AUDIT AND GOVERNANCE COMMITTEE – 20th SEPTEMBER 2023

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

1.   Purpose of the Report

1.1   The purpose of this paper is to inform the Committee of the current position in terms of implementation of the agreed actions reported to the Committee at its September 2022 meeting, following the External Quality Assessment (EQA) undertaken by CIPFA in July 2021. The requirement to have an EQA and to maintain a Quality Assurance and Improvement Programme (QAIP) for the Internal Audit function is required by the Public Sector Internal Audit Standards 2017 (PSIAS).

2.   Recommendation

2.1   Members consider and assess the proposed QAIP Framework which sets out how it will meet the requirements set out in the PSIAS.

2.2   That the Committee receives an annual update report on the delivery of the QAIP.

3.   Background Information

3.1   Revised Public Sector Internal Audit Standards (PSIAS) came into effect from April 2017. Within those standards is the requirement for the Head of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QAIP).

3.2   The particular standard in the PSIAS is *1300 - Quality Assurance and Improvement Programme*. This states that:

> *"The Head of Internal Audit must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity".*

Guidance in relation to this states that:

> *"A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The Head of Internal Audit should encourage [Audit Committee] oversight in the quality assurance and improvement programme".*

3.3   Whilst the 2017 PSIAS formalised this as a specific requirement, previous Internal Audit standards and professional requirements ensured that Heads of Internal Audit had effective quality assurance arrangements in place. This incorporated the duty to undertake an annual self-assessment and an independent external assessment against the PSIAS once every five years. An independent external assessment was undertaken during 2021 and reported to the Audit & Governance Committee in September 2021. This assessment confirmed that the Internal Audit function was in full conformance with the PSIAS.

3.4   It is important for the Internal Audit Team and client organisations that the requirements of professional standards are met and are seen to be met. A framework has been developed to ensure all aspects of the PSIAS are considered and factored into how the Internal Audit function is resourced, managed, audit work is identified and delivered, and personal professional standards are met. A self-assessment against the PSIAS will be undertaken, once the Service's Transformation Review has been concluded and any changes embedded, to measure and evidence compliance with the PSIAS. The outcome will be reported into the Audit and Governance Committee in due course.

3.5   The full PSIAS covering the QAIP is attached as Appendix 1. Note that the PSIAS refers to the *chief audit executive* as a generic term for the officer responsible for the Internal Audit function. The job title 'Head of Internal Audit' is most commonly used in the public sector. Also, the term '*board*' is used which in the public sector context is the audit committee. CIPFA have produced a Local Government Application Note (LGAN) to provide guidance to ensure consistency in how the PSIAS are interpreted specifically in a local government context.

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3.6   The key framework of the QAIP are shown in the table below. A more detailed analysis of the PSIAS is shown at Appendix 2 alongside the actions being undertaken or planned below.

Key Standard 1300 Requirements	Action / Current Position
Internal Assessments:	
Ongoing monitoring of the performance of the internal audit activity.	Processes are in place as part of audit management arrangements.
Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.	An EQA was undertaken during 2021 and this included the Assessor circulating and collating the responses from a number of key IA clients (BMBC and external).
External Assessments:	
External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.	An EQA was undertaken during 2021.
Reporting on the Quality Assurance and Improvement Programme:	
The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the	Internal Audit report to SMT at its quarterly performance meeting. Reported to the Committee at its

Key Standard 1300 Requirements	Action / Current Position
board.	September 2022 meeting and this report is providing an updated position.
Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing":	
Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement programme.	The EQA undertaken in 2021 confirmed full compliance.
Disclosure of Non-conformance:	
When non-conformance with the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.	Not applicable – the EQA confirmed full compliance.

3.7 In order to ensure continuous improvement and focus on quality and conformance, the Internal Audit Manager has been designated the responsibility to maintain and manage the QAIP and general quality process. The Action Plan is updated and discussed with the Head of Internal Audit, Anti-Fraud and Assurance on a quarterly basis.

3.8 The following actions are undertaken on an annual basis (and then as and when required during the financial year):-

a) Each member of the team completes an annual declaration of interests form, to identify any potential areas of conflict for which they will not be assigned Internal Audit work. This is a Code of Conduct and PSIAS requirement, to demonstrate Internal Audit's continued independence and objectivity.

b) Each member of the team has a Personal Development Review on an annual basis, with learning and development opportunities identified being monitored on a 6 monthly basis (mid year PDR) and 1:1 meetings that are scheduled every 2 months.

3.9 Clearly, ensuring an internal audit function meets all its professional standards is vitally important to provide client organisations with the best possible service. However, faced with increasing pressure on audit days it is equally essential to balance the input of resources to manage quality and professional standards compliance against actually delivering the audit function. A key role of the Head of Internal Audit, Anti-Fraud and Assurance and the Internal Audit Manager is to constantly review this balance.

4.   List of Appendices

Appendix 1 -   Public Sector Internal Audit Standards - Extract
Appendix 2 -   Updated QAIP Action Plan

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PUBLIC SECTOR INTERNAL AUDIT STANDARDS - EXTRACT

1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement programme.

1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 Internal Assessments

Internal assessments must include:

Ongoing monitoring of the performance of the internal audit activity.

Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Code of Ethics* and the *Standards.*

Periodic assessments are conducted to evaluate conformance with the *Code of Ethics* and the *Standards.*

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

The form of external assessments.

The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the *Code of Ethics* and the *Standards*; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can

be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, e.g. the accounting/accountable officer or chair of the audit committee as well as with the external assessor or assessment team.

1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board. Disclosure should include:

The scope and frequency of both the internal and external assessments.

The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.

Conclusions of assessors.

Corrective action plans.

Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement programme.

Interpretation:

The internal audit activity conforms with the *Code of Ethics* and the *Standards* when it achieves the outcomes described therein. The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 Disclosure of Non-conformance

When non-conformance with the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

Public sector requirement

Such non-conformances must be highlighted by the chief audit executive to be considered for inclusion in the governance statement.

Action Plan

	Continuous Improvement Area	EQA Rationale / Action	Priority	Lead Officer	Timescale	Current Status
1	Data Analytics	"The Council is developing its own data analytics processes, but it is likely to be some time before this is fully functional and as such the Head of Audit, Anti-fraud and Risk should consider obtaining a suitable application as an interim measure. There are a number of applications on the market that can be considered. BIAS is aware of the benefits achievable from developing their data analytics capability and have already explored the development of Power BI. However, until this is developed, suggest exploring the functionality available in the specialist applications on the market."	Advisory	HoIA	31st March 2024	Partially Completed – Explored specialist applications on the market and researched via CIPFA, IIA and similar IA services. Concluded the best option is Excel (most IA Services contacted are utilsing this option). The use of Data Analytics forms part of the Service's Transformation Review plan. A Principal Auditor is leading a small working group to develop and implement by 31st March 2024.
2	Dissemination of Information	"Once the review of the internal audit pages on the Council's intranet is complete, the Service should consider using the intranet as a means of disseminating briefings to officers on topics such as good practice found during audits that could be adopted by other units in the organisation, or emerging risks that may have a wider impact on services that are peripheral to the services likely to be effected by the risk."	Advisory	HoIA	31st March 2024	Partially Completed – the Intranet has been updated in terms of the IA purpose, contact details and links to key documents etc. Further development of communications / dashboards etc forms part of the Service's Transformation Review plan. A Task & Finish Group has been established to develop the approach and templates ready to launch by 31st March 2024. .