



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
31 st July 2020	
1:30am	<u>Public</u>

ANNUAL REVIEW OF INTERNAL AUDIT: QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

Responsible Officer James Walton
e-mail: james.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

- 1.1 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.
- 1.2 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.
- 1.3 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. Recommendations

- 2.1 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 full compliance where appropriate.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 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 public sector internal auditing standards (PSIAS) or guidance.
- 3.2 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.
- 3.3 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 sufficient knowledge of internal audit practices.
- 3.4 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.
- 3.5 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 Audit and discussed with the Section 151 Officer before the results and improvement plan are reported to Audit Committee.

- 3.6 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.

4. Financial Implications

- 4.1 The Internal Audit service is provided within approved budgets. There may be a small cost to enable an external assessment of Internal Audit's conformance with the PSIAS in compliance with Standard 1312 (external inspection) to be conducted. 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.
- 4.2 The provision of an effective Internal Audit can help deliver key messages to the Council on its systems of internal control, governance and risk management in the most efficient and economical way.

5. Climate Change Appraisal

- 5.1 Energy and Fuel Consumption – This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.
- 5.2 Renewable Energy Generation – This report does not directly make decisions on renewable energy generation. Therefore, no effect.
- 5.3 Carbon offsetting or mitigation – This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.
- 5.4 Climate Change Adaption – This report does not directly make decisions on climate change adaption. Therefore, no effect.

6. Background

- 6.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory for all principal local authorities and were 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.
- 6.2 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.
- 6.3 In April 2019, CIPFA updated the Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards. Internal Audit is reviewed using this guidance for compliance with the Standards, the results of which are summarised in **Appendix A**.
- 6.4 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 Director of Finance, Governance and Assurance (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.
- 6.5 In complying with the PSIAS, Shropshire Council can provide assurances to Internal Audit's external customers of the teams' professionalism, quality and effectiveness.
- 6.6 Appendix A provides an update against the previously approved improvement plan. Most standards are complied with totally. Where there are areas of non-compliance 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.

Areas of potential non-conformance

- 6.7 There is no change to the areas of potential conflict from previous years, the details of which are repeated here:
- 6.8 **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 felt important that 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.

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.

- 6.9 **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 approving the CAE's remuneration specifically. 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 subject to audit. In the UK public sector, CIPFA advise that this can be achieved by ensuring that the Chief Executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews 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 Section 151 Officer also seeks, as he deems appropriate, opinions from the Chairs of externally serviced Audit Committees and their key officers on the Head of Audit's performance for use in her appraisal.

6.10 *The above are not considered significant variations in respect of the principles of the PSIAS to require specific mention in the Annual Governance statement.*

6.11 In addition to the internal assessment, an external assessment was conducted on and reported by CIPFA in February 2017. The opinion of CIPFA was that Shropshire Council Audit Services, 'generally conforms to the requirements of the Public Sector Internal Audit Standards and to the requirements of the Local Government Application Note'. All recommended improvements agreed following the external assessment, which were of a minor nature, were adopted within the agreed timeframes. An external assessment will next be due in 2021/22.

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 2019/20 and supporting evidence
- Internal Audit Quality Assurance Improvement Programme – External assessment report, Audit Committee, February 2017.

Cabinet Member (Portfolio Holder)

Peter Nutting, Leader of the Council and Peter M Adams, Chairman of Audit Committee

Local Member N/A

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

Public Sector Internal Audit Standards July 2020 conformance assessment and improvement plan

Standard	Conformance	Observations and actions proposed
Mission of Internal Audit	Yes	
Definition of Internal Auditing	Yes	
Core Principles for the Professional Practice of Internal Auditing	Yes	
Code of Ethics	Yes	
Integrity	Yes	4.1 Plan ongoing compliance updates with PSIAS at team meetings. <i>Quarterly</i> <i>Head of Audit</i>
Objectivity	Partially	See paragraph 5.8 in report.
Confidentiality	Yes	4.3 Ensure all filing conforms with retention guidelines <i>Ongoing</i> <i>Seniors</i>
Competency	Yes	4.4 Dates for appraisals set and delivered. <i>November 2020</i> <i>Seniors</i>
Attribute Standards		
1000 Purpose, Authority and Responsibility	Yes	
1100 Independence and Objectivity	Yes	
1110 Organisational Independence	Partially	See paragraph 5.9 in report.
1111 Direct Interaction with the Board	Yes	
1120 Individual Objectivity	Yes	
1130 Impairment to Independence or Objectivity	Yes	
1200 Proficiency and Due Professional Care	Yes	

Standard	Conformance	Observations and actions proposed
1210 Proficiency	Yes	5.3.8 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. <i>March 2021</i> <i>Principal IT Auditor</i> 5.3.9 Continue to embed the data analytics approach to appropriate audits. <i>March 2021</i> <i>Seniors</i>
1220 Due Professional Care	Yes	
1230 Continuing Professional Development	Yes	
1300 Quality Assurance and Improvement Programme	Yes	5.4.1.1 Ongoing review of the Audit manual and the quality review processes to ensure complete compliance with the standards and suitable guidance for staff. <i>March 2021</i> <i>Head of Audit and Seniors</i> 5.4.1.2 Complete this assessment and continue to report to Audit Committee annually along with a high-level improvement programme. <i>July 2021</i> <i>Head of Audit and Seniors</i>
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	

Standard	Conformance	Observations and actions proposed
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	Yes	
1322 Disclosure of Non-conformance	Yes	
Performance Standards		
2000 Managing the Internal Audit Activity	Yes	
2010 Planning	Yes	
2020 Communication and Approval	Yes	
2030 Resource Management	Yes	
2040 Policies and Procedures	Yes	
2050 Coordination	Yes	
2060 Reporting to Senior Management and the Board	Yes	6.1.30 Continue to ensure senior managers are informed of changes in the internal control environment. <i>Quarterly throughout 2020/21</i> <i>Head of Audit</i>
2070 External Service Provider and Organisational Responsibility for Internal Auditing	Yes	
2100 Nature of Work	Yes	
2110 Governance	Yes	
2120 Risk Management	Yes	
2130 Control	Yes	
2200 Engagement Planning	Yes	
2210 Engagement Objectives	Yes	
2220 Engagement Scope	Yes	
2230 Engagement Resource Allocation	Yes	
2240 Engagement Work Programme	Yes	
2300 Performing the Engagement	Yes	

Standard	Conformance	Observations and actions proposed
2310 Identifying Information	Yes	
2320 Analysis and Evaluation	Yes	
2330 Documenting Information	Yes	
2340 Engagement Supervision	Yes	
2400 Communicating Results	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 Standards for the Professional Practice of Internal Auditing'	Yes	
2431 Engagement Disclosure of Non-conformance	Yes	
2440 Disseminating Results	Yes	
2450 Overall Opinion	Yes	
2500 Monitoring Progress	Yes	
2600 Communicating the Acceptance of Risks	Yes	