

Tamworth Borough Council Internal Audit Services Quality Assurance & Improvement Programme

1 Background

Quality in Internal Audit begins with the structure and organisation of the audit activity. Quality is built in to, and not on to, the way Internal Audit Services conducts its business.

Public Sector Internal Audit Standards (PSIAS) 1300 through to 1312 specifically require that the Head of Internal Audit Services develops a Quality Assurance & Improvement Programme (QAIP) incorporating both internal (self) assessments and external assessments. However, beyond these specific standards, Internal Audit as a profession, should maintain a formal, structured approach to quality to include undertaking continuous professional development, and conforming to a set of recognised standards.

Under the International Professional Practices Framework (IPPF), the Head of Internal Audit Services may state that the internal audit activity conforms with the PSIAS only if the results of the QAIP support the statement. When there is non conformance with the Standards which impacts the overall scope or operation of the internal audit activity, the Head of Internal Audit Services must disclose the non conformance and the impact to senior management and the board.



The Institute of Internal Auditors (IIA) states under its guidance that conformance with standards is a technical term borrowed from the quality management discipline. It is not about complying with the letter of the standard. Someone who is in conformance with the standard is expected to achieve the spirit of the standard.

Ultimately the QAIP should measure whether internal audit is meeting its own objectives, as well as those of the organisation.

2 Overview of a Quality Assurance and Improvement Programme (QAIP)

The QAIP should conclude on the quality of the internal audit activity and lead to recommendations for appropriate improvement to enable to the evaluation of:

- Conformance with the 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;
- 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:

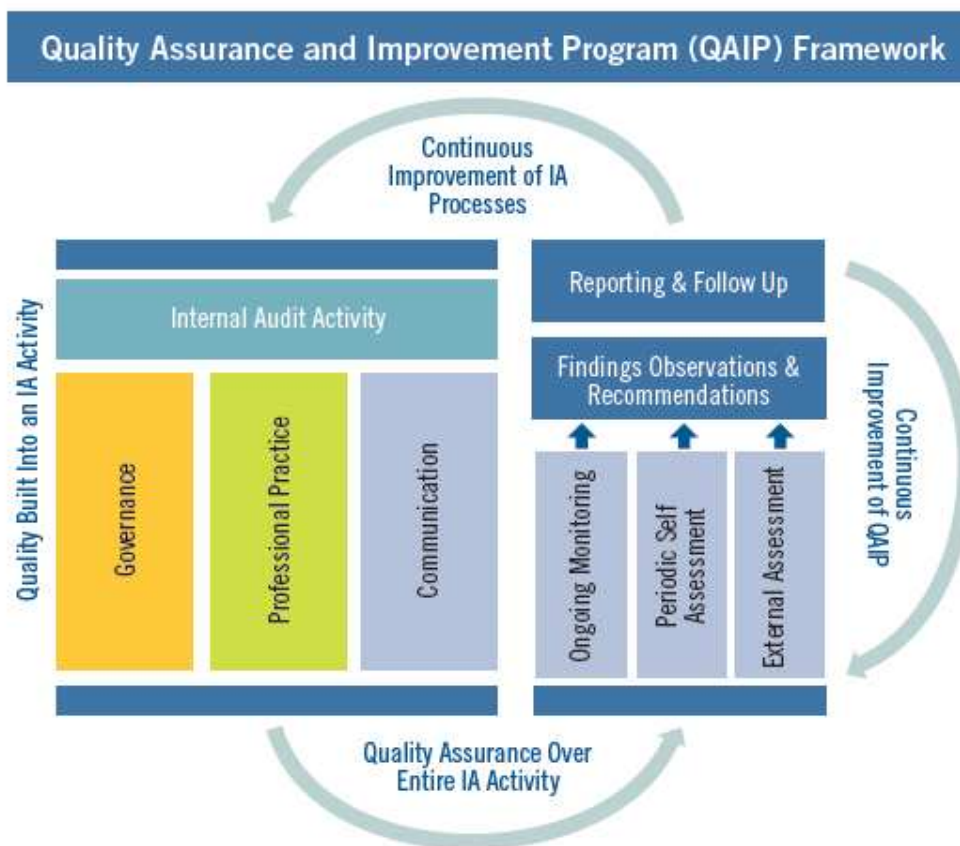
- **Internal Audit Engagement Level**
 - Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements;
 - Planning, fieldwork conduct, and reporting/communicating results conform to the Definition of Internal Auditing, the Code of Ethics, and the Standards;
 - Appropriate mechanisms are established and used to follow up management actions in response to audit recommendations; Post engagement client surveys, lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed.
- **Internal Audit Activity Level**
 - Written policies and procedures, covering both technical and administrative matters, are formally documented to guide audit staff in consistent conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards;
 - Audit work conforms to written policies and procedures;
 - Audit work achieves the general purposes and responsibilities

described in the internal audit charter;

- Audit work conforms to the definition of Internal Auditing, the Code of Ethics and the Standards;
- Internal audit work meets stakeholders expectations;
- The internal audit activity adds value and improves the organisation's operations;
- Resources for the internal audit activity are efficiently and effectively utilized.

- **External Perspective**

- The internal audit activity undergoes an external assessment at least once every five years by an independent assessor or assessment team from outside the organisation that is qualified in the practice of internal auditing as well as the quality assessment process.
- External assessors express an opinion on the entire spectrum of assurance and consulting work performed by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. Assessors also conclude on the efficiency and effectiveness of the internal audit activity in carrying out its charter and meeting the expectations of stakeholders.



Common elements of the QAIP are that they:

- Cover all aspects of the internal audit activity;
- Enable an evaluation of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards;
- Assess the efficiency and effectiveness of the internal audit activity;
- Identify opportunities for improvement.

3 Internal Audit Engagement Level

Internal Audit Planning

Each year, the Head of Internal Audit Services completes an audit risk assessment of the audit universe. The risk assessment model used is made up of several elements which ensures that the approach is systematic and once scored, indicates the areas to be audited from an Internal Audit risk perspective. Corporate Management Team are consulted on the contents of the plan prior to the start of the financial year. This enables Internal Audit to better understand their requirements and provide them with an opportunity to identify any concerns they may have about the organisations control environment or the risks it faces. Consideration is given at this stage as to whether the assignment will be completed using a risk based or systems based approach. We also take into account key governance factors – risk registers, new and emerging risks, which are assessed in the audit risk assessment.

Audit Risk Model used at Tamworth Borough Council

Size Parameters relating the size of the exposure or risk	The value of income, expenditure or size of budget Number of employees involved Impact per the risk matrix Volume of transactions
Control Parameters relating to the effectiveness of the internal controls	Impact of management and staff Third party sensitivity Standard of Internal Control Likelihood of occurrence as per Risk Matrix
Likelihood of Detection Parameters relating to the probability of unwanted consequences being detected if they do materialise	Likely effectiveness of internal audit Duration of the audit Length of time since the last audit Effectiveness of other assurance providers

Engagement Planning

Auditors are allocated assignments from the audit plan. They develop the objectives of the assignment in consultation with the Head of Internal Audit Services.

A preliminary audit assessment is sent to the relevant manager to complete. This identifies the activities contribution to the vision/priorities/statements of intent, any significant risks to the activity, whether there are adequate governance arrangements in place and any opportunities for improvement, and assurance being provided to others on the area of activity.

Once the objectives of the assignment have been drafted, a pre meeting is held with the relevant manager to discuss the scope and objectives of the audit which takes into account the areas identified in the preliminary audit assessment.

The objectives and scope are recorded on the electronic working paper system on Covalent. This prompts the Head of Internal Audit Services to sign off the scope and objectives.

Conduct of the Audit

All working papers are completed electronically using the Covalent system. The use of the system ensures uniformity in the standard of work completed.

Each assignment is allocated a reference number, the type of audit to be completed and the allocation of expected days to complete the assignment.

Testing against each area identified is recorded on the system and supporting working papers are attached electronically. Recommendations for improvement are recorded against the specific area.

At the conclusion of the assignment, the supervising officer reviews the electronic file and draft audit report. The sign off is recorded on the system with any comments/areas to clarify etc.

The auditor arranges an exit meeting with the relevant manager(s) where the findings of the audit and recommendations are discussed. Verbal responses from the managers are noted and the electronic file is updated with these.

The draft report is then generated from the working papers including the responses to the recommendations and issued to the relevant manager. The system is updated with the issue date and the required management response date. Once the management response date becomes overdue, the system prompts the auditor to request the management responses.

Once the draft report is agreed, the final report is issued in accordance with the internal audit protocol.

Implementation Reviews of Recommendations Made

Implementation reviews are completed 6 months after the finalisation of the audit report.

Recommendations are assigned to the relevant officer and the system auto generates emails to the owners to tell them that the recommendations are due. The officer has the ability to update the recommendation with the current status and attach relevant supporting documentation if applicable.

Details of the officer updates are reviewed and an implementation review completed in accordance with the internal audit protocol.

4 Internal Audit Activity Level

Internal Audit Charter

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Internal Audit Charter has been developed and in place since 1st April 2013. The Charter is reviewed annually and approved by the Corporate Management Team and the Audit & Governance Committee. The Charter details the Definition of Internal Audit, Code of Ethics and assures compliance with the PSIAS.

Internal Audit Manual

The Head of Internal Audit Services has developed an audit manual based on the new PSIAS. It also details documented procedures for day to day work.

Management Review Process

At the completion of an audit, each file is reviewed by a supervising officer to ensure that the audit fulfils its objectives and that the recommendations made are reasonable. The review also ensures that the audit is completed in accordance with the Standards. Once the audit file and report are checked, the report is issued in draft to the auditee.

Management Reporting

Each month, a system generated report is issued to each member of the Corporate Management Team detailing the management actions they manage that have not been completed. This includes overdue and not yet due items. It also gives an overview of the total number of management actions completed. This figure is based on the whole amount of management actions recorded on the system. During 2014/15, Internal Audit will be looking at ways to archive completed management actions, and reporting on current year and past years separately.

Audit & Governance Committee Reporting

At the end of each quarter, progress against the plan is reported to the Audit & Governance Committee. Management actions implemented are also reported. Internal Audit performance indicators are included in the report.

Continuous Improvement

At the end of each audit, feedback from officers is gathered through the use of a short electronic questionnaire issued through the NetConsent system. This enables the Head of Internal Audit Services to generate a report from the system showing the overall satisfaction status. This is to ensure that stakeholders' expectations are met.

In addition, on an annual basis, the Head of Internal Audit Services issues a questionnaire around the Internal Audit Service in general to Corporate Management Team. The result of the survey and any action plan arising from the feedback is reported to the Audit & Governance Committee.

In addition to the continuous improvement made through regular reviews and receiving feedback, internal audit also identify any added value areas with the audit itself. These are reported in the Executive brief report.

Staff Development

Tamworth Borough Council endeavours to develop and maintain an internal audit team which has the necessary capacity, skills and knowledge to successfully deliver the audit plan.

The current team is made up of three members of staff – the Head of Internal Audit Services who is CMIIA qualified, the Principal Auditor who is ACCA qualified and the Audit Assistant who is currently completing the AAT qualification.

Each year, staff have a Personal Development Review (PDR) which is completed with their line manager. This identifies the progress on the achievement of the prior year objectives, personal objectives in line with the corporate priorities and development objectives. This PDR review is completed in tandem with a review against the CIIA's competency framework which aid internal auditors in planning their professional development.

Attendance at seminars etc is completed to ensure that staff are up to date with current developments. Feedback on the learning achieved to the other members of staff ensures that all staff are aware of current developments.

Self Assessment against the Public Sector Internal Audit Standards

The Public Sector Internal Audit Standards (PSIAS) came into force on the 1st April 2013 to create a consistent standard for the practice of internal audit across the public sector and establish a basis for quality assurance. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

The Local Government Application Note has been developed as the sector specific requirements for local government. A checklist has been developed

by CIPFA to satisfy the requirements set out in the PSIAS for periodic self assessment and externally validated self-assessments as part of the Quality Assurance and Improvement Plan. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents. The Head of Internal Audit Services has completed an initial assessment as at the 1st April 2013 and a QAIP was developed. A further assessment as at the 1st April 2014 has been completed and the initial QAIP updated with the current status.

Continuous Improvement

Internal Audit are continually improving their working practices. Where such improvements are made, these will be captured and recorded on the QAIP action plan. Any customer feedback which identifies areas for improvement will also be recorded on the QAIP action plan.

5 External perspective

An external assessment will be conducted once every five years. This will be completed by a qualified independent person(s) and will check that the internal assessments have been completed. It will check conformance to the PSIAS and that a QAIP has been completed.

There are two approaches to the conduct of external assessments:

- A full external assessment involves the use of a qualified, independent assessor or assessment team to conduct the full assessment.
- A self-assessment with independent (external) validation involves the use of qualified, independent assessor or assessment team to conduct an independent validation of the self-assessment completed by the internal audit activity.

Peer Review

Peer reviews provide a cost effective approach to meeting the requirements of Standard 1312, particularly for small internal audit activities. Peer reviewers are required to meet the independence and qualifications criteria specified in the Standard. All members of the assessment team who perform the external assessment are to be independent of that organisation and its internal audit activity personnel. Two organisations must not review each other mutually but reciprocal external assessment teaming arrangements between three or more organisations may be structured in a manner that achieves the independence objectives.

Tamworth Borough Council's approach to External Assessment

Subject to agreement between other authorities, the preferred option of External Assessment at Tamworth Borough Council is that of a Peer Review. This will provide the independence required and be cost effective.

Linkage to the QAIP

A fully functioning QAIP includes ongoing monitoring to ensure quality on an audit by audit basis, and periodic self assessment to ensure conformance to the Standards and other rules and regulations. With such a process in place, the external assessment is an effective opportunity to obtain new ideas from the assessor or assessment team on ways to improve overall internal audit quality, efficiency and effectiveness.

Assessment Scale

A QAIP should include a rating scale to assess the level of conformance of the internal audit activity with the Standards. Different options are available when deciding which assessment scale better suits particular needs.

The assessment scale used at Tamworth Borough Council is the Chartered Institute of Internal Auditors Quality Assessment Manual Scale as detailed below.

