

APPENDIX 2 – Assessment of TVAAS against Public Sector Internal Audit Standards (PSIAS) 2018/19

Key:

MC - Mostly Conforms with PSIAS. The relevant structures, policies and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of individual Standard or element of the Code of Ethics in all material respects. Mostly conforms does not require complete or perfect conformance.

PC - Partially Conforms with PSIAS. The activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and / or achieving their objectives.

DNC - Does Not Conform with PSIAS. The activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many / all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the audit committee.

N/A - Not Applicable.

CAE - Chief Audit Executive is a generic title used in the Standards to describe the person responsible for managing the internal audit activity. For Redcar and Cleveland Borough and Middlesbrough Councils, the chief audit executive is the Audit and Assurance Manager of Tees Valley Audit and Assurance Service which is a shared internal audit service established between the two councils in 2011. Throughout this document, the Audit & Assurance Manager is referred to as AAM.

Standard	Assessment	Summary	Areas of Non Compliance	Update and further action
Attribute Standards				
1000 Purpose, Authority and Responsibility	MC	<p>The internal audit charter was first approved by the Audit and Governance Committee in Dec 2013 and has been updated annually, the most recent update being presented to the Corporate Affairs and Audit Committee at the meeting on 25 July 2019. The Charter sets out the reporting relationships, position and accountability of internal audit. It recognises the mandatory nature of the PSIAS.</p> <p>The Audit & Assurance Manager (AAM) reports functionally to the Corporate Affairs and Audit Committee and administratively to the Strategic Director Finance, Governance and Support who is also the Council's S151 Officer.</p>	n/a	n/a
1100 Independence and Objectivity	– MC	<p>The Service is independent and staff declare any potential conflicts of interest as and when they arise although all staff are specifically asked to complete a declaration form on an annual basis. Staff do not work on those areas where there could be a potential conflict of interests. Audit assignments are periodically rotated although auditors may be assigned to the same assignment for up to three years.</p> <p>The AAM has a direct reporting route to the Strategic Director Finance Governance & Support as S151 Officer and to the Chair of the Corporate Affairs and Audit Committee.</p> <p>Any threats or potential threats to objectivity are and have been raised by the AAM with the relevant S151 if and as and when they arise.</p>	Although the AAM does not currently meet on a regular basis with the chief executive at Middlesbrough Council, she does have unfettered access to the chair of the audit committee and the S151 and would raise any issues with the Chief Executive if required.	n/a

Standard	Assessment	Summary	Areas of Non Compliance	Update and further action
1110 Organisational Independence	– MC	<p>The AAM has regular meetings with the S151 Officer Strategic Director Finance, Governance and Support and the Deputy S151 Officer (Head of Financial Governance and Revenues).</p> <p>The Corporate Affairs and Audit Committee receives the updated audit charter once a year and approves it. Independence is regularly referred to in most reports to committees.</p> <p>Members of the Corporate Affairs and Audit Committee approve the number of days audit resource and can contribute to the content of the annual audit plan.</p> <p>The AAM can report that there is currently no threat to her independence and that any concerns will be discussed with the Chair of the Corporate Affairs and Audit Committee. The professional standards with which internal auditors must abide by are regularly communicated via reports submitted to the Corporate Affairs and Audit Committee.</p> <p>Both S151 officers meet periodically and can discuss the performance of the AAM and the internal audit team.</p>	<p>The terms of reference for the Corporate Affairs and Audit Committee do not include the Committee's role in relation to approving the internal audit budget, confirming internal audit's removal/appointment and commenting on chief audit executive performance. However, CIPFA guidance reports that governance requirements in the UK public sector would not generally involve the board (audit committee) approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit.</p>	n/a
1111 – Direct Interaction with the Board	MC	<p>The AAM attends meetings of the Corporate Affairs and Audit Committee to present internal audit and other assurance related progress reports. Minutes of those meetings record attendance and presentation of reports.</p>	n/a	n/a

Standard	Assessment	Summary	Areas of Non Compliance	Update and further action
1120 – Individual Objectivity	MC	The Service is independent and staff declare any potential conflicts of interest as and when they arise although all staff are specifically asked to complete a declaration form on an annual basis. Staff do not work on those areas where there could be a potential or perceived conflict of interests.	n/a	n/a
1130 – Impairment to Independence or Objectivity	MC	There are no instances where auditors are assessing operations where they have had responsibility for that operation within the previous year. Assignments are rotated when it is considered that an auditor has been involved for too long in auditing the same area although the Service is restricted to some extent by resources. Staff are reminded of ethical responsibilities at team meetings, 121s and other group meetings. All staff complete an annual declaration of interests form and sign up to the ethics as set out in the PSIAS.	n/a	n/a
Proficiency and Due Professional Care				
1210 – Proficiency	PC	<p>The AAM is a qualified Chartered Certified Accountant (FCCA) and a chartered Internal Auditor (CMIIA) with the qualification in internal audit leadership (QIAL) and has both private sector and local government experience.</p> <p>Overall customer feedback is mostly positive and quality checks have been implemented for the end of each audit to ensure that requirements are met. If any issues are reported by clients, they will be investigated with remedial action taken if required.</p> <p>The Principal Auditor and an audit & assurance officer have embarked upon the Institute of Internal Auditor's Certified Internal Auditor qualification programme. A compliance auditor is also due to start the course.</p>	<p>Data analysis techniques still to be sourced.</p> <p>There remain some individual examples of auditors needing to take extra care with the quality of their work. This continues to be managed by 121 and appraisal processes with improvement targets set as appropriate. In addition, a half day training session was held on 19 June 2019 to discuss all aspects of carrying out an audit and how to improve quality.</p>	<p>Data analytical skills have been investigated but the procurement of a suitable software needs to be progressed following a trial.</p> <p>Individual performance to continue to be addressed via 121s/appraisal and performance framework.</p>

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1220 – Due Professional Care	MC	Prior to the start of each audit, the lead auditor will contact the client and agree a mutually convenient start date. Each audit involves an initial introductory meeting at which the objectives of the assignment are discussed and agreed. Auditors do their research prior to this meeting and consider legislative requirements; risks; previous issues; savings targets; restructures; objectives of the service/system under review. Auditors will therefore have their own ideas as to where the audit should focus but the client must and does have their input. A draft term of reference is then issued to the client for the audit which gives the client the opportunity to agree the scope and suggest any amendments. The terms of reference document is retained on the audit management system (MKI) as is the evidence of agreement (wherever possible). The test plan is then formulated based on that terms of reference and the auditor will commence the fieldwork. The terms of reference is always attached to a copy of the draft and final report.	n/a	n/a
1230 – Continuing Professional Development	PC	A competency framework is in existence and is based on the Council's corporate framework. The AAM completes CPD as part of her professional membership – FCCA and CMIIA.	The Team does not have any other qualified staff above AAT although there are currently three members of staff pursuing IIA certified internal auditor status. Limited progress has been made during the year and this has been raised via appraisals.	Certified internal audit qualifications to be progressed successfully.
Quality Assurance and Improvement Programme				

Standard	Assessment	Summary	Areas of Non Compliance	Update and further action
1310 - Requirements of the Quality Assurance and Improvement Programme	MC	There is a QAIP in place which is maintained by the AAM. Each audit assignment is subject to review by another member of the Team. The AAM reviews most internal audit draft reports prior to their issue. The effectiveness of the Team is monitored via the regular progress reports to the Corporate Affairs and Audit Committee. An annual self-assessment is submitted to the Corporate Affairs and Audit Committee.	n/a	n/a
1311 – Internal Assessments	MC	<p>Audits are allocated at the start of the year according to skills, experience, knowledge, previous involvement with an issue/area. Allocations change throughout the year to accommodate changes in resources and priorities but competence to do an audit is always considered. All audits are subject to a detailed review process.</p> <p>The internal audit service has always had various performance measures both for the team and individually. Some of those measures have been defined by the service level agreement with Redcar and Cleveland Borough Council; others have been added in response to areas where improvement is required.</p> <p>The QAIP has been updated where required and feedback provided to staff as part of the ongoing 121 and appraisal process.</p>	n/a	n/a
1312- External Assessments	MC	Peer review by Hartlepool Borough Council was undertaken in May 2018. Provided assurance on the Service's compliance with the PSIAS with only minor suggestions made.	n/a	n/a

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1320 - Reporting on the Quality Assurance and Improvement Programme	MC	Results of external peer review by Hartlepool Borough Council's Chief Internal Auditor in 2018 reported satisfactory assurance on TVAAS' compliance with the PSIAS.	n/a	n/a
1321 - Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"	MC	The annual self-assessment of the Service is reported to the Corporate Affairs and Audit Committee. It highlights any areas for further development and how the Service conforms to the PSIAS.	n/a	n/a
1322 - Disclosure of Non Conformance	MC	Improvement actions included in annual self-assessment. No significant deviations reported and this has been confirmed by external peer review.	n/a	n/a
Performance Standards				
2000 – Managing the internal audit activity	MC	The internal audit staff perform assignments in accordance with the audit and assurance manual and in accordance with the PSIAS. The Audit and Assurance Manual updated during the year to reflect changes in process.	n/a	n/a

Standard	Assessment	Summary	Areas of Non Compliance	Update and further action
2010- Planning	MC	<p>The audit plan is based on the key risks as set out in the Council's risk registers. The audit plan is consulted on with the S151 Officer, all senior managers, Corporate Affairs and Audit Committee Members and External Audit.</p> <p>Audit plans allow flexibility and include contingency time. Variations are reported to the Corporate Affairs and Audit Committee.</p>	<p>Whilst a full formal risk assessment exercise has not been completed recently, all areas included in the audit plans are based on the content of the risk registers and the key priorities of each Council. It is therefore not considered that a detailed risk assessment exercise would add sufficient value to justify the resource. It is considered that the current consultative approach of compiling the Plan and basing the content on risk registers ensures that both plans are directed towards key risks and priorities.</p>	n/a
2020- Communication and Approval	MC	<p>LMT approves audit plan content prior to plans being submitted to the Corporate Affairs and Audit Committee. Resources are managed within the Team but are reported within the progress reports where there are resource issues.</p>	n/a	n/a
2030 – Resource Management	MC	<p>Audits are allocated initially but usually are reallocated throughout the year to cater for absences, management requests to re-schedule audits etc. Reductions in audit budgets have resulted in less coverage but the plans and the method of providing assurance has been re-defined to still provide sufficient work to enable annual opinions at both councils.</p>	n/a	n/a
2040 – Policies and Procedures	MC	<p>The Audit and Assurance Manual is reviewed and updated periodically. There are other team processes for staff reference e.g. escalation processes and standard wording for emails etc.</p>	n/a	n/a

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2050 – Co-ordination	PC	Sometimes the scope of an audit may include a requirement to review other sources of assurance. There are no formal arrangements defined as these will be performed on an individual case basis. The assurance map is still to be compiled for MBC. Periodic meetings take place with the external auditors.	Assurance mapping exercise requires completion.	Complete assurance map during 2019/20.
2060 - Reporting to Senior Management and the Board	MC	Regular progress reports to LMT and to the Corporate Affairs and Audit Committee throughout the year. An annual report on counter fraud is submitted including a summary of the key fraud risks. Frequency tends to be determined by committee cycles as the Council's reporting process requires that any reports going to Members must have been reviewed by LMT first. Additional reports may be presented if an issue has emerged that requires reporting outside of that cycle.	n/a	n/a
2070 - External Service Provider and Organisational Responsibility for Internal Auditing	MC	MBC is aware that the responsibility for maintaining an adequate internal audit activity rests with the S151 Officer.	n/a	n/a
2100 – Nature of Work	MC	All internal audit work is aimed at improving the governance and control environments of both councils. Audit work contributes via feeding into the Annual Governance Statement.	n/a	n/a

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2110 Governance	- PC	The Service works to high standards of objectivity and independence even if that requires a difficult message to be delivered. Staff sign annually to confirm their understanding of ethics. Standards are regularly referred to in documents. Performance measures and progress against them is reported in the progress reports to the Corporate Affairs and Audit Committee. Recommendations are made based on the perceived risk and are rated 1 to 3 in terms of priority.	The Service currently does not have IT audit expertise therefore technical IT auditing skills would not be applied in audits. However, in the past year, the Service has created an Audit Data Analyst role which is aimed at carrying out data analysis techniques.	Strategy to be developed for the Audit Data Analyst's role.
2120 – Risk Management	MC	The audit plan for MBC is designed with strategic risks in mind. The most recent audit of MBC's risk management framework was completed in June 2018 and a hot topic audit on risk governance is scheduled for 2019/20.	n/a	n/a
2130 - Control	MC	The annual audit plan is designed to cover the key areas of risk relating to the organisation's achievement of objectives and effective management of risks to those objectives. The Annual Audit Plan always include time to review the key financial controls and governance processes. With reduced resources, it is inevitable that the coverage of the Plans is less than in previous years but this has required a new approach to auditing with shorter audits focussed on key controls and risks and avoidance of areas that have been subject to other assurance.	n/a	n/a

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2200-Engagement Planning	MC	A terms of reference document is agreed for each assignment and includes scope, timing, resource and objectives. When planning an audit, auditors consider the area's significant risks, resources, operations, objectives and performance. Relevant managers are asked for their input into each terms of reference. Resources are agreed at the outset for each audit and additional resources required should be approved in advance. A guide to internal audit is available on the Intranet.	For some audits during the year, there has been a lack of detailed preparation and research prior to contacting the audit client to discuss the terms of reference. It is acknowledged that the auditor must allocate time to understanding the risks, performance issues and topics affecting an audit area to ensure that the scope of the audit is focussed in a meaningful direction. The need for improved pre audit research has been emphasised at an internal audit training session attended by all members of the internal audit team on 19 June 2019. Guidance has also been circulated.	Implementation of the recent training and guidance will be monitored on an individual audit basis by each audit assignment lead.
2210 Engagement Objectives	– PC	Terms of references are agreed prior to the audit's commencement. A final version of the terms of reference is held on the audit management system MKI and evidence of client agreement if this has been provided by email. Audit scopes and objectives differ for each audit but cover key risks and objectives for the service or system under review. A testing programme is then drawn up and agreed by the audit lead within the Team.	Although internal auditors refer to the strategic risk register for risks relating to an audit area, they do not carry out a preliminary risk assessment of the activity under review. This needs to be captured as part of their pre audit research as noted above.	As action above.
2220 Engagement Scope	– MC	The scope would be selected to achieve sufficient coverage to be able to offer an assurance opinion. The scope would consider those areas that are both within the organisations and which are outside and where Internal Audit may have no rights of access.	n/a	n/a

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2230 - Engagement Resource Allocation	MC	Lead auditor's judgement at the outset of the audit (possibly in conjunction with the AAM and the client) would agree on sufficient level of resources for an assignment. Terms of reference would detail what had been agreed.	n/a	n/a
2240 - Engagement Work Programme	MC	Testing programme developed, based on the agreed terms of reference. The test programme is reviewed by another member of the Team before being approved on the system and attached to the relevant audit. Tests may sometimes be added during the audit following discussion between auditor and the audit reviewer/lead.	n/a	n/a
2300 Performing the Engagement				
2310 – Identifying Information	MC	All auditors understand the need to identify, analyse, document and evaluate sufficient information. They should all be alert to the possibility of poor value for money, intentional wrongdoing, errors and omissions, failure to comply with policy and conflicts of interest. Most assignments are supervised by a senior member of the team. The completed test programme is reviewed by the audit lead/reviewer. Extra testing will be requested where the audit lead/reviewer considers that insufficient evidence has been obtained.	n/a	n/a
2320 – Analysis and Evaluation	MC	The review process for each audit would identify any gaps in testing or evidence.	n/a	n/a
2330 – Documenting Information	MC	The review process for each audit would identify any gaps in testing or evidence. Further testing or information is carried out/requested as appropriate. Engagement records are held on the audit and risk management system – only TVAAS staff have access to this. The shared drive also records various information; only TVAAS (and IT) staff have access to this. Information is only shared once the appropriate permissions have been sought, usually from the relevant S151 or other director.	n/a	n/a

Standard	Assessment	Summary	Areas of Non Compliance	Update and further action
2340 – Engagement Supervision	MC	All audits have a reviewer who is responsible for monitoring the progress of that audit and for ensuring that the work is of an acceptable quality and that the terms of reference are delivered. The audit and risk management system MKI has a review process to be undertaken for each assignment and the system shows the identity of the reviewer and extent of the review process completion. Quality checklists should be completed after each assignment.	n/a	n/a
2400 – Communicating Results	MC	Exit meetings are held at the end of most audits. All audit clients can discuss the audit findings and highlight any factual errors or misunderstandings and to present an alternative view as to the overall assurance opinion given. Ultimately, it is the auditor's view but clients always have an opportunity to discuss/debate the audit findings. A final report is issued.	n/a	n/a
2410 - Criteria for Communicating	MC	Each audit results in a draft report that includes the original terms of reference, the overall audit opinion, the main findings and conclusions and the recommendations schedule. Management can comment on the draft report before the final version is agreed and issued. The final version will include the target dates and owners for agreed actions. The actions will then be followed up via the outstanding actions process. If a recommendation has not been accepted by management but the auditor does not feel can be removed (due to the risk) then the issue would remain in the report but would show as not agreed. The issue would be flagged with the relevant S151 or director. Summary of all internal audit outcomes are reported throughout the year to the Corporate Affairs and Audit Committee.	Some audit reports have exceeded the target turn around dates. This can be due to delays in obtaining responses from management but can also be due to individual auditors' time management issues. This area was included in the recent internal training session on 19 June 2019.	Audit schedule to be monitored more closely throughout the year to ensure that auditors are communicating effectively with audit clients at the outset and are explaining the audit process and the engagement required.

Standard	Assessment	Summary	Areas of Non Compliance	Update and further action
2420 - Quality of Communications	MC	Audit reports are the Team's main product and therefore are always reviewed by the audit lead and then the draft report is reviewed by the AAM. Customer satisfaction survey issued following assignments.	n/a	n/a
2421 – Errors and Omissions	MC	The AAM would communicate any corrected information in a report to all parties who had received the original communication.	n/a	n/a
2430/31 – Conducted in Accordance with Statement or Disclosure of Non-conformance	MC	Previously, internal audit reports have not stated specifically that assignments are carried out in accordance with the PSIAS but this statement has been added to the template for 2019/20 now that the external review has been completed.	n/a	n/a
2440 – Disseminating Results	MC	The front cover of each audit report details the distribution list. The distribution list is agreed at the time of the exit meeting and according to the Council's reporting protocols. External audit also receives copies of all relevant reports once final. The Risk Business Partner is copied into the final version of all MBC reports. If one Council wishes to view another Council's report, this must be agreed with the relevant assistant director or director. The Audit and Assurance Manual sets out the reporting protocols for each Council.	n/a	n/a
2450 – Overall Opinion	MC	The annual opinion is an independent opinion given by the AAM and is based upon the work carried out, the number of recommendations made, the number of P1 recommendations made, the number of cause for concern reports. The annual report includes all the areas required by the PSIAS. Reasons would be stated if there was an adverse opinion issued.	n/a	n/a

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2500 – Monitoring Progress	MC	<p>Outstanding actions have been monitored throughout the year with requests for progress made to the action owners. All auditors/audit and assurance officers actively follow up on progress made to implement any recommendations that they have made. This information is recorded in the audit management system. Actions that have passed their agreed target date but which are still outstanding are reported (with the internal audit progress reports) to the Corporate Affairs and Audit Committee.</p> <p>LMT requested that all outstanding actions be reported to LMT and this has been carried out during 2018/19. Outstanding actions also circulated to the Finance, Governance & Support DMT.</p>	n/a	n/a
2600 – Communicating the Acceptance of Risks	MC	Accepted risks for recommendations remain in the relevant audit report. Any risks accepted which were considered to put the Council at risk would be escalated and/or discussed with the Monitoring Officer and the S151 Officer. Accepted risks remain on the audit management system for reference.	n/a	n/a