

AUDIT AND GOVERNANCE COMMITTEE

THURSDAY, 6 JUNE 2019

REPORT OF THE HEAD OF AUDIT & GOVERNANCE

PUBLIC SECTOR INTERNAL AUDIT STANDARDS/QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

EXEMPT INFORMATION

None

PURPOSE

To report on the compliance with the Public Sector Internal Audit Standards and the Quality Assurance & Improvement Programme (as required by the Public Sector Internal Audit Standards).

RECOMMENDATIONS

That the Committee endorses:

- The compliance with the Public Sector Internal Audit Standards; and
- The Quality Assurance & Improvement Programme.

EXECUTIVE SUMMARY

The Public Sector Internal Audit Standards (PSIAS) came in to force on the 1st April 2013. Compliance with the PSIAS is required under the Accounts & Audit Regulations 2015. The PSIAS require that Internal Audit comply with professional best practice and assess themselves against the requirements on an annual basis and that an External Quality Assessment (EQA) should be completed at least every five years. The EQA was completed in 2017 and reported to this Committee. An overview of Compliance with the PSIAS is attached at **Appendix 1**.

The local government application of the PSIAS has been recently reviewed and updated. The main changes to the standards are:

1112 CAE roles beyond internal auditing

“Where the Chief Audit Executive (CAE) has roles or responsibilities that fall outside of internal auditing, adequate safeguards should be in place to limit impairments to independence or objectivity and the Committee should review these safeguards”.

This has been highlighted in the Internal Audit Charter and safeguards put in place.

2030 Resource Management

“The CAE has planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance.”

This has always been taken into account at the audit planning stage.

2110 Governance

Additional wording to audit activity to cover:

“Internal audit activity assesses and makes appropriate recommendations to improve the organisation’s governance process for making strategic and operational decisions.”

Internal audit activity covers the whole of the governance process.

2120 Risk Management

Additional wording

“Has the internal audit activity evaluated the risks relating to the organisation’s governance, operations and information systems regarding the:

- Achievement of the organisation’s strategic objectives?
- Reliability and integrity of financial and operational information?
- Effectiveness and efficiency of operations and programmes?
- Safeguarding of assets?
- Compliance with laws, regulations, policies, procedures and contracts?”

Internal audit take into account these risks.

Part of the requirement of the PSIAS is for the Head of Audit & Governance to develop a Quality Assurance & Improvement Programme (QAIP). Under the QAIP, quality should be assessed at both an individual audit engagement level as well as at the broader internal audit level. A well-developed QAIP will ensure that quality is built in to rather than on to, the way internal audit activity operates. In essence, Internal Audit should not need to assess whether each individual engagement conforms to the Standards, but that engagements should be undertaken in accordance with an established methodology that promotes quality and, by default, conforms to the Standards.

The QAIP should conclude on the quality of the Internal Audit activity and lead to recommendations for appropriate improvements. It enables an evaluation of:

- Conformance with Definition of Internal Auditing, the Code of Ethics and the Standards;
- The adequacy of the Internal Audit activity’s charter, goals, objectives, policies and procedures;
- The contribution to the organisation’s governance, risk management and control processes;
- Completeness of coverage of the entire audit universe;
- Compliance with applicable laws, regulations, and government or industry standards to which the Internal Audit activity may be subject;
- The risks affecting the operation of the Internal Audit activity itself;
- The effectiveness of continuous improvement activities and adoption of best practices; and
- Whether the Internal Audit activity adds value, improves the organisation’s operations, and contributes to the attainment of objectives.

To achieve comprehensive coverage of all aspects of the Internal Audit activity, a QAIP must effectively be applied at three fundamental levels:

- Internal Audit Engagement Level – self assessment at the Audit Engagement or Operational Level;
- Internal Audit Activity Level – self assessment at the Internal Audit activity or Organisational Level; and
- External Perspective – independent external assessment of the entire Internal Audit activity including Individual Engagements.

Attached as **Appendix 2** is the Quality Assurance & Improvement Programme (QAIP) for the Authority's Internal Audit Service. This gives an overview of the QAIP in place.

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS BACKGROUND

There is a risk that non-compliance with the PSIAS will mean that an effective system of internal control is not in place and therefore we are not complying with the Accounts and Audit (England) Regulations 2015.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

None

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LIST OF BACKGROUND PAPERS

None

APPENDICES

Appendix 1 Public Sector Internal Audit Standards Compliance Overview

Appendix 2 Quality Assurance & Improvement Programme