

Internal Audit Annual Report 2017/18

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Purpose of the Report

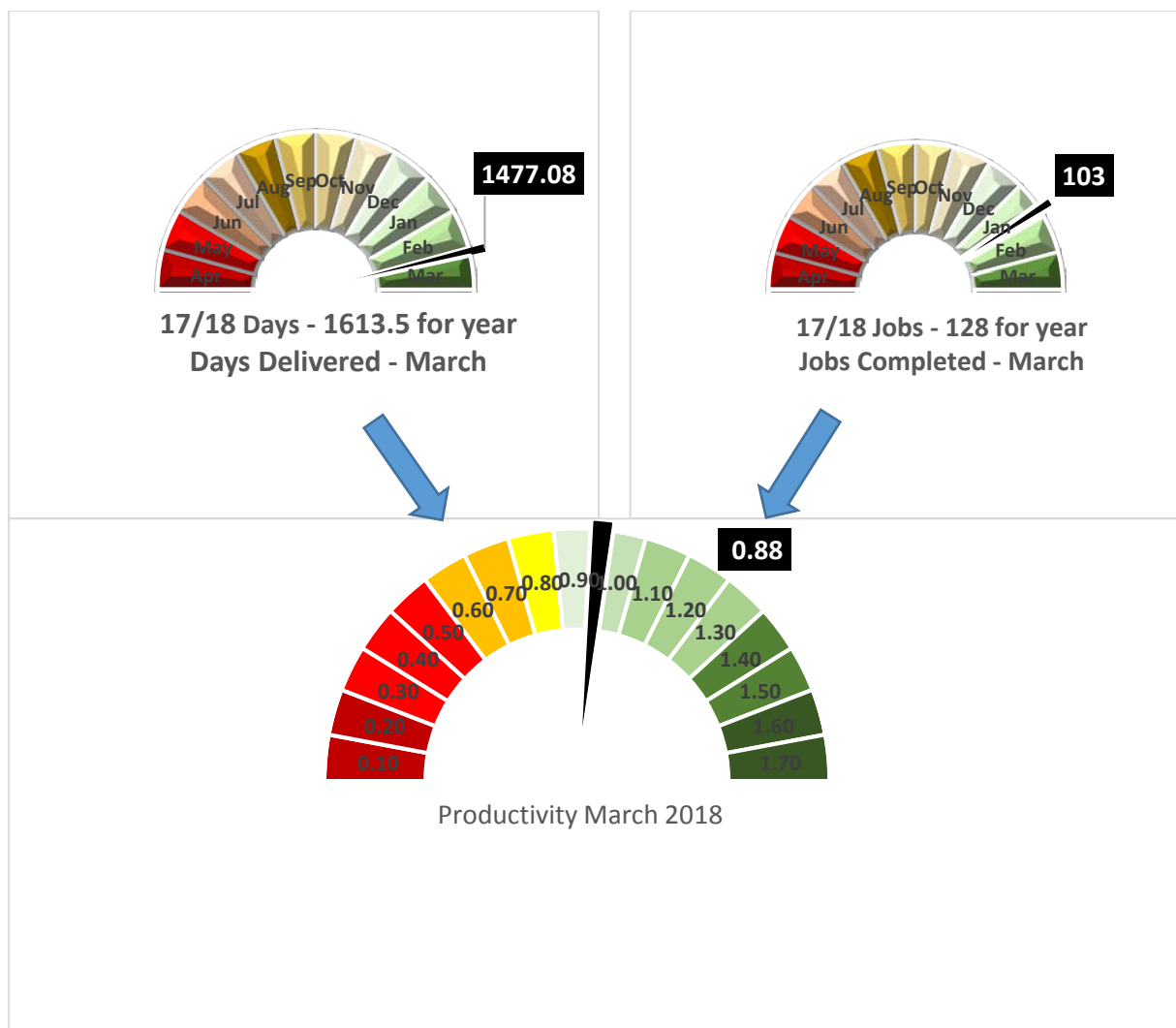
1. To set out the work carried out by Internal Audit during 2017/18 and, based on this work, to provide an opinion on the adequacy of the County Council's internal control environment.

Information and Advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to:-
 - a) determine and monitor the achievement of the Authority's objectives
 - b) identify, assess and appropriately manage the risks to achieving the Authority's objectives
 - c) facilitate policy and decision making
 - d) ensure the economical, effective and efficient use of resources
 - e) ensure compliance with established policies, procedures, laws and regulations
 - f) safeguard the Authority's assets and interests.
4. Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards (PSIAS). It is good practice to provide progress reports on Internal Audit work to senior management (Corporate Leadership Team) and the Board (Governance & Ethics Committee) and this report satisfies this expectation.

Summary of Internal Audit Work for 2017/18

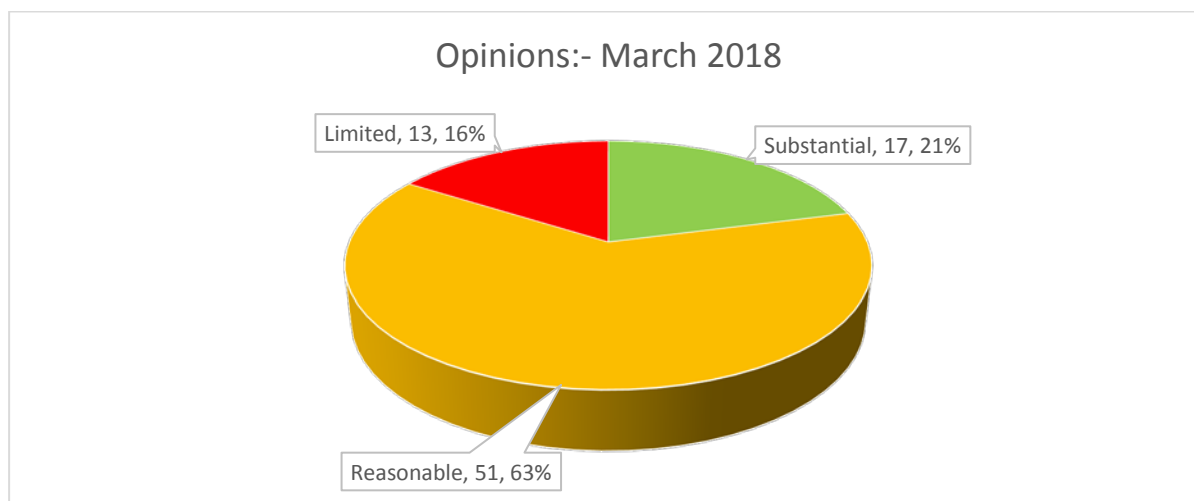
5. The following charts depict progress against the audit plan for the first half of 2017/18. Progress is expressed in terms of the following:
 - Inputs – the number of audit days delivered against the plan. Each segment in the chart represents 1/12th of the annual plan.
 - Outputs – the number of jobs completed against the plan. Each segment in the chart represents 1/12th of the annual plan.
 - Productivity indicator – the target score is 1, indicating that all jobs have been completed on time and using the planned allocation of days.



6. The number of days delivered was above the target of 90% of the planned days, but the number of jobs completed fell short of that anticipated at the start of the year; this gave rise to the productivity level of 0.88, meaning that fewer jobs than planned were completed within the days utilised. The key factors behind this are mostly concerned with the flexible approach taken to implementing the audit plan, to ensure the service responds to changes in the risk profile of the Council. In recognition of this, a revised approach to audit planning is proposed in a separate report to the Governance & Ethics Committee.
7. A wide range of audit work was completed during the year. **Appendix 1** sets out details of all final reports, draft reports and written advice, covering the following key types of Internal Audit input:
 - Assurance audits, for which an audit opinion is issued
 - Advice and consultancy – often relating to key developments and initiatives
 - Counter-fraud – including the investigation of suspected fraud and whistleblower reports
 - Certification audits – generally small jobs to sign off returns and accounts.
8. Most of Internal Audit's assurance work results in the issue of an opinion on the financial controls and procedures in place, categorised as follows:-

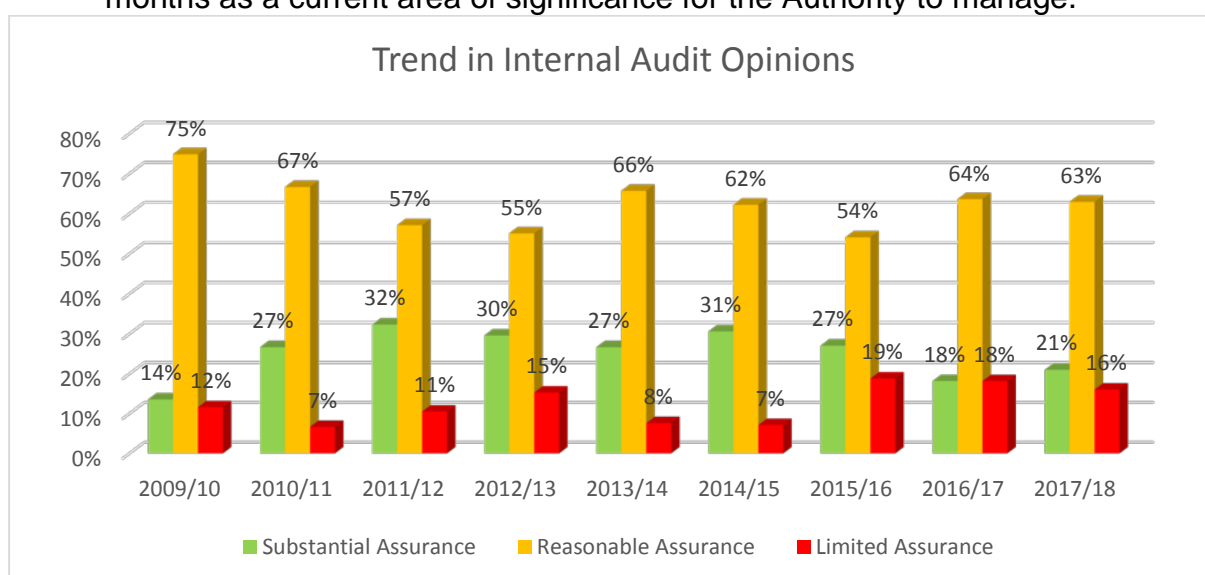
- *Substantial Assurance* – there are no weaknesses or only minor weaknesses
- *Reasonable Assurance* – most of the arrangements for financial management are effective, but some weaknesses have been identified
- *Limited Assurance* – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified.

9. Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2017/18. Based on this, I can conclude that **a satisfactory level of internal control is in operation in the Council.**



10. The work in 2017/18 has identified some areas in which internal controls need to be strengthened, most notably in the 13 areas for which a 'limited assurance' opinion was issued. Details of these reports are presented in **Appendix 2**. The weaknesses can largely be traced back to failures to comply with some aspect of the Council's Financial Regulations. The findings in 2017/18 emphasise a particular need for focus on the following:
- compliance with procurement regulations
 - strengthened budgetary control and contract management procedures
 - prompt and effective response to indicators of potential fraud
 - effective property management arrangements.
11. Reports to the Governance & Ethics Committee over the past year to update progress made by management in implementing agreed actions arising from audits has provided strong assurance that the agreed improvements are being put in place. This is good evidence that the Council remains responsive to the work of Internal Audit and the contribution it makes towards the authority's overall governance, risk and control arrangements.
12. The trend in the incidence of audit opinions over the past few years is illustrated in the graph below. This shows that, in percentage terms, the incidence of limited assurance opinions increased in 2015/16 and it has remained at a similar level in 2017/18. As stated above at paragraph 9, Internal Audit's opinion remains that the overall level of internal control in the Council is satisfactory. Nonetheless, the Annual Governance Statement for 2017/18 draws attention to

this downturn in the level of assurance provided by the reports over the past 12 months as a current area of significance for the Authority to manage.



13. Internal Audit provided advisory input to a number of key developments in the Council during the year; these are included in Appendix 1 as 'Advisory and consultancy' input to each department. This type of input ensures that timely advice is delivered by the Section while new and changed systems are being designed and implemented, and it helps to maintain the influence the Section has to retain a proper focus on control issues. Informal feedback from senior officers indicates that this type of input is valued.
14. Internal Audit was involved with a number of irregularity investigations during the year. Details of this work are incorporated in the Annual Fraud Report for 2017/18, which is the subject of a separate report to the Governance & Ethics Committee.

Annual Governance Statement

15. The Accounts and Audit Regulations 2011 require the Authority to publish an Annual Governance Statement with its Accounts. The Statement focuses on the Authority's system of governance and internal control which facilitates the effective exercise of its functions and the achievement of its objectives. Internal Audit's work contributes to the assurance process detailed in the Annual Governance Statement.
16. The individual audit opinions set out in paragraph 9 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. The chart at paragraph 9 shows that 84% of the audits undertaken identified that appropriate controls were in place, therefore Internal Audit's overall opinion is that the Authority's system of internal control is satisfactory. However, 16% of the activities audited were found to provide limited assurance, and the reports on these areas feature a higher proportion of

Priority 1 recommendations. Internal Audit's follow-up procedures focus on Priority 1 management actions to ensure that agreed improvements are realised, or continuing concerns are reported to the Governance & Ethics Committee. The evidence from the update reports to the Governance & Ethics Committee on the follow-up of Internal Audit recommendations provides very positive assurance that actions are taken to address the control weaknesses.

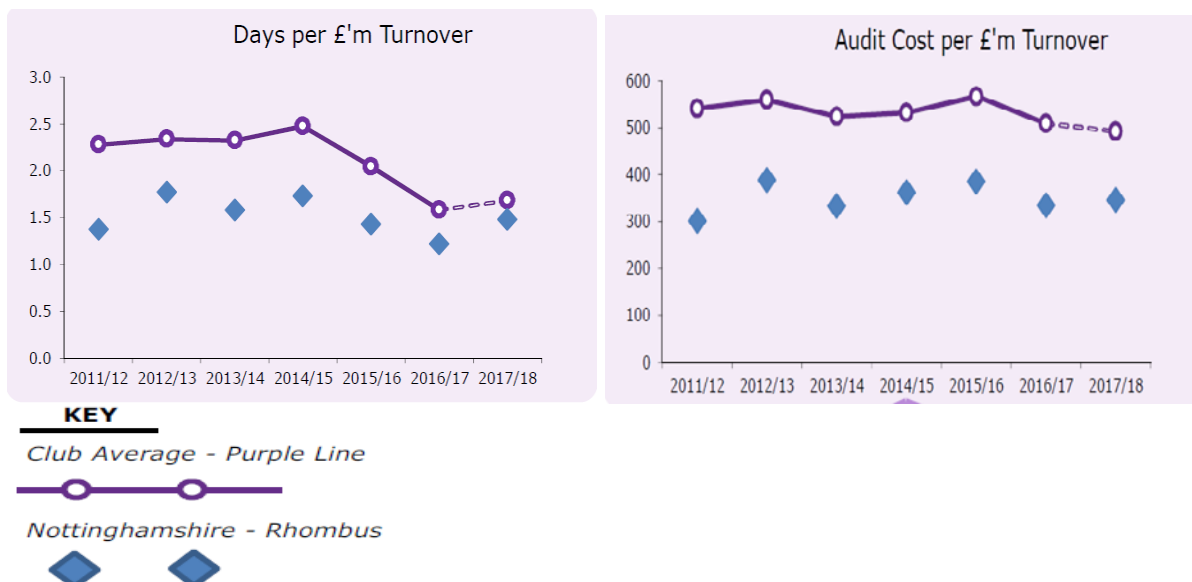
Internal Audit Performance Indicators

17. Progress against the Section's performance indicators, as at 31 March 2018, is detailed in the following table:

Performance Measure/Criteria	Target	Outcome as at 31/3/18
1. Risk-aware Council		
Completion of Audit Plan - Days - Jobs	90% 90%	✓92% ✗80%
Regular progress reports to: - Departmental Leadership Teams - Corporate Leadership Team - Audit Committee	3 pa 3 pa 2 pa	✗2/3 ✓3 ✓2
Publication of periodic fraud/control awareness updates	2 pa	✗1 – 'Top 10' issues in schools on schools portal
2. Influential Audit Section		
Recommendations agreed	95%	✓100%
Engagement with the Transformation agenda	Active in 5 key projects	✓Engaged with 6
3. Improved internal control & VFM		
Percentage of high, medium & VFM priority recommendations implemented	75%	✓Priority 1 – 81% ✓Priority 2 – 90%
4. Quality measures		
Compliance with the Public Sector Internal Audit Standards	Compliance achieved	✓Substantial compliance
Reliance placed on Internal Audit work	External Audit place reliance	✓No concerns raised at 16/17 audit and reliance was placed on IA work for some systems
Positive customer feedback through Quality Control Questionnaire (QCQ) scores	Feedback good or excellent (where a score of 1 is excellent and a score of 2 is good)	✓Average score 1.51

18. The audit work completed continues to be carried out in compliance with the required standards, and clients continue to respond well to the recommendations made and to the audit approach.
19. During the year, the section continued to use a customer satisfaction questionnaire, and has maintained very positive results. All recommendations made have been agreed for implementation.

20. The Section participates in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for internal audit services. Extracts from the latest benchmarking report received in December 2016 show the Council's Internal Audit Section (plotted 'X's') is below the comparator average (trend line) in terms of the cost of the Internal Audit service per £1m of the Council's turnover. The net budget for 2017/18 is £345k.



Quality Assurance and Improvement Programme (QAIP)

21. The Public Sector Internal Audit Standards require Internal Audit Sections to develop a QAIP to ensure that appropriate quality standards are being applied. An updated QAIP has been developed and is attached as **Appendix 3**, providing an update on progress against the action plan for 2017/18, revised timescales where required, and the addition of new actions arising from the latest assessment against the standards.
22. This year, the QAIP has been informed by an external assessment of the Internal Audit Section. It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that Internal Audit providers undergo an External Quality Assessment (EQA) at least once every five years. This is to provide an independent evaluation of each provider's level of compliance with PSIAS. An EQA of NCC's in-house service was carried out in March 2018 by TIAA Ltd, who were appointed by the s151 officer following a tender exercise. The outcome of the EQA was very positive, the key highlights of the report being the following:
- The service is assessed to be compliant with the standards to a very high degree (96%), as summarised in the table below.

Aspect of standards	No. of requirements in the standards	Standards not applicable at NCC	No. of applicable standards assessed	Compliance assessment		
				Yes	Partial	No
Definition of internal auditing	3		3	3		
Code of ethics	13		13	12	1	
Attribute Standards						
Purpose, authority & responsibility	23		23	23		
Independence & objectivity	35	2	33	30	3	
Proficiency & due professional care	21		21	20	1	
Quality assurance & improvement programme	27		27	25	2	
Performance Standards						
Managing the internal audit activity	47	1	46	44	3	
Nature of work	26		26	24	1	1
Engagement planning	44		44	44		
Performing the engagement	22		22	22		
Communicating results	45	3	42	42		
Monitoring progress	4		4	4		
Communicating the acceptance of risks	2		2	2		
Totals	312	6	306	295	11	1
				96.41%	3.59%	0.33%

- The action plan picks up and endorses a number of actions the service is already taking to improve compliance with the standards. This includes actions around the development of assurance mapping, the use of data analytics and meeting target deadlines for timely reporting. The action plan, and the Head of Internal Audit's response to the recommendations, is also set out in Appendix 4.
 - The additional actions that the assessor has identified relate to the areas of partial compliance. These are concerned with the content of the Internal Audit Charter, providing the opportunity to declare any potential conflicts of interest prior to each assignment commencing, and arrangements for periodically rotating the Audit Managers' lead areas of responsibility. Action will be taken to implement each of the recommendations.
 - The single action assessed as being non-compliant concerns the completion of an audit of the Council's ethics. This audit is currently in progress.
23. The outcome of the assessment provides significant assurance to the Council that the Internal Audit service conducts its work with due professional care. It confirmed the following in respect of the work carried out by the service in 2017/18:
- a) The service applied a systematic, risk-based approach to the assurance work it delivered
 - b) Internal Audit staff performed their duties with due regard to the code of ethics set out in the standards
 - c) There were no impairments to the independence and objectivity of the service during the year,

24. The external quality assessment has also recognised the changes the service has been implementing over the past two years and endorses the progressive actions being taken to improve the service.

Conclusion

25. The work undertaken by Internal Audit during 2017/18 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. Of the systems and procedures reviewed, 16% were found to provide limited assurance. Action plans have been agreed to address these concerns and follow-up audit work will be carried out to ensure that all Priority 1 actions are addressed.

Rob Disney CPFA
Head of Internal Audit
Nottinghamshire County Council

		ASSURANCE REVIEWS		
		LIMITED ASSURANCE	REASONABLE ASSURANCE	SUBSTANTIAL ASSURANCE
COUNCIL-WIDE			ASDM Composite report (at draft stage) Strategic risk management Procurement of suppliers Invoicing & debt management Capital programme Health & safety compliance Imprest accounts	Quarterly action tracking (Jun 17, Sept 17, Feb 18) Annual Governance Statement Budget monitoring & forecasting
ASCH	Procurement of suppliers & providers Direct payments HM Coroner's service		Delayed transfers of care Short breaks Care home admissions County Enterprise Foods Protection of property & pets and funeral arrangements	
C&F			Schools statutory reserve Allowances & fees to foster parents Reductions in school staffing School pupil place planning	
PLACE	Innovation Centres Vacant property management		Clayfields improvement works ASDM Arc (some elements limited assurance) ASDM Via	ASDM Inspire Travel Solutions Hub Waste management
RESOURCES			Competency Centre	ICT external assurance Corporate bank accounts
SCHOOLS	6 primary schools 2 follow-ups		27 primary schools (including 4 from external providers) 4 follow-ups	6 primary schools (including 1 from external provider) 2 follow-ups
		ADVISORY WORK	COUNTER-FRAUD	CERTIFICATION
COUNCIL-WIDE	Information Governance Improvement Group ASDM reviews		Transparency Code fraud data Annual Fraud Report Serious & Organised Crime Threats	
ASCH	Ollerton Day Centre imprest account Mosaic cutover arrangements Tendering for homecare		Access Independent whistleblower Solutions 4 Health - smoking cessation service	
C&F	Young people's accounts guidance			Beeston Youth & Community Centre account
PLACE			Community Safety concerns	Platt Lane playing field account Carbon reduction certificate Bus service operators' grant Trading Standards pro-active operations - 3 certificates
RESOURCES	Payroll to pensions data-matching Debtor refund authorisations			

Audit Reports issued to date in 2017/18 which had a “Limited Assurance” Audit Opinion

a) County Council processes

2017- 90 ASCH Dept – Procurement of suppliers & providers (July 2017)

This audit followed a review in 2016/17 of compliance with Financial Regulations for the procurement of the interim homecare service. It reviewed the procedures followed to procure the most significant suppliers to Adult Social Care services within the department. Around ¾ of the sampled providers were properly procured, but we found the Council's procurement regulations had not been followed in the remainder of cases, representing approximately £6.8m of expenditure. Recommendations to address the issues highlighted were accepted for implementation. A further audit is currently in progress to assess compliance with the procurement regulations across the rest of the Council.

2016-40 ASCH Dept (now Place Dept): HM Coroner for Nottinghamshire: NCC contributions

The audit examined the budget arrangements for HM Coroner's service in Nottinghamshire, which is jointly funded by Nottinghamshire County Council and Nottingham City Council. The County Council's budget for its annual contribution has shown been overspent for a number of consecutive years. Whilst the report noted some positive aspects of joint working between the two councils and the Coroner's service, there is scope for improved budgetary controls to be put in place. Central to this is the setting of a realistic budget for the contribution, with improved information sharing to enable in-year variations to be actively challenged promptly and effectively.

2016-50 ASCHPP Dept: Direct Payments

The focus of this review was the policies and procedures for monitoring and auditing the use of direct payments to service users. This has been an area of significant effort within the department to pro-actively root out and deal with cases of suspected misuse of these payments. In support of this, the report makes a number of recommendations to build on the progress being made. Scope is identified to strengthen guidance to service users, alongside more robust, internal procedures to take prompt and effective action to follow through cases picked up by trigger alerts of potential misuse.

2017-58 Place Dept: Innovation Centres

The audit reviewed the contract management procedures in place, with particular emphasis on the controls to confirm the veracity of financial and performance information provided by the service contractor. The recommendations in this report are future-focused, as the current service contract approaches the end of its life. Going into the next tender process, the audit identified scope to improve procedures for dealing with contract variations, information to support key performance indicators and fraud risk assessments.

2017-94 Vacant property management

This audit was carried out in response to two separate fire incidents at vacant properties. The report highlights a number of issues in the Property Service's procedures, most notably a disconnect between its strategy for progressing the disposal of surplus sites and its strategy for securing vacant premises; there was no evidence to show that problems

arising with the progress of one of these strategies for a particular site prompted a review of thinking with the other. Urgent improvements were also identified to ensure health and safety requirements are met and that insurance considerations are promptly taken into account.

b) School Budget Share audits

The programme of school visits has identified six schools for which a limited assurance audit opinion was provided. Two follow-up visits also returned an opinion of limited progress having been made with implementing the agreed actions. The audits of school budget share cover a broad range of areas including: governance; expenditure; income; assets; and information. Reports are provided to the Headteacher and the Chair of Governors for action.

Analysis of all school reports issued during the year identifies the 'Top Ten' issues raised in audit reports, see below. These were brought to the attention of all schools through a bulletin on the schools' portal, to ensure that those schools which haven't recently received an audit visit have the opportunity to self-assess their own controls and to make improvements where required.

Rank	Control area	Issue
1	Purchasing	A purchase order should normally be raised in advance and sent to the supplier, for all goods and services.
5		For purchases between £5,000 and £25,000 three quotations should be invited. If, in exceptional circumstances, this is impractical, the reasons why should be reported to the governing body and recorded in its minutes.
2	Data Security	Passwords to access the computer system and FMS accounting system should be changed on a regular basis, at least termly.
3	Payroll & Personnel	A self-employment assessment form should be completed prior to making gross payments, without deduction of tax, to an individual who is considered to be self-employed.
6		Additional Pay Claims should be supported by a form which is signed by the claimant and the authorising officer.
7		Payroll costs should be regularly reviewed by someone independent of payroll administration. This should be done after the payroll has been processed to ensure that what has actually been paid is what is approved. BMS report FI034 is particularly suitable for this purpose.
4	Purchase card	Both the Card Holder and the Card Manager should sign the monthly statements to confirm that the expenditure was properly incurred and is authorised.
9		Purchase card transactions should be supported by receipts or invoices, including VAT where appropriate.
8	Budgetary Control	Multi-year budget forecasts should be prepared annually for the next three years, and presented to Governors for review and approval.

10 =	School Meals	Invoices for school meals from the Council's Catering Service should be checked back to the school's own records of meals served.
10 =	Governance	The register of business interests should be kept up to date for governors and staff involved in financial decisions and procedures.

1. Update on progress against the 2017/18 QAIP

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2018
<i>Reviewing the effectiveness of Internal Audit</i>						
1617 – 4	A formal external review of Internal Audit must be completed once every five years, with the first being due by the end of 2017/18	External review has yet to be commissioned	Evaluate options for the external review of Internal Audit and seek approval of Governance & Ethics Committee	Governance & Ethics Committee to consider options presented by the Head of Internal Audit	March 2018	The approach to engaging an external assessor was approved by the Governance & Ethics Committee. An assessor was appointed following a tender exercise and the assessment was completed in March 2018.
<i>Policies and Procedures</i>						
1617 – 6	Maintaining an audit manual to guide staff in the performance of their duties in compliance with the PSIAS	The current Audit Manual requires updating	Update the Audit Manual	Head of Internal Audit	August 2017	The Audit Manual has been refreshed and is now maintained on-line as a matter of routine.
<i>Nature of audit coverage</i>						
1617 – 7	Review the organisation's ethics-related objectives, programmes and activities	Coverage as part of some planned audits, but no audit dedicated to this topic	Include a cross-cutting review of the organisation's culture and ethics as part of a future planning period	Head of Internal Audit	As part of the 2017/18 audit plan	An audit of ethics commenced towards the close of 2017/18 and is currently being progressed.
1617 – 8	Review the effectiveness of the organisation's risk management processes	The Head of Internal Audit is a member of the Risk Safety & Emergency Management Board, but a dedicated audit	A dedicated cross-cutting review of risk management is included in the 2016/17 audit plan	Head of Internal Audit	Report in the first quarter of 2017/18	The audit of risk management was completed and the final report issued.

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2018
		of this topic has not been carried out recently				
General efficiency and effectiveness of the service						
1617 – 11	Identifying opportunities to improve the efficiency and effectiveness of the service	The Internal Audit Service Plan for 2016/17 includes actions to improve some aspects of the service	Implement revised time-recording and performance management module	Head of Internal Audit	Second quarter of 2017/18	Sustained progress is now being made following the implementation of a system upgrade. Targeted for completion by the end of July 2018.
Proficiency						
1718 - 1	Auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques	There is scope to make the use of these techniques more routine and embedded in the section's day-to-day work	Provision of training and refresher training on the tools currently available. Instil a data-analysis approach wherever it is relevant and appropriate for the work planned in 2017/18.	Head of Internal Audit	For all audits in the 2017/18 audit plan	Good progress is being made with this action. Data analytics is a regular item at Team Meetings to allow experience in its use and development to be shared and encouraged. A dedicated data analytic review of payroll is currently being completed. This action will remain a work in progress for 2018/19.
Assurance mapping						
1718 - 2	The application of assurance mapping in relation to the following: <ul style="list-style-type: none"> The risk-based plan takes into account the 	There is scope to strengthen the current approach to assurance	Design and implement an assurance mapping process for the work of the Governance & Ethics Committee and for	Head of Internal Audit	Initial proposals targeted for	An approach to assurance mapping was proposed to the Corporate Leadership Team and the Governance & Ethics Committee. It was

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2018
	<p>organisation's assurance framework</p> <ul style="list-style-type: none"> The CAE shares information and coordinates activities with other internal and external providers of assurance and consulting services The CAE's annual opinion takes account of the risk or control framework or other criteria used as a basis for the overall opinion 	<p>mapping at a number of levels:</p> <ul style="list-style-type: none"> Corporately in relation to the work of the Governance & Ethics Committee Relating to Internal Audit's planning process Delivery of internal audit engagements 	<p>corporate governance processes.</p> <p>Carry out a mid-year review of the 2017/18 Audit Plan to assess any required changes in light of the assurance map. Future opinions of the CAE on the overall effectiveness of the control framework to be based on all available sources of assurance.</p>		<p>September 2017</p> <p>Mid-year review of the Internal Audit plan for 2017/18</p> <p>Annual opinion of the CAE in 2017/18</p>	<p>agreed to implement the approach as a pilot for three aspects of governance in 2018/19. The pilot will be carried out in four stages, to be completed and reviewed by March 2019.</p>

2. New actions for 2018/19

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2018/19)
External Quality Assessment						
1819-1	Undergo an external quality assessment and respond to any improvements identified.	The assessment has identified some areas of partial compliance with the standards, as set out in the report's action plan.	The external assessor's action plan sets out the recommended actions.	Head of Internal Audit	Per the timescales identified in the response to the external assessor's action plan.	



Nottinghamshire County Council

Assessment of Compliance with PSIAS and the LGAN 2017/18

Assessment of Compliance with PSIAS and the Local Government Application Note 2017/18

INTRODUCTION

1. CIPFA and the Chartered Institute of Internal Auditors (IIA) have jointly developed new Internal Audit Standards – the Public Sector Internal Audit Standards (PSIAS) replacing the CIPFA Code of Practice. The new standards provide a coherent and consistent internal audit framework for the whole of the public sector and came into effect from 1 April 2013. Periodically reviews are performed to assess the level of compliance against this code.
2. This review has been undertaken by TIAA to independently assess compliance of the Internal Audit department of Nottinghamshire County Council with the Attribute and Performance Standards contained in the Public Sector Internal Audit Standards (PSIASs). In addition the review has also considered compliance with the Local Government Advisory Note (LGAN), where this has requirements in addition to those contained in the PSIAS.
3. The Standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Corporate Governance Statement.
4. The Accounts & Audit (England) Regulations 2015 require that the Council must perform a review of the effectiveness of its internal audit at least once a year. The findings of the review must be considered as part of the system of internal control by the Governance and Ethics Committee when assessing the effectiveness of the Council's overall system of internal control.
5. The standards require periodic self-assessments which the Head of Internal Audit has conducted annually and reported the findings and action plan through to the Governance and Ethics Committee. These were last undertaken by the Head of Internal Audit in May 2016 and April 2017.
6. The checklist of conformance with the PSIAS and the LGAN has been used as the basis for the self-assessment and is designed to assess the performance of internal audit against the following categories: (*See Appendix 1 for results of the assessment*).
 - Code of Ethics -Integrity, objectivity, confidentiality and competency
 - Attribute Standards
 - Performance standards
7. A further requirement of the Standards is for an external assessment to be undertaken every five years.

SCOPE AND LIMITATIONS OF THE REVIEW

8. The review was carried out through a process of interview (see Appendix 4) and examination of key documents including the Internal Audit Charter, reports to the Governance and Ethics Committee and related supporting documentations.
9. A total of fifteen internal audit reviews, including four reviews rolled over from 2016/17 were reviewed on the audit management system- Pentana with assistance from the assigned auditor. The results are summarised in Appendix 3.
10. The following appendices are included for reference:
 - Appendix 1 - Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note
 - Appendix 2 – Action Plan
 - Appendix 3 – Summary of findings from file review on the audit management system- Pentana
 - Appendix 4 – List of interviewees

SUMMARY AND ACTIONS FOR CONSIDERATION

11. The assessment has shown that the Internal Audit Service is comprised of a team of dedicated professional auditors who are passionate of the service that they deliver. Whilst there are some areas of partial conformance, these are not considered to be significant to affect the overall scope or operation of the internal audit activity, and are currently being managed through appropriate governance and reporting arrangements. It is proposed that the areas for improvement can be addressed during 2018/19 and that continued conformance and progress be reported during the year to the Governance and Ethics Committee.
12. The main areas for partial conformance and related proposed actions identified as part of the peer review to further strengthen conformance with standards are listed in Appendix 2.

RELEASE OF REPORT

13. The table below sets out the history of this report.

Date draft report issued:	25 th April 2018
Date management responses recd:	
Date final report issued:	

Appendix 2

Checklist Ref:	Audit Standards/Question	Finding/Gap Identified	Action Required	Officer Responsible	Timescale
1a	<i>Ensure that the internal audit activity is Independent.</i>	Discussion with the s151 Officer and Leader of the Council identified that the HoIA has direct access and freedom to report to the Chief Executive and senior management. Whilst this is referenced in section 11.6 of the Revised Internal Audit Charter, September 2017 consideration to incorporate that the HoIA also has direct access and reports in their own name to the Governance and Ethics.	Charter to be refreshed and incorporate statement that the HoIA has unrestricted access to Senior Management and Members particularly the Leader of the Council, the Chair of the Governance and Ethics Committee/ Chief Executive, Directors and Heads of Service, and maintains segregation from operations. Further the Head of Internal Audit reports in own name.	Head of Internal Audit	July 2018
1b	<i>Ensure that the internal audit activity is Objective</i>	All auditors are required to declare annually any issues that would affect their independence and objectivity in performing individual reviews in order that any conflicts are avoided. All interviewees emphasised the importance of these aspects of audit behaviour. The annual report did not, however, confirm no impairments to independence during the year.	Point for consideration, that each auditor (inc contractor) complete a declaration of interest and objectivity statement contained in the Audit Working Papers (AWP) in Pentana for each audit review undertaken and to be reviewed by the Audit Manager. Include a statement to confirm that independence has not been impaired in the past year in the Internal Audit Annual Report	Head of Internal Audit Head of Internal Audit	July 2018 June 2018
2	<i>Code of Ethics- Integrity</i>	All staff are required to complete an annual declaration individual objective statement. These were made available as part of the review, for all staff in post.	Annual Declaration to be refreshed and include cross ref to Standard 1000 Purpose, Authority and Responsibility and specifically with PSIAS 1120 – Individual Activity and 1130 – Impairment to Independence and Objectivity	Head of Internal Audit	June 2018

Checklist Ref:	Audit Standards/Question	Finding/Gap Identified	Action Required	Officer Responsible	Timescale
2	<i>Code of Ethics- Competency Do internal auditors have regard to the Nolan Committee's Standards of Public Life's, Seven Principles of Public Life?</i>	Although not explicitly stated, reference is included in the Audit Charter, Section 6 Proficiency and Due Professional Care.	Audit Charter to be refreshed to incorporate, "Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership."	Head of Internal Audit	July 2018
3.1 (1000)(h)	<i>Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011?</i>	One minor point Section 4.3 of the Audit Charter refers to guidance; "The Accounts and Audit (England) Regulations 2011	Audit Charter to be refreshed and reflective of The Accounts and Audit Regulations (2015) and not 2011.	Head of Internal Audit	July 2018
3.1(1000)(m)	<i>Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?</i>	The arrangements for undertaking non-audit activities and to maintain independence referred to in Section 4 of the Charter is explicit in stating that any "The nature and extent of work for external clients is kept under review to ensure: a) it does not impinge on the audit work carried out for the Council, and; b) there is no conflict of interest or impairment of independence arising from this work. Internal Audit aims to limit its consultancy and irregularity work to approximately 10% of its available resource." Details of consultancy work undertaken are disclosed in the Annual Report	Consideration of a section in the Charter re Consultancy which is reflective of the point that due to its detailed knowledge of County Council's systems and processes Internal Audit is well placed to provide advice and support to services on issues of value for money and process re-engineering. Consideration also to provide PSAIS definition of Consulting as follows: "Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."	Head of Internal Audit	July 2018

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3.2(1130) LGAN	<i>Impairment to independence and Objectivity - Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?</i>	All managed audit exercises are regularly rotated within the team and the Lead Auditor role for external clients are also changed.	To further embed conformance, departments managed at the Audit Manager level be considered for rotation to other team members	Head of Internal Audit	The transition of services from the Resources Department to a new Chief Executive's Department may have implications for the structure of Internal Audit. Lead responsibilities will be rotated at this time, potentially in the second half of 2018/19.
3.3 (1210)	<i>Proficiency - Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?</i>	Whilst staff are knowledgeable in the use of Excel, this has been identified by the HoIA as part of the self-assessment and reported to the Governance and Ethics Committee in June 2017 as an area for improvement and embed use of data analysis techniques as a matter of routine in Internal Audit's work. It is noted that both assurance mapping and data analytics are areas that are standing agenda items at the monthly section meetings and that the HoIA is developing a draft strategy to develop this across the audit process.	Staff continue to consider assurance mapping and use of data analytics at the planning stage with lead auditor/ Audit Manager and engagement process with auditees. Where applicable detail of data analytics be cited in the engagement letter.	Head of Internal Audit	The assurance mapping is being progressed for three aspects of governance in 2018/19. The increased focus on data analytics is gaining momentum and this will be continued through section meetings, 1-to-1 reviews and routine supervision of auditors' work.

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4.5 (2440)	<i>Disseminating Results - Has the CAE communicated engagement results to all appropriate parties?</i>	Results are communicated through exit meetings and issuance of draft reports and final reports. Whilst this works well conformance can be strengthened through timely reporting.	To further embed conformance and timely reporting staff be required to arrange exit meeting dates at the opening meeting, noting detail of any potential delays.	Head of Internal Audit	This was introduced in 2017/18 and compliance will continue to be monitored throughout 2018/19 to ensure this becomes the established practice.