

Committee Name and Date of Committee Meeting

Audit Committee – 14th March 2023.

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 March 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, in line with the concept of continual improvement, there are always 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 identified as being relevant for 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 was completed in 2022 and has been repeated in 2023, 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 position against the 2022 Improvement Plan and the current plan are given in Appendix A. The actions are to enhance performance and guard against a loss of capability and capacity if staff members leave. They do not affect the standard of work carried out by the team.
- 2.3 The Action Plan will continue to be implemented during 2023/24.

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 14th March 2023 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 assessments show general conformance with PSIAS. Maintain quality assurance and produce and implement continuous 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 2023

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 are documented using standard working papers
 - Documented reviews of files 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 Pentana integrated audit software supplied by Ideagen (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 - Actions from 2022

Ref	Observations	Actions to Consider	Management Response/Action	Timescale	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>The Audit Manual and Charter have been updated to include the use of Salford Internal Audit..</p> <p>The use of Computer Aided Audit Techniques is being explored and they will be used during 2022/23.</p>	2022/23	<p>Completed.</p> <p>IT audits completed by Salford IAS.</p> <p>Audit Manual and Charter updated to reflect that.</p> <p>CAATs introduced.</p>
1300	<p>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.</p>	<p>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.</p>	<p>Agreed.</p> <p>Targets for the timely completion of audits will be introduced.</p>	2022/23	Partially completed.

Quality Assurance and Improvement Plan 2023 – New Actions from 2023

Ref	Standard	Assessment	Planned Action	Timescale
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?	Data analytics software purchased during 2022. Usage needs development.	Considered for all audits. Arrangement with Doncaster IA to provide informal assistance.	2023/24
1230	Has the CAE defined the skills and competencies for each level of auditor? Does the CAE periodically assess each individual against the predetermined skills and competencies?	Skills assessment not completed formally.	Complete skills and competency assessments as part of the PDR process.	2023/24
2030	Does the risk-based plan explain how internal audit's resource requirements have been assessed?	Included in the plan. Potential issue of loss of skills and knowledge from the team as people near retirement.	Succession planning, training and development, recruitment.	2023/24
2050	Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources? The CAE should generally share information and coordinate activities with other internal and external providers of assurance and consulting services. They may also carry out an assurance mapping exercise or make use of assurance mapping carried out by other assurance providers.	Reliance not placed upon other sources of assurance. Assurance mapping exercise not completed.	Review the need for assurance mapping, to improve audit planning.	2023/24

