy of documentary evidence to support Auditor conclusions in the provision of any assurance. (ii) The Audit Charter and procedural manual refers to auditor’s responsibility to adhere to professional code of ethics, and thereby acting with integrity. (iii) Staff code of conduct and ethical behaviour – Standards of Public Life’s <i>Seven Principles of Public Life</i> apply to all Council employees as public servants.			
CONFORMS	PARTIAL	NOT CONFORMING	
2.Demonstrates competence and due professional care.			<u>Improvement Actions in adherence with PSIAS</u> 2(i) The Council already supports the audit team in pursuing professional
Having regard to your review of conformance with the Code of Ethics (Competence, Confidentiality, Seven Principles of Public Life) and any other evidence from the review of conformance with Standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating competence and due professional care?			

<p><u>Evaluation and areas to highlight</u></p> <p>(i)The effectiveness of any Internal Audit Service depends significantly on the quality, training, and experience of its staff. Training and development needs of individual staff are identified through corporate performance management processes and monitored through supervision and feedback.</p> <p>(ii)The audit team collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities. The team hold considerable local government internal audit experience.</p> <p>(ii)The CAE holds the full chartered professional internal audit qualification (CMIIA) in accordance with PSIAS requirements, gained in 2002.</p> <p>(iii)Opportunities for seeking continuous professional development and gaining a professional internal audit qualification have been encouraged and supported across the audit function, to further enhance learning and supplement experience gained 'on the job'.</p> <p>(iv) Specialist ICT audit expertise and other knowledge areas are sought to plug skills gaps in delivering the audit plan (co-sourcing).</p> <p>(v) Opportunities for building coaching skills across the audit team are also underway as part of the Council's corporate approach to enhance management development.</p> <p>(v) Audit information obtained during a review or investigation is treated confidentially and access to such information is restricted.</p>	<p>internal audit qualifications, recognising that this contributes to continually improving proficiency, effectiveness and quality of services. This action is ongoing.</p> <p>2(ii) Auditor skills and competencies framework to be completed to support ongoing monitoring of training and development needs.</p>	
<p>CONFORMS</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>3.Is objective and free from undue influence (independent).</p> <p>Having regard to your review of conformance with the Code of Ethics (Objectivity, Seven Principles of Public Life) and any other evidence from the review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being objective and free from undue influence (independent)?</p> <p><u>Evaluation and areas to highlight</u></p>		
<p><u>Improvement Actions in adherence with PSIAS</u></p> <p>3 (i) Spelthorne's organisation chart should be updated to incorporate the dotted lines between the Chief Audit Executive (Internal Audit Manager)</p>		

<p>(i) The CAE has continued to promote the importance of objectivity and independence in delivering all aspects of internal audit activity. This ensures benefits to the authority are maximised, to provide the Chief Finance Officer (Section 151 Officer) with the key assurance he needs in managing the financial affairs of the authority as well as provision of effective assurance to the corporate management team and Audit Committee.</p> <p>(ii) PSIAS (<i>Standard 1110- Organisational Independence</i>) refers to the CAE reporting to a level in the organisation that is equal to or higher than the corporate management team. This represents an administrative (day to day) reporting line for the purpose of PSIAS. From March 2020, the CAE'S direct reporting line to the Group Head of Corporate Governance took effect.</p> <p>(iii) As part of further safeguards around preserving audit independence and objectivity, a new dotted reporting line from the CAE to the CFO was introduced in March 2020 and the dotted reporting line to the Chief Executive remains as before. Whilst this practice remains fully endorsed and supported, it is not however fully reflected in the organisational structure chart for the Council.</p> <p>(iv) The purpose, authority and responsibility of the internal audit activity is defined in an internal audit charter of July 2019. This refers to the CAE having direct and unrestricted access to senior management and the board, with free and unfettered access to the Section 151 Officer, Chief Executive and Chair of the audit committee. Therefore, these reporting arrangements preserve the CAE'S independence and objectivity.</p> <p>(v) In accordance with PSIAS the CAE reports functionally to the Board, on the basis that the board:</p> <ul style="list-style-type: none"> • approves the internal audit charter • approves the risk-based audit plan • receives several reports on internal audit activity 	<p>and the Chief Finance Officer, and likewise to the Chief Executive.</p> <p>3(ii) Biennial review of the Audit Charter is already scheduled for July 2021 and will be refreshed to include reference to revised direct reporting arrangements.</p>
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<p>(vi) The Internal Audit function remains independent from involvement in other operational activities, except for corporate risk management and corporate counter fraud oversight as highlighted in the Audit Charter. The Charter gives reference to safeguarding arrangements to ensure audit independence and objectivity is not compromised in view of these additional responsibilities.</p> <p>(vii) During 2020/21, audit team members were asked to undertake operational activities as part of the Council’s corporate emergency response to the pandemic. Given the unprecedented challenges presented by the global pandemic, it was deemed necessary for Internal Audit to support the Council’s front line and high-risk activities at a time of prioritised need.</p> <p>In addition, some ad hoc work was undertaken by a member of the audit team for a limited period at the request of the Group Head of Corporate Governance to support resource constraints in another service area. PSIAS stipulate that safeguards to preserve independence and objectivity should apply in such cases (so as not to impair Auditor’s impartiality/unbiased assessment), and this has already been considered in terms of work allocations and if appropriate declarations as part of audit engagements.</p> <p>(viii) Relevant Disclosures - Annual Declaration of Interest submissions to ensure there are no personal connections that may impact auditor judgement (no interests have been disclosed by Auditors for 2019/20 or to date for 2020/21)</p> <p>(vix) Auditors are expected to disclose all relevant material facts as part of the audit process to ensure accurate reporting of activities under review.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
4.Aligns with the strategies, objectives, and risks of the organisation.			<u>Improvement Actions in adherence with PSIAS</u>
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being aligned with the strategies, objectives, and risks of the organisation?			There are none arising.

Evaluation and areas to highlight

(i) A risk-based approach to audit planning is undertaken and the 2020/21 plan (prepared March 2020) aligned closely with the Council's emerging corporate priorities at that time, objectives and key corporate risks. Audit resource is prioritised and focussed on the most significant risks that impact the achievement of the Council's priorities, as well as other medium and higher risk areas identified from the audit planning process.

(ii) Reprioritisation and refreshing of the 2020/21 audit plan was undertaken in July 2020 to reflect the emerging risks relating to the pandemic workstream and new areas of audit focus were included.

(iii) As the CAE periodically coordinates and reports on the Corporate (Strategic) Risk Register, this awareness of the Council's significant risks inform audit work, ensuring greater alignment.

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5. Is appropriately positioned and adequately resourced.

Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being appropriately positioned and adequately resourced?

Evaluation and areas to highlight

(i) There has been a change to Internal Audit's organisational position and administrative (line management) reporting arrangements from the latter part of 2019/20. See earlier comments under Principle 3 relating to Organisational Independence and Objectivity.

(ii) Audit Resourcing has previously been reported to the Audit Committee during 2019/20 and at the meeting of November 2019 the Audit Committee expressed their support for strengthening the level of audit resource.

(iii) The positioning of Internal Audit within the wider

Improvement Actions in adherence with PSIAS

5.(i) The Group Head of Corporate Governance will be advising the Audit Committee on audit resourcing as part of her review of processes and resources.

Corporate Governance department from March 2020 is intended to provide some resilience for the audit service whilst the resourcing issue remains under review. The Group Head of Corporate Governance will be advising further on resourcing for Internal Audit.			
CONFORMS	PARTIAL	NOT CONFORMING	
6.Demonstrates quality and continuous improvement.			<u>Improvement Actions in adherence with PSIAS</u>
<p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating quality and continuous improvement?</p> <p><u>Evaluation and areas to highlight</u></p> <p>1.Annual self-assessments and externally validated self-assessments of conformance to PSIAS have formed an integral part of the Quality Assurance and Improvement Programme (QAIP) for Internal Audit. Identified actions have been reported to the corporate management team and Audit Committee as part of the annual review of internal audit effectiveness.</p> <p>2. Progress on previous improvement actions reported in November 2019 are as follows:</p> <p>(A)Periodical review and updating of the audit procedural manual to ensure it reflects current practices and operating arrangements (September 2019 and at various points during 2020/21). – <i>Action implemented</i></p> <p>(B)Independent meetings between the CAE and the former Chair of the Audit Committee were held during 2019 – <i>Action implemented</i>. This paused during 2020 as there was no appointed Chair for some months and furthermore the Audit Manager had a period of absence during the latter part of 2020.</p> <p>(C) Preparation of an overall assurance framework (map) incorporating the three lines of defence is resource intensive and in line with best practice the strategic management team will be responsible for owning this framework and allocating resources to undertake the groundwork for this corporate task.</p>			<p>1.Future reporting could include the percentage of agreed audit recommendations implemented in a given period as this demonstrates a measurable outcome.</p> <p>2. The CAE to reconvene periodical meetings with the Chair of the Audit Committee (at least one formal meeting a year as per PSIAS)</p>

Any such framework does need to be developed over time, requiring input from various Services including Internal Audit. *Status- This corporate piece of work has not progressed as priority needs to be given to supporting the pandemic response and recovery across all Service areas. Organisational capacity is stretched. Consideration has however been given to alternative sources of assurance as part of the audit planning process as this contributes to decisions around inclusion of work areas on the plan i.e., where reliance can be placed on alternative sources of assurance then audit reviews may not be undertaken or treated with less priority.*

(D)A review of organisational Culture and Ethics forms part of the 2020/21 audit plan and is scheduled for March 2021. – *Action underway*

(E)An audit strategy document to supplement the audit charter and set out how the audit service will be delivered and developed. *Status – This is currently outstanding. The strategy document will also set out the purpose and vision of Internal Audit and its links to organisational objectives and corporate priorities under development.*

3. Internal Audit's activity and performance is managed through the Council's corporate performance management framework and key targets include statutory reporting to the Audit Committee (3 times a year) as well as regular updates to External Audit.
4. All audits undertaken are subject to a quality review process by the CAE, giving due regard to compliance with audit processes and risk-based methodologies set out in PSIAS when performing engagements and delivering audit objectives.

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7.Communicates effectively.	<u>Improvement Actions in adherence with PSIAS</u>	
<p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by communicating effectively?</p> <p><u>Evaluation and areas to highlight</u></p> <p>Internal Audit communicate the results of engagements and opinions in an appropriate way.</p> <p>(i) The CAE delivered an evidence based annual internal audit opinion for 2019/20 on the overall adequacy and effectiveness of the organisation's internal control environment, risk management arrangements and governance framework. This is a key outcome of internal audit activity and formed part of the annual audit report and Annual Governance statement for 2019/20.</p> <p>(ii) Draft reports are discussed with the appropriate levels of management to confirm factual accuracy, seek comments, and confirm the agreed management actions.</p> <p>(ii) Communications of engagement results to appropriate parties include objectives and scope, applicable conclusions and recommendations arising prioritised according to perceived risk.</p> <p>(iii) Assurance opinions are supported by sufficient, reliable, relevant, and useful information.</p> <p>(iii) Monitoring processes are in place to follow up the status of agreed audit recommendations with subsequent reporting to the corporate management team and Audit Committee.</p> <p>(iv) Communications are generally accurate, objective, clear, concise, constructive, complete, and timely. There are occasions where the timeliness of issuing reports is impacted by limited audit capacity and resourcing particularly during periods of competing work priorities. This links with principle 5 above (audit resourcing). This theme is also applicable across service areas as there have been cases of delayed management responses to audit reports, causing delays in finalising the audit process. Escalation procedures are in place and invoked as necessary.</p>	<p>1.Consistent timeliness of audit reporting needs to be considered as part of the audit resourcing review and building greater capacity.</p> <p>2.Improving the timeliness of management responses to audit recommendations is a consideration for the corporate management team and Audit Committee. It is recognised that corporate capacity remains stretched.</p>	
CONFORMS	PARTIAL	NOT CONFORMING

8.Provides risk-based assurance.	<u>Improvement Actions in adherence with PSIAS</u>	
<p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by providing risk-based assurance, based on adequate risk assessment?</p> <p><u>Evaluation and areas to highlight</u></p> <p>(i)A risk-based approach is applied to determine the annual audit plan of activity through consultation with Group Heads and Managers. The planning process also takes into account the Corporate Risk Register representing the Council's most significant risks, corporate priorities, budget implications, any known system weaknesses or vulnerabilities, fraud and irregularity etc. Any reprioritisation of the plan during the year takes account of the level of risk associated with an auditable area.</p> <p>(ii) Risk Based auditing methodology is applied to assurance reviews. This facilitates the identification and assessment of risks that may impact on the achievement of service objectives, evaluating the effectiveness of control processes operating to manage and mitigate those risks and where appropriate issuing audit recommendations to enhance organisational controls, reduce risk and improve governance arrangements. In the provision of independent risk-based assurance, Internal Audit therefore uses a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation in adherence to PSIAS.</p> <p>(iii) Assurance opinions are provided for each audit review to indicate the level of assurance provision.</p> <p>(iv)Audit recommendations are risk rated to indicate prioritisation for action (Low/Medium/High).</p>	<p>There are none arising</p>	
CONFORMS	PARTIAL	NOT CONFORMING

<p>9.Is insightful, proactive, and future-focused.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being insightful, proactive, and future-focused?</p> <p><u>Evaluation and areas to highlight</u></p> <p>There are examples of Internal audit being proactive, insightful, and future-focused by advising on emerging and evolving risks (including in the pandemic environment), new systems, processes and projects, thereby adding value to the Council. The importance of Internal Audit's involvement in these advisory activity areas continues to be recognised and promoted by the internal auditing profession. Audit resourcing levels and capacity may however impact the level of proactive advice and input that the team can provide.</p>	<p><u>Improvement Actions in adherence with PSIAS</u></p> <p>There are none arising.</p>	
<p>CONFORMS</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>10.Promotes organisational improvement.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by promoting organisational improvement?</p> <p><u>Evaluation and areas to highlight</u></p> <p>There are various examples of Internal Audit promoting organisational improvement.</p> <ul style="list-style-type: none"> (i) Internal Audit issue recommendations to enhance organisational controls, reduce risk and improve governance arrangements across a wide range of auditable areas. (ii) Each audit review represents a unique piece of work tailored to the specific risks and audit objectives, aimed to achieve quality outcomes (we don't simply apply a checklist approach). (iii) During the recent Financial Peer Review undertaken by the Local Government Association 	<p><u>Improvement Actions in adherence with PSIAS</u></p> <p>There are none arising.</p>	

<p>positive verbal feedback was provided regarding the varied work programme (audit plan), incorporating topical and relevant areas of work.</p> <p>(iv) During 2020/21 the CAE initiated a complimentary software trial on data analytics in collaboration with Finance colleagues. This will consider scope for improving the identification of potential fraud and error for trade creditors (such as duplicate payments), with a view to reducing financial losses for the authority. From early discussions the software provider has demonstrated potential for savings and the work is in progress with data validation underway by the Finance team, prior to considering next steps with key stakeholders.</p>		
CONFORMS	PARTIAL	NOT CONFORMING

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