

**AUDIT COMMITTEE  
27 JANUARY 2015:**

**INDEPENDENT REVIEW OF INTERNAL AUDIT AGAINST THE PUBLIC SECTOR  
INTERNAL AUDIT STANDARDS (PSIAS)**

**Cabinet Member** Cllr Peter Hare-Scott  
**Responsible Officer** Head of Communities and Governance

**Reason for Report:** To provide the Committee with details of the independent review undertaken which assessed the Internal Audit Service against the criteria in the Public Sector Internal Audit Standards (PSIAS)

**RECOMMENDATION(S):** That the Committee endorse the contents of the external consultants report in respect of the review of Internal Audit against the Public Sector Internal Audit Standards

**Relationship to Corporate Plan:** Internal Audit is a key part of the Council's Governance arrangements which underpin everything that the Council does

**Financial Implications:** None

**Legal Implications:** None

**Risk Assessment:** A poor assessment would identify that the Council has a weakness in its governance arrangements and could result in additional scrutiny from the external auditor.

**Introduction**

The Public Sector Internal Audit Standards came into effect from 1<sup>st</sup> April 2013, replacing the previous code of practice for internal auditors in local government in the UK.

As part of the Annual Governance Statement each year an internal review of the Internal Audit Service against the PSIAS is completed and this is attached as Appendix A.

As part of the requirements of the PSIAS the authority is required to have an independent review completed of the Internal Audit Service against the PSIAS. This has been undertaken by a consultant, Rob Willcocks, in November 2014 and his report is attached as Appendix B.

**Contact for more Information:** Amy Tregellas, Head of Communities and Governance

**Circulation of the Report:** Cllr Peter Hare-Scott and Management Team

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
<b>1. DEFINITION OF INTERNAL AUDITING</b>					
	Using evidence gained from assessing conformance with other Standards, is the Internal Audit activity: (a) Independent? (b) Objective?	Y			The Internal Audit Service comes under the Communities and Governance service area and the Audit Team Leader reports to the Head of Communities and Governance (HOCG). If audit review an area under the remit of the HOCG they report directly to the Chief Executive
	Using evidence gained from assessing conformance with other Standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	Y			Details on the approach is laid out later in document
<b>2. CODE OF ETHICS</b>					
	Integrity Using evidence gained from assessing conformance with other Standards, do internal auditors: (a) Perform their work with honesty, diligence and responsibility (b) Observe the law and make disclosures expected by the law and the profession? (c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or to the organisation? (d) Respect and contribute to the	Y Y Y Y			The code of ethics is contained in the Internal Audit Charter and contains a section on integrity.

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	legitimate and ethical objectives of the organisation?				
	<p>Objectivity</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not:</p> <p>(a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?</p> <p>(b) Accepting anything that may impair their professional judgement</p> <p>(c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review</p>	<p>Y</p> <p>Y</p> <p>Y</p>			<p>The code of ethics is contained in the Internal Audit Charter and contains a section on Objectivity.</p> <p>The Audit Strategy section 6 also includes details on independence and objectivity and gives details of the safeguards that are in place</p>
	<p>Confidentiality</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display confidentiality by:</p> <p>(a) Acting prudently when using information acquired in the course of their duties and protecting that information</p> <p>(b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation</p>	<p>Y</p> <p>Y</p>			<p>The code of ethics is contained in the Internal Audit Charter and contains a section on confidentiality.</p>

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	Competency Using evidence gained from assessing conformance with other Standards, do internal auditors display competency by: <ul style="list-style-type: none"> <li>(a) Only carrying out services for which they have the necessary knowledge, skills and experience?</li> <li>(b) Performing services in accordance with PSIAS?</li> <li>(c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?</li> </ul>	Y			The code of ethics is contained in the Internal Audit Charter and contains a section on competency. New auditors work on audits with other team members until they are up to speed and have the necessary knowledge, skills and experience. All members of the team undergo on the job training as well as attending courses as necessary. The Audit Team Leader also regularly attends CPD training
	Do internal auditors have regard to the Nolan Standards of Public Life's Seven Principles of Public Life?	Y			
<b>3. ATTRIBUTE STANDARDS</b>					
<b>3.1 1000 Purpose, Authority and Responsibility</b>					
	Does the internal audit charter include a formal definition of: <ul style="list-style-type: none"> <li>(a) the purpose</li> <li>(b) the authority, and</li> <li>(c) the responsibility</li> </ul> of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)	Y			Section 4 of the Internal Audit Charter
LGAN	Does the Internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity?	Y			Section 4.1.4 defines the 'board' as the Audit Committee and 4.1.5 defines 'senior management' as the Management Team
	Does the internal audit charter also:				
	(a) set out the internal audit activity's	Y			Section 4.2.3 outlines who the Audit Team

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	position within the organisation?				Leader reports to and where this sits in the organisation
	(b) Establish the CAE's functional reporting relationship with the board?	Y			Sections 4.2.5 and 4.2.6 outline who the Audit Team Leader has access to
LGAN	(c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively?	Y			Section 4.2.3 and 4.2.4
LGAN	(d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, Monitoring Officer and the head of paid service) with regards to internal audit?	Y			Section 4.1.4, 4.2.3, 4.2.5 and 4.2.6. <i>Action: This could be added to by making reference to what is contained within the Constitution in respect of the Audit Committee and statutory officers when next reviewing</i>
	(e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?		P		Whilst this is not in the Charter it is included in the Internal Audit Strategy (section 4.1) which is updated annually and published alongside the Charter.
LGAN	(f) Define the scope of internal audit activities?	Y			Section 4.6 nature of work, 4.7 engagement planning, 4.8 performing the engagement and 4.9 communicating results
LGAN	(g) Recognise that internal audit's remit extends to the entire control environment of the organisation?	Y			Set out in the definition 2.1 and section 4 on purpose, authority and responsibility
LGAN	(h) 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?	Y			Section 4.1.1, 4.1.2 and 4.1.3
LGAN	(i) Establish the organisational independence of internal audit?	Y			Section 4.2 including safeguards to independence

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	(j) Cover arrangements for appropriate resourcing?	Y			Section 4.5 managing the internal audit activity
	(k) Define the role of internal audit in any fraud-related work?	Y			Section 6 fraud and corruption
	(l) Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?		P		This requirement is included in the anti-fraud and anti-corruption policy and the accompanying flow diagram but is not included in the Internal Audit Charter
	(m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	Y			Section 4.2 of the Charter and also covered in sections 6 and 7 of the Internal Audit Strategy
	(n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?	Y			
	(o) Define the nature of consulting services?	Y			
	(p) Recognise the mandatory nature of the PSIAS?	Y			Reflected in both the Audit Charter and Strategy
	Does the Chief Audit Executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	Y			The Charter is scheduled to be reviewed every three years and is next due to be presented to the Committee in March 2016
	Does the CAE attend audit committee meetings?	Y			Yes the Audit Team Leader and the Head of Communities and Governance attend Audit Committee meetings and present reports in their own right
	Does the CAE contribute to audit committee agendas?	Y			Yes

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
<b>3.2 1100 Independence and Objectivity</b>					
	Does the CAE have direct and unrestricted access to senior management and the board?	Y			CAE reports to Head of Communities and Governance who is on Management Team and reports directly to the Chief Executive when auditing an area under the remit of the HOCG. CAE has the opportunity to meet with the Chairman and/or Vice Chairman of the Audit Committee at any time
	Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?	Y			See above comment
	Are threats to objectivity identified and managed at the following levels: (a) individual auditor? (b) Engagement? (c) Functional? (d) Organisational?	Y Y Y Y			Individuals complete declaration of interest forms regularly and this is factored into which audits/engagements they do. If the auditor has worked in a previous department they are not able to audit that area for at least two years. As a function Internal Audit is an independent unit and whilst they pick up risk and performance as part of each audit and administer the SPAR system they are not responsible for compiling or entering information on the system. See earlier comments about organisational aspects
	<i>1100 Organisational Independence</i>				
	Does the CAE report to an organisational level equal or higher to the corporate management team?	Y			Report to the Head of Communities and Governance (Monitoring Officer) who is a member of the corporate management team. Where there is a conflict of interest in auditing

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
					services under the HoCG's remit the audit team report directly to the Chief Executive
LGAN	Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	Y			To a member of MT
LGAN	Have reporting and management arrangements been put in place that preserve the CAE's independence and objectivity?	Y			Where there is a conflict of interest in auditing services under the HoCG's remit the audit team report directly to the Chief Executive
LGAN	Does the CAE's position in the management structure: (a) reflect the influence he or she has on the control environment? (b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? (c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management	Y Y Y			The CAE reports directly to a member of Management Team and will attend MT to discuss any relevant matters as and when appropriate
	Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity. The board: (a) approves the internal audit charter? (b) Approves the risk-based audit plan?	Y Y			The Audit Committee do not currently have any authority over the appointment and removal of the Audit Team Leader – the postholder has been in post as the Principal Auditor since February 2009 and as Audit Team Leader since July 2011. Matters over the appointment and removal of staff are delegated to the Chief Executive and via onward delegation to the Heads of Service in



## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	(c) Approves the internal audit budget and resource plan? (d) Receives communications from the CAE on the activity's performance (in relation to the plan, for example) (e) Approves decisions relating to the appointment and removal of the CAE (f) Seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations	Y		N	the Council's Constitution.
	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance of the CAE?	Y			This is done by the Head of Communities and Governance and she discusses the performance of her direct reports with the Chief Executive
	Is feedback sought from the chair of the Audit Committee for the CAE's performance appraisal?			N	Currently no input is sought from the Chairman of the Audit Committee
	<i>1111 Direct Interaction with the Board</i>				
	Does the CAE communicate and interact directly with the board?	Y			The CAE attends all Audit Committee meetings and does email all members of the committee if and when appropriate to disseminate information
	<i>1120 Individual Objectivity</i>				
	Do internal auditors have an impartial, unbiased attitude?	Y			
	Do internal auditors avoid any conflict of interest, whether apparent or actual?	Y			Safeguards put in place to avoid any conflict of interest
	<i>1130 Impairment to Independence and Objectivity</i>				

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	Y			Declarations of interest completed and this is factored into the audit plan
	Have internal auditors assessed specific operations for which they have been responsible within the previous year?			N	They are not responsible for any operations
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?				Not applicable
LGAN	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit activity?	Y			Wherever possible audits are rotated – depending on any declarations of interest
LGAN	Have internal auditors declared interests in accordance with organisational requirements?	Y			Audit have their own declaration of interest form
LGAN	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than may be allowed by the organisation's own policies), has this been declared and investigated fully?	Y			The team know the process to follow but this has not arisen

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
LGAN	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?			N	
LGAN	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidential agreements?	Y			
LGAN	Have internal auditors complied with the Bribery Act 2010?	Y			
	If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted	Y			The only example here is where HR have asked a member of the audit team to do an investigation – if they know the individual then they have declined the engagement
	Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted				Not applicable
<b>3.3 1200 Proficiency and Due Professional Care</b>					
	<i>1210 Proficiency</i>				
	Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	Y			Audit Team Leader is ICAEW qualified
	Is the CAE suitably qualified?	Y			
LGAN	Is the CAE responsible for recruiting appropriate internal audit staff, in	Y			

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	accordance with the organisation's human resources processes?				
LGAN	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?	Y			
	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?		P		ICT skills are the issue – training being undertaken as per approval given by the Audit Committee who chose the option of training existing staff rather than buying expertise in
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?	Y			
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisations?	Y			The team have had training on conducting investigations and are all aware of the arrangements for preventing fraud and corruption in the organisation
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	Y			
	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?		P		The Audit team don't use audit software but do use facilities from other systems to access reports and interrogate them for information relevant to the audit process. The Council does not have plans to purchase software for the audit team due to diminishing finances

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	<i>1220 Due Professional Care</i>				
	Do internal auditors exercise due professional care by considering the:				
	(a) extent of work needed to achieve the engagement's objectives?	Y			
	(b) Relative complexity, materiality or significance of matters to which assurance procedures are applied?	Y			
	(c) Adequacy and effectiveness of governance, risk management and control processes?	Y			
	(d) Probability of significant errors, fraud or non-compliance?	Y			
	(e) Cost of assurance in relation to potential benefits?	Y			
	Do internal auditors exercise due professional care during a consulting engagement by considering the:				
	(a) Needs and expectations of clients, including the nature, timing and communication of engagement results?	Y			
	(b) Relative complexity and extent of the work needed to achieve the engagement's objectives	Y			
	(c) Cost of the consulting engagement in relation to potential benefits?	Y			
	<i>1230 Continuing Professional Development</i>				
LGAN	Has the CAE defined the skills and competencies for each level of auditor?	Y			Through job description, person specification and organisational competencies

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
LGAN	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	Y			Through one to ones and appraisal training
	Do internal auditors undertake a programme of continuing professional development?	Y			
	Do internal auditors maintain a record of their professional development and training activities	Y			
<b>3.4 1300 Quality Assurance and Improvement Programme</b>					
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of PSIAS to be evaluated?	Y			Set out in the Internal Audit Charter section 4
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?	Y			Internal Audit Charter section 4.4.2
	Does the CAE maintain the QAIP?	Y			
LGAN	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	Y			Completed by the Head of Communities and Governance as a source of assurance for the Annual Governance Statement
	<i>1310 Requirements of the Quality Assurance and Improvement Programme</i>				
	Does the QAIP include both internal and external assessments?	Y			External assessment due to take place at the end of 2014 but it is listed in section 4 of the Internal Audit Charter

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	<i>1311 Internal Assessments</i>				
LGAN	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	Y			
	Do internal assessments include ongoing monitoring of the internal audit activity, such as: (a) Routine quality monitoring processes (b) Periodic assessments for evaluating performance with the PSIAS?	Y Y			Each audit is reviewed either by the Audit Team Leader or the HOCCG. A review of Audit against the PSIAS is completed as part of the sources of assurance for the AGS
LGAN	Does ongoing performance monitoring include comprehensive performance targets?	Y			Reported previously in performance and risk reports and now in the audit progress report
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?		P		PIs are developed by the team and agreed by the Head of Service and then by Management Team as part of the service business plan process. Do not use SLAs
LGAN	Does the CAE measure, monitor and report on progress against these targets?	Y			
LGAN	Does ongoing performance monitoring include obtaining stakeholder feedback?		P		Survey's are issued to the clients for the systems audits but not the core audits which are completed each year
	Are the periodic self assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?		P		The annual review is completed by the Head of Communities and Governance so probably not as independent as could be but the officer does have knowledge of internal audit practices. In a small authority with limited resources it is difficult to think who else would do this work – it is reviewed and challenged

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
					by the Audit Committee members as they are briefed on the AGS sources of assurance annually
LGAN	Does the periodic assessment include a review of the activity against the risk based plan and the achievement of its aims and objectives?	Y			Progress reports are taken to Management Team and Audit Committee on a regular basis
	<i>1312 External Assessments</i>				
	Has an external assessment been carried out, or is planned to be carried out, at least once every 5 years?	Y			When the PSIAS came into effect the CAE informed the Audit Committee of the plans for review and the review is to be done later in 2014
LGAN	Has the CAE considered the pros and cons for the different types of external assessment (ie 'full' or self assessment plus 'independent validation')?	Y			Considered 'peer review' with the other Devon Districts and external auditor before agreeing on independent reviewer appointed by several of the other Devon Districts
	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?	Y			
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	Y			With the Head of Communities and Governance (Monitoring Officer) who has briefed the Chief Executive
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	Y			
	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing	Y			



## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	and the external assessment process?				
	How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?	Y			
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs		P		The assessor is engaged by the Learning and development team to deliver training sessions at MDDC
	<i>1320 Reporting on the Quality Assurance and Improvement Programme</i>				
	Has the CAE reported the results of the QAIP to senior management and the board? Note that: (a) the results of both external and periodic internal assessment must be communicated upon completion (b) the results of ongoing monitoring must be communicated at least annually (c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS	Y  Y  Y			Progress reports are taken to Management Team and Audit Committee on a regular basis. The HOCG briefs the Audit Committee on the sources of assurance during a session on the Annual Governance Statement each year and members are given a copy of the assessment. This is prior to the June meeting of the Audit Committee each year. Once completed the independent review of the Audit Service will be given to Management Team and the Audit Committee members. Previous reports carried out by the external auditor were taken to the Audit Committee
	Has the CAE included the results of the	Y			Progress reports include the performance of

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	QAIP and progress against any improvement plans in the annual report?				the Internal Audit team against the targets in the annual audit plan and the performance indicators will now be included in these reports rather than in the revised performance and risk reports
	<i>1321 Use of 'conforms with the international standards for the Professional Practice of Internal Auditing'</i>				
	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this	Y			
	<i>1322 Disclosure of non-conformance</i>				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board		P		The HOCG briefs the Audit Committee on the sources of assurance during a session on the Annual Governance Statement each year and members are given a copy of the assessment.
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced	Y			Any areas for improvement are included in the Annual Governance Statement action plan
<b>4. PERFORMANCE STANDARDS</b>					
<b>4.1 2000 Managing the Internal Audit Activity</b>					
	Do the results of the internal audit activity's work achieve the purposes and responsibility of the activity, as set out in the internal audit charter	Y			
	Does the internal audit activity conform with the definition of Internal Auditing and the Standards	Y			

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the Code of Ethics and the Standards?	Y			
	Does the internal audit activity add value to the organisation and its stakeholders by: (a) providing objective and relevant assurance (b) contributing to the effectiveness and efficiency of the governance, risk management and internal control processes	Y Y			Not only do the audit team cover key controls they also look at all areas within a service area including risk assessments and management, performance management, policies and procedures and compliance with legislation and policies
	<i>2010 Planning</i>				
	Has the CAE determined the priorities of the internal audit activity in a risk based plan and are these priorities consistent with the organisation's goals?	Y			
	Does the risk based plan take into account the requirement to produce an annual internal audit opinion?	Y			Part of the annual report each year
	Does the risk based plan take into account the organisation's assurance framework?	Y			
	Does the risk based plan incorporate or is it linked to a strategic or high level statement of: (a) how the internal audit service will be delivered (b) how the internal audit service will be developed in accordance with the internal audit charter (c) how the internal audit service links	Y Y Y			Contained in the Internal Audit Strategy

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	to organisational objectives and priorities?				
	Does the risk based plan set out how internal audit's work will identify and address local and national issues and risks?		P		This is considered when the plan is set out but probably needs to be clearly formulated and set out in the plan
	In developing the risk based plan, has the CAE taken into account the organisations risk management framework and relative risk maturity of the organisation?	Y			
	If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	Y			The CAE is briefed by the HOCG on a regular basis re corporate and service issues and the audit plan is discussed by Management Team before it goes to the Audit Committee for approval
LGAN	Does the risk based plan set out the: (a) audit work to be carried out (b) respective priorities of those pieces of audit work (c) estimated resources needed for the work	Y Y		N	Plan includes audits and number of days but not priorities
LGAN	Does the risk based plan differentiate between audit and other types of work?	Y			Splits it into core audits, systems audits, other work and contingency/ consultancy/ fraud
LGAN	Is the risk based plan sufficiently flexible to reflect the changing risks and priorities of the organisation	Y			Capacity built into the contingency section of the audit plan and in some cases one audit may be substituted for another in the plan
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and	Y			The CAE reviews the plan at least quarterly throughout the year

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	controls?				
	Is the internal audit activity's plan of engagements based on a documented risk assessment?	Y			Work is being done to improve the risk assessment process and how it feeds into the plan
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?	Y			
LGAN	In developing the risk based plan, has the CAE also considered the following: (a) any declarations of interest (for the avoidance for conflicts of interest?) (b) the requirement to use specialists e.g. IT or contract and procurement auditors? (c) Allowing contingency time to undertake ad hoc reviews of fraud or investigations as necessary? (d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	Y Y Y Y			Declarations of interest are considered The plan includes reference to core audit, systems audits and other work
	Is the input of senior management and the board considered in the risk assessment process	Y			Management Team consider plan before it goes to Audit Committee
	Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions	Y			
	Does the CAE take into consideration any	Y			

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?				
	Are consulting engagements that have been accepted included in the risk based plan		P		It depends when they arise. A section on contingency/ consultancy and fraud is included in the audit plan as an investigation could arise at any time and cannot be planned for
	<i>2020 Communication and Approval</i>				
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?	Y			The strategic audit plan (covering 4 years) goes to the Management Team and Audit Committee each March along with the annual work plan (splitting the workload of the team into quarters) for the next financial year.
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	Y			Most recent example is a revision to the plan due to one of the Auditors being on maternity leave
	Has the CAE communicated the impact of any resource limitations to senior management and the board?	Y			Discussions have taken place on whether to second someone internal to the team, use an agency member of staff or carry on with reduced capacity
	<i>2030 Resource Management</i>				
	Does the risk based plan explain how internal audit's resource requirements have been assessed?	Y			The available audit days calculation sits behind the audit plan
LGAN	Has the CAE planned the deployment of resources, especially the timing of	Y			The CAE schedules the audits as per the annual work plan and liaises with the relevant

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	engagements, in conjunction with management to minimise abortive work and time				service manager to ensure the timing is appropriate. A quarter at a time is normally planned
LGAN	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?	Y			Previously the HOCG has reported staffing issues to the Audit Committee and they have recommended that an additional post be added to the establishment
	<i>2040 Policies and Procedures</i>				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	Y			Audit manual
LGAN	Has the CAE established policies and procedures to guide staff in performing their duties in a manner that conforms to PSIAS? E.g. audit manual	Y			There is an audit manual in place
LGAN	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?		P		Tends to be reviewed when a new member of staff is being appointed to the team
	<i>2050 Coordination</i>				
	Does the risk based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?			N	Only other source of assurance is external audit report and this has always picked up areas that audit have identified during the course of their work
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance			N	Not relevant
	Does the CAE share information and coordinate activities with other internal and	Y			External audit get copies of all internal audit reports

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	external providers of assurance and consulting services?				
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans		P		The external auditors meet with various officers at MDDC when they feel it is appropriate to – however regular appointments have now been scheduled for 2014/15
	<i>2060 Reporting to Senior Management and the Board</i>				
	Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan	Y			Management team review all internal audit progress reports which go to the Audit Committee
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	Y			Action plan as part of report includes findings, risks and recommendations. The audit client, Head of Service, Chief Executive and Audit Committee members receive copies of all audit reports
	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?	Y			
	<i>2070 External Service Provider and Organisational Responsibility for Internal Auditing</i>				
	Where an external internal audit service				Not applicable – in-house service



## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation				
<b>4.2 2100 Nature of Work</b>					
	Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and internal control processes?	Y			Audits include coverage on controls, risk management arrangements and governance matters such as performance management and policies and procedures
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	Y			Incorporated within the audit process and papers
	<i>2110 Governance</i>				
	Does the Internal audit activity: (a) Promote appropriate ethics and values within the organisation (b) Ensure effective organisational performance management and accountability? (c) Communicate risk and control information to appropriate areas of the organisation? (d) Coordinate the activities of and communicate information among the board, external and internal auditors and management	Y Y Y Y			Ethical matters are picked up during the course of audits and also other members of staff will make audit aware of any potential issues they may wish to look at during the course of their work
	Does the internal audit activity assess and make appropriate recommendations for	Y			If appropriate included in report

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	improving the governance process as part of accomplishing the above objectives				
	Has the internal audit activity evaluated the: (a) Design (b) Implementation, and (c) Effectiveness Of the organisation's ethics related objectives, programmes and activities?	Y Y Y			
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives	Y			
LGAN	Has the CAE considered the proportionality of the amount of work required to assess ethics and information technology governance of the organisation when developing the risk based plan?	Y			Audits are factored into the plan
	<i>2120 Risk Management</i>				
	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that: (a) Organisational objectives support and align with the organisation's mission (b) Significant risks are identified and assessed (c) Appropriate risk responses are selected that align risks with the organisation's risk appetite (d) Relevant risk information is captured	Y Y Y Y			Internal Audit have full access to the SPAR system and all risks that have been identified – this is reviewed as part of the audit process along with any other risk assessments held by service areas e.g. leisure.

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	and communicated in a timely manner across the organisation, thus enabling staff, management and the board to carry out their responsibilities				
	Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and systems regarding the: (a) Achievement of the organisations strategic objectives (b) Reliability and integrity of financial and operational information (c) Effectiveness and efficiency of operations and programmes (d) Safeguarding of assets (e) Compliance with laws, regulations, policies, procedures and contracts	Y Y Y Y Y			Results of evaluations are included in audit reports
	Has the internal audit activity evaluated the potential for fraud and also how the organisation manages fraud risk?		P		As part of their work but an assessment of fraud risk will be produced with the updated fraud policies later in 2014
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement	Y			
	Are internal auditors alert to other significant risks when undertaking consulting engagements?	Y			
	Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management		P		The CAE does a risk assessment in respect of the operational risks for the audit service e.g. resources and manages any actions arising from the risk assessment

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	in establishing or improving risk management processes				
	<i>2130 Control</i>				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the: (a) Achievement of the organisation's strategic objectives (b) Reliability and integrity of financial and operational information (c) Effectiveness and efficiency of operations and programmes (d) Safeguarding of assets (e) Compliance with laws, regulations, policies, procedures and contracts	Y Y Y Y Y			As part of their audit process
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control process	Y			Where the auditors attend meetings or are asked to be a critical friend in other matters this information is picked up and considered when next audit of the area is done Also any information that they become aware of in terms of investigations also is considered when next completing audit of that area
<b>4.3 2200 Engagement Planning</b>					
	Do internal auditors develop and document a plan for each engagement		P		A testing plan is considered but this is not always documented on the audit file
	Does the engagement plan include the engagements: (a) Objectives (b) Scope	Y Y			Yes all contained within the Audit Brief but is called purpose of the audit rather than objectives <i>Action: Improve the section of the audit brief</i>

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	(c) Timing (d) Resource allocations	Y Y			<i>re purpose of the audit and rename it objectives</i>
	Do internal auditors consider the following in planning an engagement, and is this documented: (a) The objectives of the activity being reviewed (b) The means by which the activity controls its performance (c) The significant risks to the activity being audited (d) The activity's resources (e) The activity's operations (f) The means by which the potential impact of risk is kept to an acceptable level (g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model (h) The opportunities for making significant improvements to the activity's governance, risk management and control processes	Y Y Y Y Y Y Y Y			At the start of each audit the auditors collect information including: <ul style="list-style-type: none"> <li>• Corporate plan</li> <li>• Service business plan</li> <li>• Performance indicators and information</li> <li>• Risk assessments</li> <li>• Staffing structure and other records</li> <li>• Any policies or procedures relating to the service area</li> </ul> <p>These documents are reviewed as part of the audit and recommendations made where appropriate. Section 5 of the Audit report contains an opinion on the risk management arrangements for that service area</p>
	Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following: (a) Objectives				Not applicable – we haven't done any outside engagements

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	(b) Scope (c) The respective responsibilities and other expectations of the internal auditors and the outside party				
	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following: (a) Objectives (b) Scope (c) The respective responsibilities of the internal auditors and the client and other client expectations	Y Y Y			Not really applicable – only really have done investigations and the scope and objectives are set out in a meeting with the HR business partner
	For significant consulting engagements, has this understanding been documented				Not applicable
	<i>2210 Engagement Objectives</i>				
	Have objectives been agreed for each engagement	Y			Audit Brief
	Have internal auditors carried out a preliminary risk assessment of the activity under review?		P		Risk is considered based on knowledge within the team before each audit but not formally documented <i>Action: formally document preliminary risk assessment</i>
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?			N	<i>Action: This will be improved as part of the work on the audit brief</i>
	Have internal auditors considered the probability of the following, when developing the engagement objectives: (a) Significant errors (b) Fraud (c) Non-compliance			N	<i>Action: This will be added as part of the work on the audit brief</i>

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	(d) Any other risks				
	Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether goals and objectives have been accomplished	Y			Performance management objectives and process is corporate approach Also high level strategic action plans relating to the priority areas in the corporate plan
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?	Y			A recent review has been completed on the Councils performance and risk framework which the Audit Team Leader and HOCG have been involved in
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria	Y			As above – a report was presented to Scrutiny Committee and actions to be implemented
	If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been considered; including money, people and assets	Y			Resources are considered as part of every audit and recommendations made re value for money
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client	Y			
	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives	Y			
	<i>2200 Engagement Scope</i>				
	Is the scope that is established for the engagement sufficient to satisfy the engagements objectives?	Y			Purpose of the audit is quite broad normally so the scope does fit to that

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	Does the engagement scope include consideration of the following relevant areas of the organisation: (a) Systems (b) Records (c) Personnel (d) Premises		P		These items are considered during the audit prep and audit work but it is not included specifically in the audit brief <i>Action: Consider reviewing the scope section of the Audit Brief to include these areas</i>
	Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate: (a) Systems (b) Records (c) Personnel (d) Premises				Not applicable as the audit team have not done any engagements re outside parties (by that assuming this is parties external to the organisation)
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, responsibilities and other expectations drawn up?				Not applicable – no significant consulting opportunities have arisen
	Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?				Not applicable – no significant consulting opportunities have arisen
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed upon objectives?	Y			Only examples are investigations that have been undertaken
	If the internal auditors developed any	Y			Only examples are investigations that have



## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?				been undertaken and any issues have been discussed with HR
	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	Y			Controls considered if applicable to the investigation
	During consulting engagements, were internal auditors alert to any significant control issues?	Y			if applicable to the investigation
	<i>2230 Engagement Resource Allocation</i>				
	Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on: (a) The nature and complexity of each individual engagement (b) Any time constraints (c) The resources available	Y			Considered before undertaking any additional engagements and work is declined if it cannot be accommodated
	<i>2240 Engagement Work Programme</i>				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives	Y			Testing undertaken in line with the purpose of the audit outlined in the audit brief
	Do the engagement work programmes include the following procedures for: (a) Identifying information (b) Analysing information (c) Evaluating information	Y Y Y			Whole process of collecting and analysing relevant information, systems description, test results and audit report

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	(d) Documenting information	Y			
	Were work programmes approved prior to implementation for each engagement		P		A testing plan is considered but this is not always documented on the audit file For annual core audits the work programme is the list of key controls
	Were any adjustments required to work programmes approved promptly?	Y			
<b>4.4 2300 Performing the Engagement</b>					
	Have internal auditors carried out the following in order to achieve each engagement's objectives: (a) Identifying sufficient information (b) Analysing sufficient information (c) Evaluate sufficient information (d) Document sufficient information	Y Y Y Y			Undertaken in line with the purpose of the audit outlined in the audit brief. Collect information and then analyse and evaluate it through testing results sheet and then this forms the report.
	<i>2310 Identifying Information</i>				
	Have internal auditors identified the following in order to achieve each engagement's objectives: (a) Sufficient information (b) Reliable information (c) Relevant information (d) Useful information	Y Y Y Y			See above
	<i>2320 Analysis and Evaluation</i>				
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	Y			There is an audit trail between the audit test results and the audit report
LGAN	Have internal auditors remained alert to the possibility of the following: (a) Intentional wrongdoing (b) Errors and omissions	Y Y			Any areas of concern are flagged up to the Audit Team Leader and HOCG and/or Chief Executive

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	(c) Poor value for money (d) Failure to comply with management policy, and (e) Conflicts of interest When performing individual audits, and has this been documented?	Y			
	<i>2330 Documenting Information</i>				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	Y			There is an audit trail between the audit test results and the audit report
LGAN	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?		P		In some cases the audit test result sheets could do with a bit more detail but this is flagged up in the quality assurance process through the file review. The introduction of testing schedules is improving this situation
	Does the CAE control access to engagement records?	Y			The Audit drive is limited access and only relevant members of the team can access the info. Also employ a clear desk policy and keep information locked away. The audit client, Head of Service, Chief Executive and Audit Committee members receive copies of all audit reports
	Has the CAE obtained the approval from senior management and/or legal counsel as appropriate before releasing such records to external parties	Y			Reports are circulated to Audit Committee members and are there is a standing item on the Audit Committee agenda to discuss matters if relevant. Reports are not in the public domain and if relevant the Audit Committee move into Part 2 during their meeting to discuss particular items on audit reports.

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	Has the CAE developed and implemented retention requirements for all types of engagement records?	Y			In accordance with the Councils document retention guidelines. Information stored electronically wherever possible and these records are kept for a number of years
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	Y			
	<i>2340 Engagement Supervision</i>				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	Y			Where appropriate the auditors work together on audit assignments and the Audit team Leader reviews the file. The team regularly discuss what they are working on so the team learn from each other
	Is appropriate evidence of supervision documented and retained for each engagement?	Y			Review sheets for each audit
<b>4.5 2400 Communicating the Results</b>					
	Do internal auditors communicate the results of engagements?	Y			Through audit report
	<i>2410 Criteria for Communicating</i>				
	Do the communications of engagement results include the following: (a) The engagement's objectives (b) The scope of the engagement (c) Applicable conclusions (d) Recommendations and action plans, if appropriate	Y Y Y Y			Audit report includes the relevant sections from the audit brief – purpose of the audit, scope, audit opinion outlining conclusions and the action plan containing findings, risks, recommendations, priorities, responsible officer and target date
LGAN	Has the internal auditor discussed the contents of the draft final report with the	Y			An exit interview is held following the draft report being sent to the Audit client. This

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?				covers factual accuracy and the client gives their responses to the recommendations and gives target dates for actioning any changes
LGAN	If recommendations and an action plan have been included, are the recommendations prioritised according to risk?	Y			Classed as High, medium or low risk and the definitions are set out in the Internal Audit Strategy
LGAN	If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?	Y			See above comment
LGAN	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	Y			If there is no agreement from the client the item remains listed in the report and disagreed is recorded. Audit clients have been challenged by the Chief Executive to agree to recommendations
LGAN	Do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?	Y			
LGAN	Do the final communications of engagement results contain, where appropriate, the internal auditor's opinions and/or conclusions, building up to the annual internal audit opinion on the control environment	Y			Includes audit opinion which states whether the area is well controlled, adequately controlled or poorly controlled and all opinions and the level of control feeds into the Audit Opinion in the annual audit report and the poorly controlled areas are also included in the Annual Governance Statement

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	Y			
	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information?	Y			The audit paperwork
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question	Y			Example again is investigation reports
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?				Not applicable – no engagements in respect of outside bodies
LGAN	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services				Not applicable – no engagements in respect of partnerships
	<i>2420 Quality of Communications</i>				
	Are communications: (a) Accurate (b) Objective (c) Clear (d) Concise (e) Constructive (f) Complete (g) Timely	Y Y Y Y Y Y Y			Audit reports are succinct and to the point. Where there are minor issues that would dilute the messages in the report they are reported to the Audit Client via Appendix A and this goes to them only. As soon as the reports have been finalised they are sent to the Audit Committee Members

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	<i>2421 Error and Omissions</i>				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	Y			This would be the case but no examples of this have arisen
	<i>2430 Use of 'Conducted in Confidence with the International Standards for the Professional Practice of Internal Auditing'</i>	Y			
	Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement			N	<i>Action: Consider implementing this requirement</i>
	<i>2431 Engagement Disclosure of Non conformance</i>				
	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: (a) The principle or rule of conduct of the code of ethics or standard(s) with which full conformance was not achieved (b) The reason(s) for non-conformance (c) The impact of non-conformance on the engagement and the engagement results	Y  Y Y			The area highlighted as non-conformance would not impact on the outcomes from the audit. If it did it would be reported Also the safeguards that the team have in place mean that ethical standards are considered before the commencement of the audit process therefore not requiring communication
	<i>2440 Disseminating Results</i>				
	Has the CAE determined the circulation of audit reports within the organisation,	Y			The audit client, Head of Service, Chief Executive and Audit Committee members

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	bearing in mind confidentiality and legislative requirements				receive copies of all audit reports Reports are circulated to Audit Committee members and are there is a standing item on the Audit Committee agenda to discuss matters if relevant. Reports are not in the public domain and if relevant the Audit Committee move into Part 2 during their meeting to discuss particular items on audit reports
	Has the CAE communicated engagement results to all appropriate parties?	Y			See above
	Before releasing engagement results to parties outside the organisation, did the CAE: (a) Assess the potential risk to the organisation (b) Consult with senior management and/or legal counsel as appropriate (c) Control dissemination by restricting the use of the results	Y Y Y			See above
	Where any significant governance, risk management and control issues were identified during consulting engagements, where these communicated to senior management and the board?	Y			As part of the audit report
	<i>2450 Overall Opinion</i>				
	Has the CAE delivered an annual internal audit opinion?	Y			May 2014
	Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's	Y			Section 25 of the annual audit report covers adequacy of the control environment and this is included along with comments re risk



## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	framework of governance, risk management and control				management and governance in the annual governance statement
	Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?	Y			It is discussed with Management Team before the report goes to Audit Committee and they receive a briefing on the sources of assurance for the Governance Statement each year
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	Y			The complete year's audit programme's papers
	Does the communication identify the following: (a) The scope of the opinion, including the time period to which the opinion relates? (b) Any scope limitations (c) The consideration of all related projects including the reliance on other assurance providers? (d) The risk or control framework or other criteria used as a basis for the overall opinion?	Y Y Y Y			In the annual audit report and Annual Governance Statement
	Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?	Y			Details are listed of any of the opinions that have been classed as 'poorly controlled'. This is in both the Annual Audit report and the Annual Governance Statement
	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	Y			The work of Internal Audit and the annual internal audit report is included in the AGS and details of any poorly controlled areas are listed under the
	Does the annual report incorporate the				

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
	following:				
	(a) The annual internal audit opinion?	Y			Section 25
LGAN	(b) A summary of the work that supports the opinion?	Y			Sections 5-24
LGAN	(c) A disclosure of any qualifications to the opinion	Y			In sections 5-25 via the audit opinions and in more detail in respect of 'poorly controlled' audit areas
LGAN	(d) The reasons for any qualifications to the opinion	Y			In sections 5-25 via the audit opinions and in more detail in respect of 'poorly controlled' audit areas
LGAN	(e) A disclosure of any impairments or restrictions in scope?	Y			If appropriate
LGAN	(f) A comparison or work actually carried out with the work planned?	Y			Section 4 – basis and completion of plan
	(g) A statement on conformance with the PSIAS	Y			Section 2 – compliance with standards
LGAN	(h) The results of the QAIP		P		Section 27 includes performance information but it does not give meaningful information such as results against performance indicators. However this information had been reported to the Management team and Audit Committee during the financial year through the performance and risk reports. The Audit Team Leader has reported on the progress of the team against the work programme in the audit progress reports as per the QAIP listed by the Audit Team Leader in the Internal Audit Charter

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
LGAN	(i) Progress against any improvement plans resulting from the QAIP	Y			The actions from the QAIP are reported to the Audit Committee in the Annual Governance Action Plan follow up's by the HOCCG
LGAN	(j) A summary of the performance of the internal audit activity against its performance measures and targets	Y			As previously performance indicators re core audits and systems audits delivered have been reported to the Audit Committee through the quarterly performance and risk reports. The Audit Team leader covers off how the team are doing against the Audit Plan in each of the progress reports that go to the Audit Committee
	(k) Any other issues that the CAE judges is relevant to the preparation of the governance statement	Y			
<b>4.6 2500 Monitoring Progress</b>					
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action?	Y			Progress against recommendations is reported to Management Team and Audit Committee regularly and SPAR is used for service managers
	Where issues have arisen during the follow up process, has the CAE considered revising the internal audit opinion?		P		This has been done for certain areas where Members of the Audit Committee have raised a concern and a more detailed follow up review has been undertaken but is not applied across the board
	Do the results of monitoring management actions inform the risk based planning of future audit work?	Y			The last audit report and any outstanding actions are picked up when starting the audit
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?			N	Not normally applicable – especially if it is an investigation

## CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS

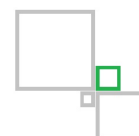
Ref	Conformance with the Standard	Yes	Partial	No	Evidence/Action
<b>4.7 2600 Communicating the Acceptance of Risks</b>					
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	Y			Risk appetite has recently been reviewed by the working group looking at the performance and risk management arrangements. Any issues re risk management are reported to and discussed by Management Team
	If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	Y			Through the report covering outstanding recommendations and the quarterly performance and risk report

**Mid Devon District Council****Review of Internal Audit Service  
against Public Sector Internal Audit Standards (PSIA) Self Assessment****Independent Review Report****1. Introduction**

- 1.1 With effect from 1<sup>st</sup> April 2013, providers of internal audit services to all public sector organisations are required to adopt and work to a set of formal professional standards. These standards have been developed and jointly published by a number of professional CCAB and auditing bodies including the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
- 1.2 The Standards provide a benchmark against which the management, organisation and delivery of internal audit services may be evaluated.
- 1.3 Every public sector body is required to ensure an ongoing commitment to the PSIA standards and, at least once every 5 years, arrange for the external assessment of the internal audit service against the standards whether that be:
- A full external review and assessment of the internal audit service or,
  - A detailed self assessment followed by an independent validation of the self assessment findings.
- 1.4 The Council carried out its review based on the latter approach and this report sets out the results of my independent review of the self-assessment.

**2. Aim and Scope of the Review**

- 2.1 This review is based on the content of the 2013 publication 'Public Sector Internal Audit Standards' and Mid Devon District Council's internal audit service providers self assessment against them. The internal audit service providers self-assessment sets out the status of the service as at November 2014.
- 2.2 This review aims to examine and report upon the content of the internal audit providers self-assessment with the aim of giving an independent view as to its completeness and accuracy and thus the extent to which the internal audit service provider meets the professional standards.



### 3. Potential Key Risks

- 3.1 This review is based on the following potential key risks based on the aim as outlined in 2.2 above:
- a) The self assessment was incomplete – sections of the PSIAS were not covered;
  - b) The self assessment was inaccurate – theory and practice differ;
  - c) Insufficient evidence was supplied in order to make an assessment;
  - d) The evidence supplied was at odds with other evidence reviewed and/or general questioning/testing i.e. calling into doubt the overall validity of some or all of the self-assessment.

### 4. Review Programme

- 4.1 This review is based on 2 key stages, each stage designed to evaluate the internal audit providers self-assessment against the PSIA standards and ensure coverage of the key risks set out in 3.1 above.

<b>Stage and Review Work/Test</b>
<p><b>1. General Background</b></p> <p>1a – Examine the content of the internal audit providers self assessment and check that it covers each of the standards as set out in the PSIAS document, i.e. nothing has been overlooked (see 2.1 above)</p> <p>1b - Review the content of the internal audit service providers self assessment. Highlight areas where further explanation or detail of the management or processes are required and thereby test check the internal audit service providers recognition and understanding of key areas of the PSIA standards. Request further evidence where required in support of the self assessment as required.</p> <p><b>2. Compliance Checks</b></p> <p>2a – Based on the outcome of the discussions in 1b above together with an examination of the self-assessment, identify a sample of areas likely to lead to one of more of the key risks outlined in 3.1 above failing to be adequately covered.</p>

## 5. Findings/Matters Arising & Proposed Actions

- 5.1 The Audit Team Leader (Audit Manager) demonstrated a clear understanding of key areas of control within the PSIA standards and was able to provide evidence when asked in support of the self assessment.
- 5.2 The work programme for the Internal Audit service is based on an assessment of risk across all service areas. A rolling audit programme ensures that each main area of work is reviewed at least once every 4 years with core financial services being audited annually.
- 5.3 The Audit Manager demonstrated that she prepares her audit plans following discussions with senior managers and heads of service in so doing highlighting any new or emerging risks that may affect the level of audit time to allocate to a service area in the forthcoming year.
- 5.4 Consultation and approval of annual audit plans would appear to be in accord with the PSIA standards as are the requirements concerning resource allocation, monitoring and review of work allocated to auditors.
- 5.5 The Internal Audit Service would appear well respected within the Council and supported by a strong a stable Audit Committee.
- 5.6 There are a few areas of concern that I would draw to the Councils attention:
- a) **Risk Based Audit Plan** – It is understood that the allocation of days to audits in respect of the Internal Audit plan of work for 2014/15 was not based of a formal risk calculation model. However, the Audit Manager intimated that this will be re-introduced in the preparation of the 2015/16 plan.
  - b) **IT Auditing** – It is understood that the Audit Manager will not now undertake the IT audit training and thus provide the IT audit role within the authority. However, it is acknowledged that informal assurance of IT standards is taken from Gov Connect (the Council having to comply with their strict information management standards).
  - c) **Management of SPAR** – The Internal Audit service manages and oversees the update to and reporting from the SPAR performance management software. Although Internal Audit have no direct input into the SPAR system itself, being involved with the maintenance of the performance monitoring process may, in my view, impair the auditors objectivity if at some point it were requested to conduct an audit of the system. While it is acknowledged that managing SPAR has raised the profile of managing risks throughout the authority, it may now be time to hand over control of it to another service within the Council.
  - d) **General Changes** – It was noted that several changes are to be introduced following completion of the PSIAS self-assessment, including:
    - formally documenting a preliminary risk assessment when preparing the audit brief and..
    - auditors to consider significant errors, fraud and non-compliance when preparing the audit brief.

## **6. Reviewers Opinion**

- 6.1 Taking into account the outcome of discussions with the Audit Manager coupled with the testing carried out I am of the opinion that the content of the 2014 self assessment of the Internal Audit service against the Public Sector Internal Audit Standards presents a true and fair view.

**R.Willcocks IPFA, PRINCE2**

**13<sup>th</sup> November 2014**