

Committee Name and Date of Committee Meeting

Audit Committee – 15th March 2022.

Report Title

Internal Audit Quality Assurance and Improvement Programme (QAIP) and review against Public Sector Internal Audit Standards (PSIAS).

Is this a Key Decision and has it been included on the Forward Plan?

No.

Strategic Director Approving Submission of the Report

Judith Badger, Strategic Director, Finance and Customer Services.

Report Author

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Ward(s) Affected

Borough-Wide.

Report Summary

Internal Audit is a major source of assurance to the Council on the framework of control, risk management and governance. All Internal Audit departments in Local Government must comply with PSIAS. The standards include the need for a QAIP to provide continual improvement, based on ongoing quality assurance and an annual self-assessment, with an external assessment at least every five years.

An external assessment was completed in November 2020 which showed general conformance with those standards and was presented to the Audit Committee in January 2021. The QAIP was updated to address the areas where further improvement could be made, based on the suggested actions to consider in the report.

The Improvement Programme has continued to be implemented since then. The latest annual self-assessment has now been completed, still showing general conformance with the standards. However, there are still actions that can be taken to maintain and improve performance. This paper shows the status of actions in last year's QAIP and the actions to be taken over the coming year.

Recommendations

The Audit Committee is asked to note the production and ongoing implementation of the QAIP based on the internal self-assessment reported to this committee.

List of Appendices Included

Appendix A Quality Assurance and Improvement Plan

Background Papers

Public Sector Internal Audit Standards.
Accounts and Audit (England) Regulations 2015.
Audit Committee Paper March 2021.

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No.

Council Approval Required

No.

Exempt from the Press and Public

No.

Internal Audit Quality Assurance and Improvement Programme.

1. Background

- 1.1 Internal Audit is required to operate in accordance with the Public Sector Internal Audit Standards (PSIAS). Those standards require the existence of a Quality Assurance and Improvement Plan.
- 1.2 The QAIP requires ongoing and periodic reviews of quality within Internal Audit. The periodic reviews normally comprise annual self-assessments, but external verification of that assessment must be obtained at least every five years. An external assessment was completed in November 2020 and the results reported to the Audit Committee in March 2021. Where suggestions for improvement were made actions were generated which in total comprised the Improvement Action Plan for 2021, together with four actions carried forward from the previous year.
- 1.3 A further self-assessment has now been completed, using a checklist developed by the Chartered Institute of Public Finance and Accountancy. This covered all standards and included evaluating the ongoing procedures and progress against the Improvement Plan.

2. Key Issues

- 2.1 RMBC Audit were found to conform overall with PSIAS, with conformance with all standards, the Code of Ethics, Core Principles, Definition and Mission Statement. All individual tests showed conformance except for one relating to the use of computer aided audit techniques. Nine of the eleven actions from the external assessment had been implemented, along with three of the four actions from the previous year.
- 2.2 The current QAIP and the position against the 2021 Improvement Plan is given in Appendix A. The outstanding actions relate to the use of Computer Aided Audit Techniques and the development of further performance targets within the team. They will be completed in 2022/23. They do not affect the standard of work carried out by the team.
- 2.3 The Action Plan will continue to be implemented during 2022.

3. Options considered and recommended proposal

- 3.1 There is no discretion on whether to comply with the PSIAS. The purpose of the report is to inform the Audit Committee of the QAIP that has been put in place and is being implemented.

4. Consultation on Proposal

- 4.1 None.

5. Timetable and Accountability for Implementing this Decision

- 5.1 The Audit Committee is asked to receive this report at its 15th March 2022 meeting.

6. Financial and Procurement Advice and Implications

- 6.1 There are no direct financial or procurement implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Finance and Customer Services Directorate.

7. Legal Advice and Implications

- 7.1 The provision of Internal Audit is a statutory requirement for all local authorities that is set out in the Accounts and Audit (England) Regulations 2015. These state:

“each principal authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

- 7.2 Internal Audit also has a role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are:

“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”

8. Human Resources Advice and Implications

- 8.1 There are no direct Human Resources implications arising from this report.

9. Implications for Children and Young People and Vulnerable Adults

- 9.1 There are no direct implications for Children and Young People.

10. Equalities and Human Rights Advice and Implications

- 10.1 There are no direct Equalities and Human Rights Implications arising from this report.

11. Implications for CO2 Emissions and Climate Change

- 11.1 There are no direct CO2 and Climate Change implications arising from this report.

12. Implications for Partners

- 12.1 Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives, including those set out in the Council Plan.

13. Risks and Mitigation

- 13.1 The following risk has been identified.

Risk	Impact	Likelihood	Mitigation
Failure to meet the requirements of the standards set down in the UK Public Sector Internal Audit Standards (PSIAS).	Low	Low	External and internal assessment show general conformance with PSIAS. Maintain quality assurance and produce and implement improvement plan.

14. Accountable Officer

David Webster, Head of Internal Audit.

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Rotherham Metropolitan Borough Council

Internal Audit Quality Assurance and Improvement Plan 2022

1 Introduction and Background

- 1.1 The professional responsibilities for Internal Auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Chartered Institute of Internal Auditors (CIIA) in the UK and Ireland. Public Sector Internal Audit Standards (PSIAS) are based on the international standards.
- 1.2 The Standards require the Head of Internal Audit to develop a Quality Assurance and Improvement Programme (QAIP), designed to enable an evaluation of Internal Audit's conformance with the Standards. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 1.3 The QAIP must include both internal and external assessments.
- 1.4 Internal assessments must include:
 - Ongoing monitoring of the performance of the Internal Audit activity. This is an integral part of the day-to-day supervision, review and measurement of internal audit. Ongoing monitoring is incorporated into the routine policies and practices used to manage internal audit and uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, Code of Ethics and Standards; and
 - Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices, to evaluate conformance.
- 1.5 External assessments must be completed at least every five years by a qualified, independent assessor or assessment team from outside the organisation and may be either a full external assessment or a self-assessment with independent validation.
- 1.6 Within RMBC the Head of Internal Audit is responsible for the QAIP, which covers all types of Internal Audit activities. Under the QAIP, quality should be assessed at both an individual audit assignment level as well as at a broader level covering the entire internal audit department.
- 1.7 All staff within Internal Audit have responsibility for maintaining quality. The activities outlined in this QAIP involve all staff.
- 1.8 Internal Audit's QAIP is designed to provide reasonable assurance to the various stakeholders of RMBC that it:
 - Performs its work in accordance with its Charter, which is consistent with the PSIAS
 - Operates in an efficient and effective manner
 - Is adding value and continually improving its operations

2 External Assessment

- 2.1 At least once every five years, internal audit working practices are subject to external assessment to ensure the continued application of professional standards. This process appraises and expresses an opinion about conformance with PSIAS and includes recommendations for improvement, as appropriate. The assessment is conducted by an independent and suitably qualified person or organisation and the results are reported to the Head of Internal Audit.
- 2.2 Results of external assessments are reported to the Audit Committee at the earliest opportunity following receipt of the report. The report must be accompanied by an action plan in response to significant findings and recommendations contained in the report. Any specific areas identified as requiring further development and/or improvement must be included in an action plan.
- 2.3 At the end of 2020 an external assessment of Internal Audit was completed by the Head of Internal Audit of Calderdale Council. The results showed General Conformance with PSIAS and were reported to the Audit Committee in January 2021. Eleven suggested actions for consideration were made to further develop the service. These actions plus four carried forward from the previous year became the QAIP for 2021.

3 Internal Assessment

Internal Assessment is made up of both ongoing and periodic reviews

- 3.1 Ongoing quality assurance arrangements
 - 3.1.1 RMBC Internal Audit maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with PSIAS. They include:
 - 3.1.2 At assignment level
 - The maintenance of a detailed audit procedures manual and quality management system to ensure compliance with applicable planning, fieldwork and reporting standards
 - The objectives, scope and expected timescales for each audit assignment are subject to agreement with the client before detailed work commences
 - The results of all audit testing documented using standard working papers
 - Documented review of file and working papers by a Principal Auditor to ensure that:
 - All work undertaken complies with the requirements of professional best practice and appropriate audit techniques have been used;
 - Audit files are complete and properly structured;
 - The objectives of the audit have been achieved;
 - Appropriate levels of testing have been carried out;
 - The findings and conclusions are sound and are demonstrably supported by relevant, reliable and sufficient audit evidence

- The audit report is complete, accurate, objective, clear, concise, constructive and timely
- Supervision of audit assignments
- Regular monitoring of progress of audit assignments
- Draft reports and recommendations are reviewed and approved by the Head of Internal Audit.
- Client View Questionnaires are issued with each draft report to obtain feedback on the performance of the auditor and on how the audit was received.

3.1.3 At Internal Audit department level

- The Internal Audit annual plan is produced using a risk-based approach
- The audit procedures manual provides a detailed description of the work of the department and the way in which the work should be carried out. This is a point of reference for staff and guides them through the relevant procedures followed within the department
- The Internal Audit Charter provides stakeholders with a formally defined purpose, authority and responsibility for Internal Audit
- Continuous development of the internal audit team to ensure it possesses the necessary capacity, skills and knowledge to successfully deliver the annual audit plan including
 - Job descriptions for each post
 - Annual performance appraisals, to include assessment against audit competencies
 - Individual development plans based on the results of the appraisals
 - Training plans and qualifications for individuals within the team
- Performance against agreed quality targets reported to the Audit Committee at each meeting

3.1.4 Integrated Audit Software

The department uses integrated audit software supplied by Pentana (previously Morgan Kai). This enhances and enforces quality assurance at both assignment and departmental level.

3.1.5 Reporting to the Audit Committee

At each meeting Internal Audit provides the Audit Committee with a Progress Report summarising the audit activity undertaken since the previous meeting. This includes the following:

- Progress against the annual plan
- A list of reports issued during the period including details of the assurance opinion provided and an outline of the major findings
- Details of investigations completed
- Outstanding audit recommendations
- Performance Indicators for the department

3.2 Periodic Reviews

- 3.2.1 Periodic reviews are completed by an annual self-assessment of conformance with PSIAS completed by the Head of Internal Audit. A checklist developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) is used.
- 3.2.2 The results of the self-assessment are used to identify any areas requiring development or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan.
- 3.2.3 Results are also used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the Audit Committee.
- 3.2.4 Another self-assessment has now taken place which included an evaluation of progress against the previous actions, using the CIPFA checklist. The results are shown below. Where an action has been identified against a standard the whole of that standard and the current actions are shown to give context, even if the new suggested action only relates to part of the standard.
- 3.2.6 The actions will be progressed throughout the year and the results reported back to the committee.

Quality Assurance and Improvement Plan – 2021 and 2022

Actions from assessment November 2020

Ref	Observations	Actions to Consider	Management Response/Action	Current Position
1200	<p>Standards require that engagements are performed with proficiency and due professional care having regards to skills and qualifications.</p> <p>The self-assessment identified that there is a short-fall in IT audit knowledge and the use of computer assisted audit techniques (CAATs), although actions have been identified to manage this, such as buying a service from Salford Internal Audit. No reference is made to these arrangements in the Audit Manual or Internal Audit Charter.</p>	<p>Arrangements for IT audits and CAATs should be appropriately documented in the Audit Manual and Internal Audit Charter.</p> <p>Action should continue to be taken to address this gap in knowledge to ensure audits are performed in compliance with required standards</p>	<p>Agreed.</p> <p>Salford Internal Audit Services have produced an Audit Needs Assessment. This will be incorporated into the Audit Plan for 2021/22.</p> <p>The use of Computer Aided Audit Techniques is being explored and they will be used during 2021/22.</p> <p>The Audit Manual and Charter will be updated to reflect this.</p>	<p>Partially Completed.</p> <p>IT audits completed by Salford IAS.</p> <p>Audit Manual and Charter updated to reflect that.</p> <p>CAATs being introduced.</p>
1200	<p>Verbal assurance was provided as part of the review that all auditors take part in PDR's. Although from discussion it was clear that the majority of auditors have undertaken regular training and development some auditors could not recall any recent training or development opportunities.</p>	<p>Reviews should be undertaken of all auditors PDRs to ensure that all have participated in a programme of continuing professional development in order to ensure that standards continue to be met.</p>	<p>Agreed.</p> <p>Professional Standards will be included in the next round of PDRs, due in May 2021.</p>	<p>Completed.</p> <p>Professional Standards included in PDRs.</p>
1300	<p>Standards require that internal assessments are required in the form of ongoing monitoring and reporting on</p>	<p>In order to provided Members of the Audit Committee with further assurance as to the</p>	<p>Agreed.</p> <p>Further information from the Post Audit Questionnaires will</p>	<p>Completed.</p> <p>Questionnaires reviewed and updated.</p>

Ref	Observations	Actions to Consider	Management Response/Action	Current Position
	<p>the performance of internal audit activity against set performance targets. It is noted that the following performance targets are reported to the Audit Committee:</p> <ul style="list-style-type: none"> a) draft reports issued within 15 working days of field work being completed; b) Chargeable time/available time; c) Audit completed within planned time; d) Client satisfaction survey. <p>From discussion as part of the assessment and a review of the Audit Manual it was established that other qualitative monitoring processes are included within Pentana and questions asked on the client post assurance questionnaire, but they are not reported to Audit Committee.</p> <p>Standards require the quality of communications to be generally accurate, objective, clear, concise, constructive, complete and timely. Although no issues were identified as part of the external review and it was noted that client post audit questionnaires consider some of these quality issues, they do not consider them all, nor are they communicated to</p>	<p>effectiveness of the Internal Audit activity consideration should be given to extending the reporting of performance targets from the information contained within the Pentana and client post audit questionnaires.</p> <p>In order to demonstrate the quality of communications, consideration should be given to reviewing the questions on the client post audit questionnaires and communicating the full results to the Audit Committee.</p>	<p>be provided to the Committee.</p> <p>The questions will be reviewed to ensure they provide sufficient information.</p>	<p>Improved reporting to Audit Committee.</p>

Ref	Observations	Actions to Consider	Management Response/Action	Current Position
	the Audit Committee. Although a judgement has been made as part of the external assessment, that on the whole the Core Principle 'Demonstrates quality and continuous improvement' has been met, consideration should be given to enhancing the communication of quality standards.			
	As part of discussions with auditors and principal auditors it was established that they were unsure whether post audit questionnaires were being sent to clients and they were not being made aware of the results if they were. It is noted however, that this requirement is included within the Audit Manual.	Once revised, auditors should be reminded of the process for post audit questionnaires. In addition, as part of continuous improvement the results of questionnaires should be reviewed and communicated to auditors as appropriate.	Agreed.	Completed.
1300	As part of the external review progress reports presented to each meeting of the Audit Committee were reviewed. It was noted that a number of audits showed the status 'WIP' (work in progress) for several meetings. From discussion with the Head of Internal Audit it was identified that there would be reasons for this, although the potential for "drift" is currently not being monitored.	In order to ensure efficiency, and that reports are reported in a timely manner, consideration should be given to introducing targets and monitoring the manage the risk of "drift" i.e. starting audits and not completing them in a timely manner.	Agreed. Targets for the timely completion of audits will be introduced.	To be completed in 2022/23.

Ref	Observations	Actions to Consider	Management Response/Action	Current Position
2000	<p>The self-assessment identified that reliance has not been placed on other sources of assurance and that work on assurance mapping had commenced but was not complete. It is noted however, that some consideration is given to this as part of scoping individual audits.</p>	<p>In order to make best use of Internal Audit resources action should be taken to ensure reliance is placed on other sources of assurance where available.</p>	<p>Agreed.</p> <p>A Research Document was introduced after the self-assessment, to be used prior to scoping audits. This will be further developed to ensure reliance can be placed on other sources of assurance where possible.</p>	<p>Completed.</p> <p>Research Document developed. Reliance placed on other sources of assurance where applicable.</p>
2300	<p>Standards require that auditors should remain alert to the possibility of the following when performing their individual audits:</p> <ul style="list-style-type: none"> • Intentional wrongdoing; • Errors and emissions; • Poor value for money; • Failure to comply with management policy; • Conflicts of interest. <p>As part of the self-assessment it was confirmed that this requirement is being met through training, experience and audit methodology. Although this is acknowledged and no impairment was observed as part of the external review through discussion with auditors, and reviews of individual audit reports, the standard requires that this is documented.</p>	<p>Consideration should be given to documenting the requirement to be alert to the potential issues as part of all engagements. Although not exhaustive this could be achieved in a number of ways such as reference in the Audit Manual, part of annual declarations or a regular documented training or items at teams meetings for all auditors.</p>	<p>Agreed.</p> <p>This will be referenced in the Audit Manual and included in team meetings.</p>	<p>Completed.</p> <p>Manual updated.</p>

Ref	Observations	Actions to Consider	Management Response/Action	Current Position
2400	<p>Standards require that internal auditors must communicate the results of engagements. The standards state that internal Auditors may report that engagements are “conducted in conformance with the PSIAS” only if the results of the QAIP support such a statement.</p> <p>It was noted as part of the external assessment that this is not included in the current report format. The reason given for this as part of the self-assessment was that this is not used as the last external assessment did not have that result.</p>	<p>Given the outcome of this external review, consideration should be given to including within the standard report format that engagements are conducted in conformance with PSIAS.</p>	<p>Agreed.</p> <p>This will be added to all reports.</p>	<p>Completed.</p> <p>Added to all Audit scopes and reports.</p>
2400	<p>As required by the standards it was identified from the external assessment that an overall annual audit opinion was provided which was supported by work undertaken by internal audit. However, as part of discussions and a review of the report it was identified that this could be improved by providing a high-level summary showing the overall picture for the year.</p>	<p>Consideration should be given to providing a high-level summary of the position for the year as part of the annual opinion.</p>	<p>Agreed.</p> <p>A high-level summary will be included in the Internal Audit Annual Report.</p>	<p>Completed.</p> <p>Annual Report for 2020/21 included a high-level summary for the year.</p>
2400	<p>In local government, internal auditors operate in the public domain. There will be a variety of external interests in their work, including the organisation’s</p>	<p>In order to improve transparency and reporting to all stakeholders, consideration should be given to all Internal Audit Progress Reports being reported in public.</p>	<p>Agreed.</p> <p>Internal Audit Progress Reports will be included in the public sessions of the Audit</p>	<p>Completed.</p> <p>Internal Audit Progress Reports included in public session of Audit Committee.</p>

Ref	Observations	Actions to Consider	Management Response/Action	Current Position
	<p>partners in the voluntary sector and other parts of the public sector, the general public, and 'armchair auditors' and other stakeholders who the government expects to scrutinise local authority activities. The Freedom of Information Act 2000, or equivalent, obliges internal auditors to manage their activities in the expectation that their work will become public knowledge and could be scrutinised by anyone with an interest in doing so.</p> <p>It is noted however, that Internal Audit Progress Reports are presented to Audit Committee in private. Although reasons were given as to why this decision was made, such confidentiality on sensitive issues with fraud investigations for example, it is considered that on the whole Internal Audit Progress Reports to the Audit Committee should be presented in public.</p>		Committee, with any confidential information being included in the private session.	
2500	Standards require that a process should be in place to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action and that a revised opinion should be considered.	The Audit Manual should be reviewed to ensure that the process for following up on recommendations and follow-up audits is clear. Consideration should be given to reviewing the opportunities within the Pentana system to automate the process	<p>Agreed.</p> <p>The process for tracking and following up audit actions and completing follow-up audits will be reviewed and made clearer and communicated to all auditors.</p>	<p>Completed.</p> <p>Manual updated and audit team briefed.</p>

Ref	Observations	Actions to Consider	Management Response/Action	Current Position
	<p>It was noted as part of the review that recent action had been taken to address the issue of recommendations not being implemented and that this is being tracked by Pentana.</p> <p>As part of the review it was established that such a process is in place and that it is documented as part of the Audit Manual. It was found however through discussion with auditors that they were not clear when a follow-up audit should be done as they stated that it was determined by the Head of Internal Audit. It was noted that there were many follow-up audits on the Audit Plan but auditors were not always clear why the follow-up audit was required. It was also established that a different approach was being taken by different auditors when accepting that audit recommendations had been implemented, with some asking that evidence be provided, and others accepting the response from management.</p>	<p>for not only following up on recommendations but also for follow-up audits.</p> <p>Once reviewed the documented procedure should be communicated to all auditors as a reminder of the process.</p>		

Actions from assessment February 2020

Ref	Standard	Assessment	Planned Action	Current Position
1210	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	CAAT's not used.	CAATs to be introduced	CAATs being introduced.
1310	<p>Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?</p> <ul style="list-style-type: none"> ■ Is there a set of comprehensive targets which between them encompass all significant internal audit activities? ■ Are the performance targets developed in consultation with appropriate parties and included in any service level agreement? ■ Does the CAE measure, monitor and report on progress against these targets? <p>Does ongoing performance monitoring include obtaining stakeholder feedback?</p>	<p>Targets in place for time taken to produce reports, productive time, client satisfaction surveys, time taken to complete audits. Agreed with AC and SD and included in Service Plan. Monitored and reported to AC.</p>	<p>Stakeholder feedback on performance to be obtained.</p>	<p>Completed.</p> <p>Client questionnaires updated to obtain feedback from managers.</p>

Ref	Standard	Assessment	Planned Action	Current Position
2110	<p>Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes for:</p> <ul style="list-style-type: none"> ■ Making strategic and operational decisions? ■ Overseeing risk management and control? ■ Promoting appropriate ethics and values within the organisation? ■ Ensuring effective organisational performance management and accountability? ■ Communicating risk and control information to appropriate areas of the organisation? <p>Coordinating the activities of and communicating information among the board, external and internal auditors and management?</p>	<p>Governance processes included in all audits. Review of sub-scheme of delegation completed in the year.</p> <p>Risk Management included in all audits, and specific review in 2019.</p> <p>IA produces and administers the Anti-Fraud and Corruption Strategy and Policy. The HIA is one of the whistleblowing officers,</p> <p>Performance management included in audits, specific review in 2019.</p> <p>Communication not reviewed.</p>	<p>Audit plan to include review of Risk Management</p>	<p>Completed.</p> <p>Risk Management review completed for 2020/21, planned for 2021/22.</p>
2410	<p>When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?</p>	<p>Academies only, for use within the Academy.</p>	<p>Report to include standard paragraph</p>	<p>Completed.</p> <p>Standard paragraph used in all Academy reports.</p>