

REPORT TO: **AUDIT & STANDARDS COMMITTEE**

DATE: **8 MARCH 2017**

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

LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT
MANAGER (01279) 446884**

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. This report presents the results of an independent external quality assessment of the internal audit shared service against the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013. It also details an action plan will be developed to address the recommendations for improvement noted during the review.

EXECUTIVE SUMMARY

- 2. The overall conclusion of the report is that internal audit complies with the PSIAS and continues to provide an effective and efficient service to each Council (Epping Forest District Council, Broxbourne Borough Council and the Council). There are some actions identified by the external assessor which would enhance service provision. These do not affect the overall level of compliance with the PSIAS, but do ensure internal audit continues to develop and demonstrate best practice.

APPROACH TO THE EXTERNAL QUALITY ASSESSMENT

- 3. Following a procurement exercise Gateway Assure Limited was appointed to undertake the External Quality Assessment (EQA) which took the assessor five days in November 2016 to complete and included the following elements:
 - (i) 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.
 - (ii) The assessor met with each of Internal Audit Manager's direct reports the Section 151 Officers at the Council and Broxbourne Borough

Council (BBC) and the Monitoring Officer at Epping Forest District Council (EFDC). They also conducted an electronic survey with the Audit Committee Chairmen.

- (iii) A visit to all three sites for the file review exercise, and to meet the team, with an exit interview at the end with the Internal Audit Manager.
 - (iv) Production and discussion of draft report with the Internal Audit Manager to highlight matters in relation to the assessment against the PSIAS, benchmark data showing a comparison with other internal audit services and best practice advice, as well as ensuring factual accuracy.
4. The review assessed the internal audit function against three recognisable standards:
- (i) Resources – Business vision and mission, governance arrangements, recognition of standards, guidance, procedures and supervision, terms of engagement, ethics and business conduct.
 - (ii) Competency – Charter, internal audit manual, planning and allocation of staffing, recruitment (numbers and skills), training (professional and technical), appraisal and development.
 - (iii) Delivery – Client engagement and relationships, directed led service, terms of engagement (audit/assignment brief), discussion of assurance and advisory opinions, reporting at assignment and strategic levels.

SUMMARY OF THE EXTERNAL QUALITY ASSESSMENT (EQA) REVIEW

- 5. The overall conclusion from the EQA is internal audit provision within the councils of Broxbourne, Epping Forest and Harlow complies with the Public Sector Internal Audit Standards. The full report can be found as Appendix A.
- 6. Since 2013 internal audit has assessed its own compliance and reported this annually to their audit committees as being mostly compliant with the Standards with a few minor areas for enhancement.
- 7. The EQA outcome reported has been benchmarked against other provisions in both this sector and the wider industry and shows that the Internal Audit team compares favourably with regard to its peers.
- 8. The introduction of the shared service has benefited the three councils and receives positive feedback from both audit committee chairs as well as executive management.
- 9. A key theme featuring throughout the report is the need to develop aspects of the audit process to improve focus on the significant risks facing each Council in the achievement of its objectives. Internal audit continues to move to an approach that reflects full recognition of risk factors.

10. The recommendations contained within the report have been used to produce an improvement action plan as detailed in the table below:

Area for Improvement	Improvements Required	Action to be taken	Due Date
Working papers	Internal audit working papers to focus on major risks to the Council. This should include an assessment of the inherent risks in each area (regardless of whether or not these are specifically recorded with the risk management system) and other sources of assurances.	<p>Revise the Terms of Reference to ensure there is a more explicit link between the Council's risk registers and assurances to be provided.</p> <p>Revise the control matrix (used to detail testing undertaken and conclusions drawn from it) so that it allows auditors to focus on the key controls and assurances which reflect the most material control risks to the area under review.</p> <p>Brief the internal audit team on the need for a greater emphasis of risk in audit reports.</p>	<p>Completed January 2017</p> <p>Completed January 2017</p> <p>Completed January 2017</p>
Assignment reporting	To reduce the time taken to deliver final report.	Undertake a team mapping exercise to help identify ways in which audit processes can be streamlined in order to reduce the time from scoping an audit to producing the final report.	March 2017
Audit Opinions	The overall audit opinion and associated risk definitions used by Internal Audit to reflect the risk appetite within the Council.	Review the audit opinions and definitions used at each Council and how these align with each council's risk appetite and their own risk definitions.	Completed. All three councils have the following audit opinion options for the 2017/18 Audit Plan: Substantial, Moderate and Limited.

Annual Audit Plan	Annual Audit Plan to provide a direct link to corporate risks and other available assurances.	Annual plan will be constructed to provide an explicit link to the Councils risks and other assurances available to internal audit. This will be able to provide wider assurance to the Council in support of the Annual Governance Statement.	Annual Plan to be presented to the March 2017 Audit and Standards Committee
Annual Report	The Annual Report to provide an explicit link to risk and other assurances.	The Internal Audit Manager's Annual Report to contain reference to all significant risks and considers the results of work performed by other assurance providers. Due regard will be given to the suggested example wording in the EQA report.	Annual Report to be presented to the June 2017 Audit and Standards Committee

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

Finance (includes ICT)

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, Head of Finance**

Housing

None specific.

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

Community Wellbeing (includes Regeneration, Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

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 Department for Communities and Local Government.

Author: **Brian Keane, Head of Governance**

Background papers

Public Sector Internal Audit Standards (2016)

Appendices

Appendix A – External Quality Assessment full report