

# AUDIT AND GOVERNANCE COMMITTEE

THURSDAY, 1 JUNE 2017

## REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES

### PUBLIC SECTOR INTERNAL AUDIT STANDARDS/QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

#### EXEMPT INFORMATION

None

#### PURPOSE

To report on the External Quality Assessment completed to ensure 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 External Quality Assessment and the responses to the recommendations made;and
- The Quality Assurance & Improvement Programme.

#### EXECUTIVE SUMMARY

The Public Sector Internal Audit Standards (PSIAS) came in to force on the 1<sup>st</sup> April 2013. The Standards 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 has recently been completed and the report is attached at **Appendix 1**. The report identifies areas of good practice as well as identifying some issues and recommendations to enhance the service.

The overall assessment is

#### RESOURCES

**Excelling** – Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with PSIAS expectations.

#### COMPETENCY

**Established** – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.

#### DELIVERY

**Established** – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which

further development is desirable.

The report also benchmarks the Internal Audit Service (identified in the report as IASS) against other sectors for overall Resources, Competency and Delivery and includes a more detailed benchmark analysis showing how we compare within Local Government to specific standards. Both benchmark analyses show that the Internal Audit Service achieves above average.

The report details some recommended action for improvements to the Internal Audit Service which have been considered and the appropriate responses are detailed in **Appendix 2**.

Part of the requirement of the PSIAS is for the Head of Internal Audit Services 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 3** 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

## **REPORT AUTHOR**

Angela Struthers, Head of Internal Audit Services

## **LIST OF BACKGROUND PAPERS**

None

## **APPENDICES**

**Appendix 1 External Quality Assessment**

**Appendix 2 Responses to the Recommendations from the External Quality Assessment**

**Appendix 3 Quality Assurance & Improvement Programme**