



Committee and Date

Audit Committee

20th July 2023

10:00am

Item

Public



Annual Review of Internal Audit Quality Assurance and Improvement Programme (QAIP) 2023/24

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Cabinet Member (Portfolio Holder):	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder for Finance and Corporate Resources		

1. Synopsis

- 1.1. This report confirms, following a self-assessment quality assurance review (QAIP) and an external assessment by Chartered Institute of Public Finance and Accountancy (CIPFA), that Internal Audit complies with the Public Sector Internal Audit Standards (PSIAS).

2. Executive Summary

- 2.1 The Accounts and Audit Regulations 2015 (5) require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, considering Public Sector Internal Auditing Standards (PSIAS) or guidance.
- 2.2 As part of the Service's Quality Assurance and Improvement Programme (QAIP), this report provides the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit

Standards. Compliance with these standards demonstrates an effective Internal Audit Service. Audit Committee is required to review this report and its findings.

- 2.3 This review should be read in conjunction with the Annual Internal Audit report, found elsewhere on this agenda. When read together the two reports demonstrate the effectiveness of internal audit. The update of the self-assessment has confirmed that the Council continues to operate an effective Internal Audit function. 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.
- 2.4 The PSIAS also contain a requirement for an external assessment of the Internal Audit function once every five years. The Service presented the results of the 2022 assessment to the Committee in February and full compliance was recorded. The next assessment is to be undertaken by 31st March 2027.

3. Decisions

- 3.1 The Committee is asked to consider and endorse with appropriate comment, the conclusion that the Council employs an effective internal audit to evaluate its risk management, control and governance processes that complies with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to work towards continuing and full compliance where appropriate.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The Accounts and Audit Regulations 2015 (section 5) require a relevant authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, considering PSIAS or guidance.
- 4.2. Under the PSIAS, Internal Audit's mission is, 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Thereby providing assurances on the Council's internal control systems by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Internal Audit will also continue to align its work with the Strategic Risk Register.

- 4.3. The use of a consistent framework for internal audit across the UK public sector has benefits for both partnership working and for internal auditors who work across different parts of the public sector. The standards are designed to drive improvement and lead to better public finance arrangements. Under 1310 of the PSIAS there is a requirement for Internal assessments which include:
- Ongoing monitoring of the performance of the internal audit activity; and
 - Periodic self-assessments or assessments by other persons within the organisation with enough knowledge of internal audit practices.
- 4.4. Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity and is incorporated into the routine policies and practices used to manage the activity. It uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.
- 4.5. This Report provides Members with details of an annual assessment conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. It is completed by the Head of Policy and Governance and discussed with the Section 151 Officer before the results and improvement plan are reported to Audit Committee.
- 4.6. Under Standard 1312 of the PSIAS there is a requirement for External assessments every five years which include:
- The form and frequency of external assessment.
 - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- 4.7. An independent external assessment must be completed by a body independent to the organisation qualified in the practice of internal auditing. Independence for these reviews is critical to ensure an objective external assessment will demonstrate to the Audit Committee compliance with the PSIAS and the improvement plan will show actions to close any gaps.
- 4.8. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental or equalities consequences of this proposal.

5. Financial Implications

- 5.1. The Internal Audit service is provided within approved budgets.
- 5.2. There may be a small cost to enable an external assessment of Internal Audit's conformance with the PSIAS. The Chairman, Section 151 Officer and the Head of Audit have delegated authority to consider the approach/scope of the assessment and agree this with an external assessor and report back to the Committee.

5.3. Funding for an external assessment will be met from an approved corporate budget.

6. Climate Change Appraisal

6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

7. Background

Shropshire Internal QAIP

7.1. The Public Sector Internal Audit Standards (PSIAS) are mandatory for all principal local authorities as updated in 2017. They consist of:

- Mission of Internal Audit;
- Definition of Internal Auditing;
- Core Principles for the Professional Practice of Internal Auditing;
- Code of Ethics; and
- Standards for the Professional Practice of Internal Auditing.

7.2. The 'Mission' of Internal Audit is, 'to enhance and protect organisational value by providing risk based and objective assurance, advice and insight'. Internal Audit's effectiveness is demonstrated when the following principles are present and operating effectively.

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive and future focused
- Promotes organisational improvement.

7.3. Internal Audit is reviewed using CIPFA's updated Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (April 2019) for compliance with the Standards, the results of which are summarised in **Appendix A**.

7.4. The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide the Executive Director of Resources (the Section 151 Officer) with the key assurances he needs in both managing the financial affairs of the Council and producing the annual governance statement.

7.5. In complying with the PSIAS, Shropshire Council can provide assurances to Internal Audit's external customers of the teams' professionalism, quality and effectiveness.

7.6. **Appendix A** provides an update against the previously approved improvement plan. Most standards are complied with totally. Where there are areas of partial conformance these are detailed below for members to consider further. Members should note that there are no new areas of none or partial compliance. Where further improvements have been identified in areas of compliance these, along with the actions outlined below, appear in the improvement plan within the appendix, to ensure continuing conformance to the standards.

Additional Information

Internal Assessment: Areas of potential non-conformance

7.7. There is no change to the areas of potential conflict from previous years, the details of which are repeated here. The role of Head of Policy and Governance post commenced from 1 April 2023 which includes responsibility for Information Governance. A new Internal Audit Manager post was appointed to from 1 June 2023 which adds a layer of independence from the CAE in the operational management of the audit team on a day-to-day basis.

7.8. The Internal Audit Manager has direct access to the Chief Executive, Chairman of the Audit Committee, Leader of the Council, S151 Officer and Monitoring Officer to ensure independence is maintained. In addition, the post holder is required to be CCAB qualified and therefore bound by their professional body code of ethics as well as the general requirement to adhere to the NOLAN principles on standards in public life.

7.9. **Code of Ethics - Objectivity Standard:** Do internal auditors display objectivity by not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?

Finding: It is important that internal audit is consulted during system, policy or procedure development. Auditors are assigned to business review projects where there is a possibility that internal control systems will be affected. This is an opportunity for internal audit to provide insight, add value and strengthen internal control arrangements. Where specific auditors have been involved in providing such advice, they will be excluded from carrying out the audit as far as possible i.e. another auditor would be allocated to the audit. If this is not possible, it is felt the benefit of using the experience of developing controls and procedures outweighs concerns of independence and the review process will help to ensure that the review and report remain objective and evidenced based.

Where auditors have been involved in supporting service areas in response to COVID, different auditors will conduct any system reviews initially in these areas.

There is therefore **partial** conformance. This is not considered to be to the detriment of the principles of auditing and the independent review process helps to mitigate any risks, therefore no actions are proposed.

- 7.10. **1100 Independence and Objectivity Standard:** Does the Chief Audit Executive (CAE) confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples **can be** used by the CAE when assessing the organisational independence of the internal audit activity: The board:

Approves the internal audit budget and resources plan.

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee.

Approves decisions relating to the appointment and removal of the CAE

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan, including the appointment and removal of the CAE, and to report any concerns to the Audit Committee.

Therefore, **partial** conformance: Governance requirements in the UK public sector would not generally involve the board specifically approving the CAE's remuneration. The underlying principle is that the independence of the CAE is safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subjected to audit. In the UK public sector, CIPFA advise that this can be achieved by ensuring that the Chief Executive (or equivalent) undertakes, countersigns, reviews or contributes feedback to the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee, this is completed for Shropshire Council.

The CAE's Line Manager also seeks, as he deems appropriate, opinions from the Chairs of externally serviced Audit Committees and their key officers on the CAE's performance for use in their Performance Development Plan review.

The above are not considered significant variations in respect of the principles of the PSIAS to require specific mention in the Annual Governance statement and this has been supported by the findings of the external QAIP reported below.

External QAIP

7.11. The PSIAS also contain a requirement for an external assessment of the Internal Audit function once every five years. The Service presented the results of the 2022 assessment to the Committee in February and full compliance was recorded. The next assessment is to be undertaken by 31st March 2027.

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

- Accounts and Audit Regulations 2015.
- Public Sector Internal Audit Standards 2017
- Local government application notes for the UK Public Sector Internal Audit Standards CIPFA 2019
- Completed Conformance Checklist 2023/24 and supporting evidence
- Internal Audit Quality Assurance Improvement Programme – External assessment report, Audit Committee, February 2022.

Local Member: N/A

Appendices

Appendix A: Public Sector Internal Audit Standards conformance assessment and improvement plan.

APPENDIX A – PUBLIC SECTOR INTERNAL AUDIT STANDARDS CONFORMANCE ASSESSMENT AND IMPROVEMENT PLAN JUNE 2023

Standard	Conform	Observations and actions proposed
Mission	Yes	
Definition of Internal Audit	Yes	
Code of Ethics	Yes	
Integrity	Yes	Plan ongoing compliance updates with PSIAS at team meetings. Quarterly Chief Audit Executive
Objectivity	Partially	Internal audit is consulted during system, policy or procedure development. Auditors have been assigned to business review projects where there is a possibility that internal control systems will be affected. This is an opportunity for internal audit to add value and strengthen internal control arrangements. Where specific auditors have been involved in providing system advice, they will be excluded from carrying out the audit as far as possible i.e. another auditor would be allocated to the audit. If this is not possible, it is felt the benefit of using the experience of developing controls and procedures outweighs concerns of independence and the review process will help to ensure that the review and report remain objective and evidenced based. Where auditors have been involved in supporting service areas in response to COVID, different auditors will conduct any system reviews initially in these areas.
Confidentiality	Yes	Ensure all filing conforms with retention guidelines. Review Audit manual documents and contents are up to date Ongoing Principal Auditors
Competency	Yes	Set dates for PDPs. June/July 2023 Principal Auditors

Standard	Conform	Observations and actions proposed
Attribute Standards		
1100 Independence and Objectivity	Yes	
1110 Organisational Independence	Partially	<p>It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan; including the appointment and removal of the CAE and to report any concerns to the Audit Committee.</p> <p>The role of Head of Policy and Governance commenced from 1 April 2023. A new Internal Audit Manager post was appointed to from 1 June 2023 which adds a layer of independence from the CAE in the operational management of the audit team on a day-to-day basis.</p>
1111 Direct Interaction with the Board	Yes	
1120 Individual Objectivity	Yes	
1130 Impairment to Independence or Objectivity	Yes	
1210 Proficiency	Yes	<p>Ongoing continuous development of IT skills across the audit team and move the type of audit review conducted by auditors to a more technical one to reflect digital transformation plans and to reflect new systems. March 2024 Internal Audit Manager</p> <p>Continue to embed the data analytics approach to appropriate audits March 2024 Internal Audit Manager</p> <p>Auditor completing the ISACA CISA qualification during 2023.</p>
1220 Due Professional Care	Yes	
1230 Continuing Professional Development	Yes	

Standard	Conform	Observations and actions proposed
1300 Quality Assurance and Improvement Programme	Yes	Ongoing review of the Audit manual and the quality review processes to ensure complete compliance with the standards and suitable guidance for staff. March 2024 Chief Audit Executive Complete this assessment and continue to report to Audit Committee annually along with a high-level improvement programme. July 2023 Chief Audit Executive
1310 Requirements of the Quality Assurance and Improvement Programme	Yes	
1311 Internal Assessments	Yes	
1312 External Assessments	Yes	
1320 Reporting on the Quality Assurance and Improvement Programme	Yes	
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	Yes	Report outcome of this assessment to June Audit Committee on compliance with the standards and a resulting QAIP. July 2023 Chief Audit Executive
1322 Disclosure of Non-conformance	Yes	
2000 Managing the Internal Audit Activity		
2010 Planning	Yes	
2020 Communication and Approval	Yes	
2030 Resource Management	Yes	
2040 Policies and Procedures	Yes	Continue to review policies and procedures March 2024

Standard	Conform	Observations and actions proposed
		Internal Audit Manager
2050 Coordination	Yes	
2060 Reporting to Senior Management and the Board	Yes	Continue to ensure senior managers are informed of changes in the internal control environment. Quarterly throughout the year Chief Audit Executive
2070 External Service Provider and Organisational Responsibility for Internal Auditing	Yes	
2110 Governance	Yes	
2120 Risk Management	Yes	Refresh risk assessments throughout the year As risks change Chief Audit Executive
2130 Control	Yes	
2210 Engagement Objectives	Yes	
2220 Engagement Scope	Yes	
2230 Engagement Resource Allocation	Yes	
2240 Engagement Work Programme	Yes	
2300 Performing the Engagement	Yes	
2310 Identifying Information	Yes	
2320 Analysis and Evaluation	Yes	
2330 Documenting Information	Yes	
2340 Engagement Supervision	Yes	
2410 Criteria for Communicating	Yes	
2420 Quality of Communications	Yes	
2421 Errors and Omissions	Yes	
2430 Use of 'Conducted in Conformance with the International	Yes	

Standard	Conform	Observations and actions proposed
Standards for the Professional Practice of Internal Auditing'		
2431 Engagement Disclosure of Non-conformance	Yes	
2440 Disseminating Results	Yes	
2450 Overall Opinion	Yes	