

# Gateshead Council

## Public Sector Internal Audit Standards Compliance Review

January 2015



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# 01 Introduction

An effective, objective and independent internal audit service (IAS) is the cornerstone of good governance in all public sector bodies. Internal audit plays a pivotal role in providing assurance to officers and members that the system of internal control within their organisation is operating effectively and to recommend how that system of internal control can be strengthened. This is a fundamental requirement enshrined in the Accounts and Audit (England) Regulations 2011.

## Public Sector Internal Audit Standards

From 1 April 2013, a new set of internal audit standards for the public sector, the 'Public Sector Internal Audit Standards' (PSIAS) have been in effect. These standards replaced the 'Code of Practice for Internal Audit in Local Government in the United Kingdom' which was last revised in 2006. The PSIAS adopt the principle requirements of the Institute of Internal Auditors Professional Practices Framework and adapt these to ensure they are relevant and appropriate for the UK public sector.

They are mandatory for all authorities who are required to comply with the 2011 regulations.

The overall objective of the PSIAS is to provide a high level overarching framework applicable to all of the public sector. In summary, they:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.<sup>1</sup>

## Local Government Application Note and 'proper practices'

The Chartered Institute of Public Finance and Accountancy (CIPFA) recognised the potential significance of the changes resulting from the adoption of the PSIAS and has provided guidance to internal auditors in the form of an Application Note. The Application Note and PSIAS combined constitute 'proper practices' in internal control as set out in the Accounts and Audit Regulations.

## External assessment

The PSIAS and Application Note require that every local government IAS is subject to an external assessment of its work against the requirements of the standards, regardless of whether the IAS is provided by an in-house or external team. This external assessment is required to be carried out at least once every five years, and this report sets out our assessment of the IAS provided to Gateshead Council.

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<sup>1</sup> Public Sector Internal Audit Standards

# 02 Our Approach

## Methodology

Our assessment has been wide-ranging and we have considered evidence to inform our conclusions and recommendations from a number of sources. The main phases of our methodology are set out below.

### Review of self-assessment

The CIPFA Application Note provides a framework within which every IAS is expected to carry out a self-assessment against the requirements of the PSIAS. The Council's IAS carried out this self-assessment and we critically evaluated the findings, sought evidence to support the results and reached our own judgement as to whether the self-assessment was accurate.

### File reviews

To inform our review of the self-assessment we carried out a detailed review of a sample of internal audit files. Each file reviewed was considered against the requirements of the PSIAS and the CIPFA Application Note.

The files selected for review were:

- Capital Accounting
- Ryton Community Junior School
- Stores
- LES Payroll & HR

In addition to the activities above we also considered our detailed knowledge of the Internal Audit Service gathered from our experience as the Council's external auditor for a number of years.

# 03 Our assessment

## Overall conclusion

We conclude that the Internal Audit Service is **substantially compliant** with the requirements of the Public Sector Internal Audit Standards and the CIPFA Application Note, with some areas for improvement. The issues that need to be addressed to ensure full compliance with the PSIAS have been detailed below in Section 04.

We have identified no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of Gateshead's system of internal control. If the recommendations in this report are implemented we are satisfied that the Internal Audit Service will be fully compliant.

# 04 Detailed findings

## Review of compliance with the PSIAS and CIPFA Application Note

Our detailed findings in respect of compliance with the PSIAS and the CIPFA Application Note are provided below. These are based on our review of both the Internal Audit Service self-assessment and a sample of internal audit files.

Professional standards for Internal Audit are contained in the PSIAS and cover the following key areas:

- Purpose, Authority and Responsibility
- Independence and Objectivity
- Proficiency and Due Professional Care
- Quality Assurance and Improvement Programme
- Managing the Internal Audit Activity
- Nature of Work
- Engagement Planning
- Performing the Engagement
- Communicating Results
- Monitoring Progress

## Identified areas for Improvements

This report identifies the issues to be addressed to ensure full compliance with the PSIAS and the CIPFA Application Note and these are shown in more detail in Appendix A below. There are some other minor issues which do not affect our overall assessment but are areas for improvement and these have been reported to the Strategic Director, Corporate Resources and Chief Internal Auditor.

# Appendix A – Findings from our review of Internal Audit against PSIAS and the CIPFA Application Note

Conformance with the Standard	Compliance	Evidence
<b>1000 Purpose, Authority and Responsibility</b>		
Does the Chief Internal Auditor periodically review the internal audit charter and present it to senior management and the board for approval?	No	The Charter is not formally presented to senior management although they are fully aware of it.  <b>Recommendation:</b> Consider presenting the Internal Audit Charter to senior management.
<b>1110 Organisational Independence</b>		
Have reporting and management arrangements been put in place that preserve the Chief Internal Auditor's independence and objectivity? This is of particular importance when the Chief Internal Auditor is line managed by another officer of the authority.	No	The role of the Chief Executive is filled by the Strategic Director, Corporate Resources.  <b>Recommendation:</b> Consider reviewing the current management arrangements to incorporate the Chief Executive.
Does the Chief Executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Chief Internal Auditor?	No	Appraisal and Development is undertaken by the Strategic Director, Corporate Resources. The PSIAS require that the Chief Executive (or equivalent) must be involved in the performance appraisal of the Chief Internal Auditor.

Conformance with the Standard	Compliance	Evidence
		<b>Recommendation:</b> Consider including the Chief Executive in the performance appraisal of the Chief Internal Auditor.
2500 Monitoring Progress		
Has the Chief Internal Auditor 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?	Partial	<p>There are a number of areas where recommendations are not always implemented promptly – particularly in schools.</p> <p><b>Recommendation:</b> Action is required to ensure that Internal Audit recommendations are implemented more promptly and accountability increased for non-implementation of recommendations – particularly in schools where performance is significantly below target.</p>