

AUDIT & GOVERNANCE COMMITTEE

3 JUNE 2020

REPORT OF THE HEAD OF AUDIT AND GOVERNANCE & MONITORING OFFICER

PUBLIC SECTOR INTERNAL AUDIT STANDARDS / QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

EXEMPT INFORMATION

None.

PURPOSE

To report to the Audit & Governance Committee on Internal Audit's compliance with the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP).

RECOMMENDATIONS

That the Committee endorses:

- **Internal Audit's compliance with the PSIAS (Appendix 1); and**
- **the QAIP (Appendix 2).**

EXECUTIVE SUMMARY

The PSIAS has been in place since April 2013. Internal Audit's 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 5 years.

An EQA was last completed in 2017 and was reported to this Committee. The next EQA is not due until 2022. An overview of compliance with the PSIAS is attached at **Appendix 1** which shows that Internal Audit operations have been self-assessed as being compliant with this code. Confirmation has also been obtained on conformance against the PSIAS from third parties who have delivered audit engagements on behalf of the Council.

Part of the requirement of the PSIAS is for the Head of Audit & Governance to develop a QAIP. Under the QAIP, quality should be assessed at both an individual audit engagement level as well as a broader operational level. A well-developed QAIP is to ensure that quality is built in to, rather than on to, the way Internal Audit operates.

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

Attached as **Appendix 2** is the Quality Assurance & Improvement Programme (QAIP). No actions have been carried forward from last year's QAIP and no further actions have been identified this year.

RESOURCE IMPLICATIONS

None.

LEGAL/RISK IMPLICATIONS BACKGROUND

Non-compliance with the PSIAS means that an effective system of Internal Audit is not in place and therefore we are not fully complying with the Accounts and Audit (England) Regulations 2015.

EQUALITIES IMPLICATIONS

None.

SUSTAINABILITY IMPLICATIONS

None.

BACKGROUND INFORMATION

None.

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LIST OF BACKGROUND PAPERS

APPENDICES

Appendix 1 Public Sector Internal Audit Standards Compliance Overview
Appendix 2 Quality Assurance & Improvement Programme

Public Sector Internal Audit Standards Compliance Overview

Mission Statement, Definition of Internal Auditing and Code of Ethics

Mission Statement & Definition of Internal Auditing



Integrity



Objectivity



Confidentiality



Competency



Performance Standards

1000 – 1322 Attribute Standards

1000 – 1110 Purpose, Authority and responsibility

Purpose, Authority, and Responsibility



Recognising Mandatory Guidance in the Internal Audit Charter



1110 – 1130 Independence and Objectivity

| | |
|--|---|
| Organisational Independence |  |
| Independence and Objectivity |  |
| Direct Interaction with the Board |  |
| Chief Audit Executive Roles Beyond Internal Auditing |  |
| Individual Objectivity |  |
| Impairment to Independence or Objectivity |  |

1210 – 1230 Proficiency and Due Professional Care

| | |
|-------------------------------------|--|
| Proficiency |  |
| Due Professional Care |  |
| Continuing Professional Development |  |

1300 – 1322 Quality Assurance and Improvement Programme (QAIP)

| | |
|---|---|
| Quality Assurance and Improvement Programme (QAIP) |  |
| Requirements of the Quality Assurance and Improvement Programme |  |
| Internal Assessments |  |

External Assessments



Reporting on the Quality Assurance and Improvement Programme



Use of Conforms with the International Standards for the Professional Practice of Internal Auditing



Disclosure of Non-conformance



2000 – 2600 Performance Standards

2000 – 2060 Managing the Internal Audit Activity

Managing the Internal Audit Activity



Planning



Communication and Approval



Resource Management



Policies and Procedures



Coordination



Reporting to Senior Management and the Board



2070 External Service Provider and Organisational Responsibility for Internal Audit

External Service Provider and Organisational Responsibility for Internal Audit



2100 – 2130 Nature of Work

Nature of Work



Governance



Risk Management



Control



2200 – 2240 Engagement Planning

Engagement Planning



Planning Considerations



Engagement Objectives



Engagement Scope



Engagement Resource Allocation



Engagement Work Programme



2300 – 2340 Performing the Engagement

Performing the Engagement



Identifying Information



Analysis and Evaluation



Documenting Information



Engagement Supervision



2400 – 2440 Communicating Results

Communicating the Results



Criteria for Communicating



Qualities of Communications



Errors and Omissions



Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"



Engagement Disclosure of Non-conformance



Disseminating Results



2450 Overall Opinions

Overall Opinions



2500 Monitoring Progress

Monitoring Progress



2600 Communicating the Acceptance of Risks

Communicating the Acceptance of Risks



Internal Audit Quality Assurance & Improvement Programme

1 Introduction

Internal Audit's Quality Assurance Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders (the Board, Senior Management, the External Auditor and Operational Managers etc) that Internal Audit:

- conforms with the Definition of Internal Auditing, the Code of Ethics and the Standards;
- has an adequate Internal Audit Activity's Charter, Goals, Objectives, Policies and Procedures;
- contributes to the organisations governance, risk management and control processes;
- has complete coverage of the audit universe;
- complies with applicable laws, regulations and other standards that the internal audit activity may be subject to;
- has identified the risks affecting the operation of the internal audit activity itself;
- has an effective continuous improvement activity in place and adopts best practice; and
- adds value to improve the organisations operations and contributes the attainment of the organisations objectives.

The Chief Audit Executive (CAE), who at the Council is the Head of Internal Audit & Governance, is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consultancy and those engagements delivered by a third party. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

The QAIP is reviewed on an annual basis.

2 Internal Assessments

Internal Assessments are made up of both ongoing reviews and periodic reviews.

Ongoing reviews

Ongoing reviews provide assurance that the processes in place are working effectively to ensure that quality is delivered on an audit by audit basis. This includes continuous monitoring of:

- Engagement planning and supervision (preapproval of the audit scope, innovative best practices, budgeted hours, and assigned staff).
- Standard working practices (including working paper procedures, sign off, report review, checklists to ensure that the audit process has been followed).
- Feedback from other clients and stakeholders.
- Analysing performance metrics to measure audit plan completion and stakeholder value.

Periodic reviews

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, Definition of Internal Auditing, the Code of Ethics, the quality of the audit

work and supervision, policies and procedures supporting the internal audit activity, the added value to the organisation and the achievement of performance standards.

Periodic assessments will be conducted through:

- Working paper reviews for conformance to the definition of Internal Auditing, the Code of Ethics, the Standards, and internal audit policies and procedures
- Self-assessment of the internal audit activity with objectives established as part of the QAIP components – Governance, Professional Practice and Communication
- Review of internal audit performance measure and benchmarking of best practices. Periodic activity and performance reporting to the board and other stakeholders as deemed necessary.
- Annual self-review of conformance to the PSIAS.

The periodic self assessment should identify the quality of ongoing performance and opportunities for improvement and to check and validate the objectives and criteria used in the QAIP. The self assessment will be completed on an annual basis and the results reported to the Board and Senior Management.

3 External Assessment

The External Assessment will consist of a broad scope of coverage that includes the following .

- Conformance with the Standards, Definition of Internal Auditing, the Code of Ethics, and internal audit's Charter, plans, policies, procedures, practices, and any applicable legislative and regulatory requirements.
- Expectations of Internal Audit as expressed by the Board and Senior Management.
- Integration of the Internal Audit activity into the governance process.
- The mix of staff knowledge, experiences, and disciplines, including use of tools and techniques, and process improvements.
- A determination whether Internal Audit adds value and improves the Council's operations.

An external assessment will be conducted every five years by a qualified, independent assessor from outside the Council. The assessment will be in the form of a full external assessment, or a self-assessment with independent external validation. The format of the external assessment will be agreed with the Board.

4 Assessment scale

The scale to assess the level of conformance of the Internal Audit activity with the standards is as follows:

Generally Conforms/Partially Conforms/Does Not Conform
(IIA Quality Assessment Manual Scale)

5 Reporting on the Quality Programme

Internal Assessments – reported to the Board and Senior Management on an annual basis. The internal assessment report will be accompanied by a written action plan in response to significant findings and recommendation contained in the report.

External Assessments – reported to the Board and Senior Management. The external assessment report will be accompanied by a written action plan in response to significant findings and recommendations contained in the report.

Follow up – The CAE will implement appropriate follow up actions to ensure that recommendations made in the reports and action plans developed are implemented in a reasonable timeframe.

Quality Assurance & Improvement Programme

Ongoing Monitoring of Performance

| Activity | Frequency | Responsibility | Reporting |
|---|---------------------|---|--|
| Review of the audit universe to ensure complete | Annual | Head of Audit & Governance | N/A |
| Identification of risks affecting the operation of the Internal Audit Service | Quarterly | Head of Audit & Governance | N/A |
| Review of audit engagements | Each engagement | Head of Audit & Governance/ Where audit engagements are delivered by a third party, their Quality Review processes will be used, with all final reports requiring CAE sign off. | N/A |
| Progress against the audit plan | Quarterly | Head of Audit & Governance | Quarterly report to Audit & Governance Committee |
| Progress against Key Performance Indicators | Quarterly | Head of Audit & Governance | Quarterly report to Audit & Governance Committee |
| Discuss performance of internal audit activity | Monthly | Head of Audit & Governance and Chief Executive | Annual report to Audit & Governance Committee |
| Customer survey/questionnaire | For each engagement | Head of Audit & Governance | Annual report to Audit & Governance Committee |
| Review of Internal Audit Charter, goals, policies & procedures | Annual | Head of Audit & Governance | Annual report to Audit & Governance Committee |
| Personal Development Review | Annual | Appropriate line manager | Documentation to HR |
| Continuous | Continuous | Head of Audit & | Annual report to the |

| | | | |
|---|-------------------|--|--|
| improvement activity and adoption of best practice | | Governance | Audit & Governance Committee |
| Identification of added value to the authority's operations | Continuous | Head of Audit & Governance | Annual report to the Audit & Governance Committee |
| Periodic Self Assessments | | | |
| Self assessment against the Public Sector Internal Audit Standards (PSIAS) | Annual | Head of Audit & Governance | Annual report to the Audit & Governance Committee |
| Compliance with applicable laws, regulations and other standards that the Internal Audit activity may be subject to | Continuous review | Head of Audit & Governance | Report to Audit & Governance Committee when applicable |
| Benchmarking review of Internal Audit Services | When practical | Head of Audit & Governance | Report to Audit & Governance Committee |
| External Assessments | | | |
| Assessment against the PSIAS | Every 5 years | Head of Audit & Governance and external reviewer | Report to the Audit & Governance Committee |