



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
15 September 2016	
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## **INTERNAL AUDIT QUALITY ASSURANCE IMPROVEMENT PROGRAMME**

**Responsible Officer** Ceri Pilawski

e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk) Telephone: 01743 257739

### **1. Summary**

Shropshire Council Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS). As part of this process the service must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspect of the internal audit activity.

This programme is designed to enable an evaluation of the service's conformance with the definition of internal auditing, the standards and whether auditors apply the code of ethics (PSIAS). The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This quality assurance and improvement programme includes both internal and external assessments. This report provides members with an update on the External Assessment review planned in November 2016.

### **2. It is recommended that:**

The Committee consider and endorse, with appropriate comment, the information set out in this report.

## **REPORT**

### **3. Risk assessment and opportunities appraisal**

- 3.1 It is a requirement of the PSIAS to have an external assessment, the results of which can be used to demonstrate the Service's quality to both its main customer, Shropshire Council, and other clients.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental, equalities or climate change consequences of this proposal.

## 4. Financial implications

The review will cost £6,325 plus officer time spent in preparation and support of the process. This will be met from within existing budgets.

## 5. Background

5.1 This quality assurance and improvement programme (QAIP) demonstrates that Internal Audit:

- Has an adequate Internal Audit charter, goals, objectives, policies and procedures;
- Contributes to the organisation's 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 to the attainment of the organisations objectives.

5.2 The Head of Audit is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consultancy. The QAIP includes both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments will be undertaken at least once every five years, in order to meet statutory requirements. The QAIP is reviewed on an annual basis.

### **Internal Assessment**

5.3 The internal assessment involves ongoing monitoring of the performance of internal audit activity against the PSIAS, which have been incorporated into the routine policies and practices used to manage the service. These arrangements are as follows:

- Engagement planning and supervision.
- Standard working practices (including quality audit manual, working paper procedures, sign off, report review, checklists to ensure the audit process is followed).
- Ongoing supervision and review of audit work.
- Performance management information.
- Feedback from auditees following specific audit work/ reports.
- Results of quality assurance reviews, internal and external.
- A self-assessment against the requirements of the PSIAS.
- Any feedback from External Audit on the effectiveness of the function.
- Completion of the actions within the Quality Assurance Improvement Programme Action Plan.

5.3 The following processes also help to inform and assess the performance of Internal Audit throughout the year:

- Monthly meetings of the Head of Internal Audit with the Section 151 Officer.
- Weekly Finance Governance and Assurance meetings which provide updates direct from Directors and Members meetings through the Section 151 Officer
- Monthly meetings of the Head of Internal Audit with the key governance officers: Section 151 Officer, Monitoring Officer and Head of Human Resources.
- Monthly meetings with the Risk and Insurance Manager.
- Audit plan performance is reported on and any changes are signed off by the Section 151 Officer and reported to the Audit Committee.
- At least annually the Head of Internal Audit meets with the CEO, Directors and Senior Managers to consider and discuss the key risks facing the Council and impact on the internal control environment. The annual plan is drafted as a result of these meetings. More frequent meetings are held in areas of high risk.
- The Audit Charter is revisited annually and signed off by Committee as is the Audit Plan.
- The self-assessment against the PSIAS is shared with the Section 151 Officer and Audit Committee annually.
- Regular meetings are held with the External Auditor and the Chair of Audit Committee.

5.4 A full review against the PSIAS is conducted by the Head of Internal Audit annually. The review is shared and commented upon by Senior Auditors and discussed at team meetings, along with the associated action plan for improvement. The Head of Audit then presents the assessment to the Council's Section 151 Officer who has an understanding of the PSIAS requirements and provides a challenge to the assessment. Following this, the results of the self-assessment are reported to the June Audit Committee along with details of any areas of non-conformance with the PSIAS. External clients are sign posted to the Audit Committee report on the Shropshire Council website for their assurances. All clients can provide challenge on the process at any time.

5.5 This self-assessment review is provided in conjunction with the Annual Internal Audit report, also found on Shropshire Council's Audit Committee June agenda. When read together, the two reports demonstrate the effectiveness of the Internal Audit service and compliance with the PSIAS.

5.6 The internal assessment concludes that there are no areas where the Internal Audit function is not complying with the Code and, whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code. Improvements are set out in an action plan which the Head of Audit is responsible for implementing.

### **External Assessment**

5.7 An external assessment of the team's compliance with the PSIAS must be completed every five years by a qualified, independent assessor or assessment team. The Head of Internal Audit has discussed this assessment with the Audit Committee and the Section 151 Officer and agreed that the self-assessment conducted annually will be validated by external assessors. The alternative option is for a full external assessment.

- 5.8 Following a tender process with other councils co-ordinated by Staffordshire County Council, the contract to conduct the fieldwork for assessment week beginning 21<sup>st</sup> November 2016, has been awarded to the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA set the internal audit standard within local government and have a deep knowledge of the impact of the PSIAS on the wider public sector. They are therefore well placed to conduct such a review. CIPFA also have responsibility for setting accounting standards for a significant part of the economy and can therefore use this experience to provide pertinent feedback to the service and its clients. CIPFA is independent of the Council and Ray Gard, FCCA, CFIIA, CPFA, DMS, who will be conducting the review, has no conflict of interest with Shropshire Council. Being the professional accountancy body for public sector finance, CIPFA ensures that all consultancy, including PSIAS External Quality Assurance reviews, is delivered completely independently of any other organisation.
- 5.9 Results of the external assessment will be reported publically to Shropshire Council's Audit Committee and shared with external clients.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Public Sector Internal Audit Standards (PSIAS).  
 Various internal documents supporting self-assessment against the PSIAS.  
 Accounts and Audit Regulations 2015

**Cabinet Member (Portfolio Holder)**

Malcolm Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee

**Local Member:** All

**Appendices:** None