



Report of the Chief Finance Officer of the PCC to the Joint Audit Committee

20th September 2016

Status: For Information

Review of the Effectiveness of Internal Audit

1. Executive Summary

1.1 Purpose of the Report

The Accounts and Audit Regulations 2015 (5) require the organisation to undertake a review of the effectiveness of internal audit and evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) or guidance.

1.2 This report provides the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards. Compliance with these standards demonstrates an effective Internal Audit Service.

1.3 This review should be read in conjunction with the Annual Internal Audit report, which was reported to Members in June. When read together the two reports demonstrate the effectiveness of internal audit.

2. Recommendations

The Audit Committee is asked to:

2.1 Review this report and its findings

2.2 The Committee is asked to consider and endorse, with appropriate comment, the conclusion that the organisation employs an effective internal audit to evaluate its risk management, control and governance processes that complies with the principles of the Public Sector Internal Audit Standards

3. Background

- 3.1 The Accounts and Audit Regulations 2015 (section 5) require a relevant authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance.
- 3.2 Under the PSIAS, Internal Audit's mission is, 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Thereby providing assurances on the organisation's internal control systems by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Internal Audit will also continue to align its work with the Strategic Risk Register.
- 3.3 The use of a consistent framework for internal audit across the UK public sector has benefits for both partnership working and for internal auditors who work across different parts of the public sector. The standards are designed to drive improvement and lead to better public finance arrangements. Under 1310 of the PSIAS there is a requirement for Internal assessments which include:
- Ongoing monitoring of the performance of the internal audit activity; and
 - Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.
- 3.4 Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity and is incorporated into the routine policies and practices used to manage the activity and the internal contract.

4. Public Service Internal Audit Standards

- 4.1 Public sector organisations were required, from 1 April 2013, to have an internal audit service that meets the Public Sector Internal Audit Standards (PSIAS). RSM's internal audit methodology is designed to meet the PSIAS, and their overview of compliance with these standards is included at Appendix A.

5. Risk Advisory Quality Assurance and Improvement Programme

- 5.1 A self-assessment was completed in October 2013 and compares the evidence to the key conformance criteria and assesses the degree of conformance. In addition, areas where actions are required to address areas where further improvement is required were highlighted.
- 5.2 Further details on the assessment for RSM is provided at Appendix B

6. Conclusion

- 6.1 The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide the Chief Finance Officers with the key assurances they need in both managing the financial affairs of the organisation and producing the annual governance statement.
- 6.2 In complying with the PSIAS, the PCC and Chief Constable can provide assurances to Internal Audit's external customers of the teams' professionalism, quality and effectiveness.
- 6.3 The self-assessment has confirmed that the organisation continues to operate an effective Internal Audit function. There are no areas where the Internal Audit function is not complying with the Code.

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APPENDIX A

Restricted document

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APPENDIX B - Risk Advisory Quality Assurance and Improvement Programme

Public Sector Internal Audit Standards

Introduction

The Public Sector Internal Audit Standards (PSIAS) were adopted from 1st April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing.

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

This self-assessment focuses on internal audit services but can be extended to Technology Risk Services (TRS) and assurance work, as well as some elements of fraud and risk management consultancy and advisory reviews. The Institute of Internal Auditors (IIA) has developed global professional guidance and standards for delivering internal audit work. Consequently, this self-assessment questionnaire allows the firm to satisfy itself that it complies with the PSIAS, or identify areas of improvement that the firm may wish to take.

The self-assessment was completed in October 2013 and compares the evidence to the key conformance criteria and assesses the degree of conformance. In addition, areas where actions are required to address areas where further improvement is required were highlighted.

This summary table below was completed after the assessment had been performed. The results of which should give an overall evaluation of the internal audit service provided by the firm and indicate where efforts and resources should be made available to improve the internal audit service provision.

		General Compliance	Partial Compliance	Does Not Comply
	Definition of Internal Auditing			
Reference	Code of Ethics			
1	Integrity	X		
2	Objectivity	X		
3	Confidentiality	X		
4	Competence	X		
Reference	Attribute Standards			
1000	Purpose, Authority and Responsibility	X		

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		General Compliance	Partial Compliance	Does Not Comply
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organisational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care (The sum of <i>Standards</i> 1210-1230)	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Programme (The sum of <i>Standards</i> 1310-1320)	X		
1310	Requirements of the Quality Assurance and Improvement Programme	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Programme	X		
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	X		
1322	Disclosure of Non-conformance	X		
Reference	Performance Standards			
2000	Managing the Internal Audit Activity (Sum total of <i>Standards</i> 2010 – 2060)	X		
2010	Planning	X		
2020	Communication and Approval	X		

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		General Compliance	Partial Compliance	Does Not Comply
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organisational Responsibility for Internal Audit	X		
2100	Nature of Work (Sum of <i>Standards</i> 2110 – 2130)	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning (Sum of <i>Standards</i> 2201-2240)	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Programme	X		
2300	Performing the Engagement (The sum of <i>Standards</i> 2300-2340)	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results (Sum of <i>Standards</i> 2410-2440)	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		

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		General Compliance	Partial Compliance	Does Not Comply
2421	Errors and Omissions	X		
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	X		
2431	Engagement Disclosure of Non-conformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Resolution of Senior Management s Acceptance of Risks	X		

Conformance Assessment	General Compliance	Partial Compliance	Does Not Comply
Total Attributes Assigned	100%		