

**REPORT TO:** **AUDIT & STANDARDS COMMITTEE**

**DATE:** **24 NOVEMBER 2021**

**TITLE:** **EXTERNAL QUALITY ASSURANCE OF  
INTERNAL AUDIT AGAINST THE PUBLIC  
SECTOR INTERNAL AUDIT STANDARDS**

**LEAD OFFICER:** **SARAH MARSH, INTERNAL AUDIT MANAGER  
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**RECOMMENDED that:**

- A** The Committee agrees that Internal Audit complies with the requirements of the Public Sector Internal Audit Standards;
- B** The Committee notes the actions proposed to enhance the Internal Audit service.

**PURPOSE**

- 1. To present the results of an independent external quality assessment of the Internal Audit shared service against the Public Sector Internal Audit Standards (PSIAS) which is required at least every five years.

**EXECUTIVE SUMMARY**

- 2. The overall conclusion of the report is that Internal Audit fully conforms to the PSIAS with clients valuing the professional and objective way the service fulfilled their role. Some minor actions have been identified by the external assessor which would enhance service provision but these do not affect the overall level of compliance with the PSIAS.

**BACKGROUND**

**Approach to the External Quality Assessment**

- 3. Following a procurement exercise Gard Consultancy Services was appointed to undertake the External Quality Assessment (EQA) which took place in July 2021, covered all three councils in the shared service and included the following elements:
  - a) A self-assessment against the PSIAS requirements was completed by the Internal Audit Manager followed by a desk top review by the assessor. This included an evaluation of core information as evidence; such as procedural notes, audit charter, audit plans, example audit file and report, and latest annual reports.
  - b) The assessor met with each of the Internal Audit Manager's line managers (Section 151 Officers) and Audit Committee Chairmen.

- c) A questionnaire was sent to a range of other key stakeholders in advance of the assessment commencing and the results analysed during the review. A summary of the survey results is given in the EQA report.
- d) Production and discussion of draft report with the Internal Audit Manager to highlight matters in relation to the assessment against the PSIAS, which has shared with the Internal Audit shared service Board prior to being finalised.

### Summary of the External Quality Assessment (EQA) Review

- 4. The overall conclusion from the EQA, as set out in Appendix 1 to the report, is that the Shared Internal Audit Service's self-assessment is accurate and as fully conforms to the requirements of the Public Sector Internal Audit Standards and the CIPFA (Chartered Institute of Public Finance and Accountancy) Local Government Application Note.
- 5. On an annual basis Internal Audit has assessed its own compliance and reported this annually to the Audit Committee confirming it is compliant with the Standards,
- 6. The introduction of the shared service has benefited the three Councils and receives positive feedback from both Audit Committee Chairmen as well as Senior Management.
- 7. The recommendations contained within the EQA report have been used to produce an Improvement Action Plan as detailed in the table below. There are no themes coming out of the recommendations and suggested areas for improvement are all minor in nature.

Area for Improvement	Improvements Required	Agreed action to be taken	Due Date
Internal Audit Charter (low priority)	Cross reference the definitions for senior management and the audit committees in the audit charter to the PSIAS definitions	Expand the wording used in Section 8 of the audit charter.  Completed - see Internal Audit Charter review as part of the Internal Audit progress report elsewhere on the agenda	Completed
Independence statement (low priority)	Include a statement of impairments to independence in the annual report	The potential issue of impairment is included in the report where the Internal Audit Charter is presented to audit committee for approval. However, going forward it will also be included in the annual report when it goes to the summer 2022 audit committee	31/07/2022
Conform statement (low priority)	Add 'conforms to the public sector internal audit standards' to audit reports	Recommendation not accepted. This would not add value to individual audit	n/a

Area for Improvement	Improvements Required	Agreed action to be taken	Due Date
		reports. Instead, the conformance statement will continue to be included in the annual Internal Audit strategy and annual report	
Use of conformation statements (advisory)	Introduce confirmation statements for Internal Audit staff to sign on an annual basis to confirm that they have read and understood the Core Principles for the Professional Practices of Internal Auditing, the Code of Ethics for Internal Auditors, and the Seven Principles of Public Life.	The merits of this was considered in conjunction with the Internal Audit team and the Shared Internal Audit Service Board and rejected being quite bureaucratic especially as the Core Principles and Code of Ethics are long documents to digest.	n/a
Data analytics (advisory)	Expand the use of data analytics especially as an effective and efficient way of auditing systems with large volumes of data.	Agreed. Use of data analytics already takes place, however, as there will be a resource implication to expand this a data analytics strategy and cost/benefit analysis will be presented to the Shared Internal Audit Service Board for their approval.	31/01/2022
Add a disclaimer and limitations of use statement to audit reports (advisory)	This issue relates to the inclusion of a disclaimer and limitations of use paragraph in each audit report. Whilst the inclusion of such a statement cannot prevent internal audit reports being forwarded to people that management had not approved, or extracts from the report being taken out of context and used by people with an ulterior agenda, they act as a warning and can help facilitate subsequent disciplinary action should the need arise.	Agreed and will be added to all final reports issued after 31 August 2021.	Completed

## **IMPLICATIONS**

### **Environment and Planning (includes Sustainability)**

None specific.

**Author: Andrew Bramidge, Director of Strategic Growth and Regeneration**

### **Finance (includes ICT, and Property and Facilities)**

The cost of the external assessment was a fixed fee and was shared equally by all three councils, met from the Internal Audit budget.

An effective Internal Audit function has a pivotal role in providing assurances on the Council's internal control, governance and risk management arrangements. This EQA review helps demonstrate this.

**Author: Simon Freeman, Deputy to the Chief Executive and Director of Finance**

### **Housing**

None specific.

**Author: Andrew Murray, Director of Housing**

### **Community Wellbeing**

None specific.

**Author: Jane Greer, Director of Communities and Environment**

### **Governance (includes HR)**

The 2016 Public Sector Internal Audit Standards (PSIAS) makes it a mandatory requirement that an internal audit function is externally assessed at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. Non-compliance with PSIAS could undermine the work of the internal audit function and could lead to scrutiny from external agencies, for example the Ministry of Housing, Communities and Local Government.

**Author: Simon Hill, Director of Governance**

### **Background Paper**

Public Sector Internal Audit Standards (2016)

### **Appendices**

Appendix A – External Quality Assessment Full Report

### **Glossary of Terms/Abbreviations Used**

CIPFA - Chartered Institute of Public Finance and Accountancy

EQA – External Quality Assessment

PSIAS - Public Sector Internal Audit Standards