

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.

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| <p>1. Demonstrates integrity.</p> | | | <p><u>Improvement Actions in adherence with PSIAS</u></p> <p>There are none arising.</p> |
| <p>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?</p> <p><u>Evaluation and areas to highlight</u></p> <p>(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.</p> <p>(ii) The Audit Charter and procedural manual refers to auditor’s responsibility to adhere to professional code of ethics, and thereby acting with integrity.</p> <p>(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.</p> | | | |
| <p>CONFORMS</p> | <p>PARTIAL</p> | <p>NOT CONFORMING</p> | |
| <p>2. Demonstrates competence and due professional care.</p> | | | <p><u>Improvement Actions in adherence with PSIAS</u></p> <p>2(i) Auditor skills and competencies framework has been prepared, to be</p> |
| <p>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> | | | |

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| <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 in-house team hold considerable local government internal audit experience (35 years combined). Contracted resource sought also possess considerable audit experience/knowledge/skills.</p> <p>(ii) The Council has always supported the audit team in pursuing professional internal audit qualifications, recognising that this contributes to continually improving proficiency, effectiveness, and quality of services.</p> <p>The CAE holds the full chartered professional internal audit qualification (CMIIA) in accordance with PSIAS requirements, gained in 2002. The Senior Auditor undertook Association of Accounting Technicians (AAT) training prior to 2015.</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) Coaching has been undertaken during 2021 with positive outcomes, 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>completed across the team 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><u>Improvement Actions in adherence with PSIAS</u></p> |
| <p>Having regard to your review of conformance with the</p> | | | |

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)?

Evaluation and areas to highlight

- (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.
- (ii) PSIAS (*Standard 1110- Organisational Independence*) 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.
- (iii) As part of further safeguards around preserving audit independence and objectivity, a 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. This practice remains fully endorsed and is reflected in the organisational structure chart for the Council.
- (iv) The purpose, authority and responsibility of the internal audit activity is defined in an internal audit charter of July 2019 (approved by the Audit Committee). 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.

(v) In accordance with PSIAS the CAE reports functionally

3(i) Review of the Audit Charter is planned to take place by October, for reporting to Audit Committee in November 2022. (There are no significant updates anticipated).

3(ii) Biennial review of the Charter is to be scheduled going forward and included in the Audit Committee work programme.

3(iii). The CAE to arrange independent meetings with the Chair of the Audit Committee (at least one formal meeting a year as per PSIAS)

to the Board, on the basis that the board:

- approves the internal audit charter
- approves the risk-based audit plan
- receives several reports on internal audit activity

(vi) Whilst several productive discussions and meetings were held during 2021/22 with the Chair and Vice-Chair of the Audit Committee, these were not specifically independent of Council Officers.

(vii) 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.

(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 during 2021 or 2022 – to date)

(vix) Auditors are expected to disclose all relevant material facts as part of the audit process to ensure accurate reporting of activities under review.

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4.Aligns with the strategies, objectives, and risks of the organisation.

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?

Evaluation and areas to highlight

(i)A risk-based approach to audit planning is undertaken and the 2021/22 plan (approved by Audit Committee in March 2021) aligned closely with the Council’s corporate priorities emerging at that time, objectives and key corporate risks. Audit resource is prioritised and focussed

Improvement Actions in adherence with PSIAS

There are none arising.

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| <p>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. This approach has also been applied for the 2022/23 audit plan/planning process. Group Heads and Managers are closely consulted as part of the audit planning process.</p> <p>(ii) A prioritisation ranking of A or B was assigned to workstreams on the audit plan and reviewed during the year to consider the need for any reprioritisation and refreshing of the plan.</p> <p>(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.</p> | | |
| <p>CONFORMS</p> | <p>PARTIAL</p> | <p>NOT CONFORMING</p> |
| <p>5. Is appropriately positioned and adequately resourced.</p> | <p><u>Improvement Actions in adherence with PSIAS</u></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 appropriately positioned and adequately resourced?</p> <p><u>Evaluation and areas to highlight</u></p> <p>(i) Internal Audit's organisational position and the CAE's administrative (line management) reporting arrangements sit under Group Head of Corporate Governance. See earlier comments under Principle 3 relating to Organisational Independence and Objectivity and wider reporting lines for the CAE.</p> <p>(iii) Further to discussion with the management team, the Internal Audit Manager has outlined some alternative options for consideration in addressing service priorities and audit need/wider business need. The Group Head of Corporate Governance will be advising the Audit Committee further on resourcing for Internal Audit.</p> | <p>5.(i) The new Group Head of Corporate Governance will be advising the Audit Committee further on audit resourcing.</p> | |
| <p>CONFORMS</p> | <p>PARTIAL</p> | <p>NOT CONFORMING</p> |

6. Demonstrates quality and continuous improvement.

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?

Evaluation and areas to highlight

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.

2. The following two improvement actions previously identified are outstanding as follows:

(a) Preparation of an overall assurance framework (map) incorporating the three lines of defence is resource intensive and in line with best practice the corporate management team will be responsible for owning this framework and allocating resources to undertake the groundwork for this corporate task. 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 has been given to continue to support pandemic recovery across all Service areas. Organisational capacity remains 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 reduced coverage.*

(b) 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 as we were awaiting the outcome of the growth bid for additional audit resource during 2021/22, which was confirmed as unsuccessful in March 2022. Clarity on future resourcing levels will help to shape the parameters of an audit strategy. The strategy document will also set out the*

Improvement Actions in adherence with PSIAS

(i). Future reporting could include the percentage of agreed audit recommendations implemented in a given period as this demonstrates a measurable outcome.

(ii) Produce a strategy document for Internal Audit, further to the new Group Head of Corporate Governance advising on audit resourcing.

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 with several reports and supporting processes). There may be scope for quantified reporting on the level of recommendations implemented to supplement follow up work already undertaken.
4. 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, delivering audit objectives/scope, and communicating results.

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| 7.Communicates effectively. | <u>Improvement Actions</u> <u>in adherence with</u> |
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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?

Evaluation and areas to highlight

Internal Audit communicate the results of engagements and opinions in an appropriate way.

- (i) The CAE delivered an evidence based annual internal audit opinion for 2021/22 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 forms part of the annual audit report and Annual Governance statement for 2021/22.
- (ii) Draft reports are discussed with the appropriate levels of management to confirm factual accuracy, seek comments, explain the rationale for any recommendations raised, and confirm the agreed management actions.
- (ii) Communications of engagement results to appropriate parties include objectives and scope, applicable conclusions and recommendations arising prioritised according to perceived risk. It also includes observations and advisory points in some instances.
- (iii) Assurance opinions are supported by sufficient, reliable, relevant, and useful information.
- (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.
- (iv) Communications are generally accurate, objective, clear, concise, constructive, complete, and timely. Audit assurance activity highlights improvement actions to reduce risk and strengthen/enhance control (where appropriate), to support management and benefit/protect the authority. There have been a few cases of delayed management responses to audit reports or insufficient proposed action in addressing recommendations, causing delays in finalising the audit process. It is recognised that overstretched corporate capacity is likely to be a contributory factor. Escalation procedures are in place and invoked as necessary, although the preference is always

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7(i).Improving the timeliness and in some cases adequacy 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.

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| to work collaboratively in finalising assignments. | | | |
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| 8.Provides risk-based assurance. | | | <u>Improvement Actions in adherence with PSIAS</u> There are none arising |
| <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 and mitigation measures operating to manage 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>(v)Risk and control implications are also considered as part of any advisory pieces of work.</p> | | | |

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| <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 (for example analysing the Council's risk exposure to wider externalities and the impact), 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 capacity may however impact the level of proactive advice and input that the team can provide, so relative significance is considered as part of service prioritisation.</p> | | | <p><u>Improvement Actions in adherence with PSIAS</u></p> <p>There are none arising.</p> |
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| <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> <p>(i) Internal Audit issue recommendations to enhance organisational controls, reduce risk and improve governance arrangements across a wide range of auditable areas.</p> | | | <p><u>Improvement Actions in adherence with PSIAS</u></p> <p>There are none arising.</p> |

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| <p>(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).</p> <p>(iii) A varied work programme (audit plan) is produced by the Internal Audit Manager incorporating several workstreams, considering topical risks and relevant areas of work. Audit assurance assignments continue to extend beyond traditional audit areas, to ensure we are aligned with current audit practices/approaches in providing assurance across the Council and adding value. During 2021/22 we concluded on a piece of work around workplace culture and this produced recommendations designed to enhance and protect organisational value, whilst recognising the progress underway by the authority.</p> | | |
| <p>CONFORMS</p> | <p>PARTIAL</p> | <p>NOT CONFORMING</p> |

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July 2022