

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	26 June 2014
Title:	Effectiveness of the system of Internal Audit
Reference:	5903
Report From:	Director of Corporate Resources – Corporate Services

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1. Executive Summary

1.1. Under the Accounts and Audit (England) Regulations 2011 the County Council is required, at least once a year, *'to conduct a review of the effectiveness of its internal audit'*. The purpose of this paper is to provide the Audit Committee with an overview of the measures currently in place to monitor and maintain internal audit effectiveness, taking cognisance of the Public Sector Internal Audit Standards and the Local Government Application Note.

2. Contextual information

2.1. The Accounts and Audit (England) Regulations 2011 - S6 states:

'(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

'(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.'

2.2. With effect 1 April 2013 the 'Public Sector Internal Audit Standards' and the 'Local Government Application Note' together are regarded as *'proper practices'*.

2.3. There is no prescriptive guidance to conducting the effectiveness review, however, the Public Sector Internal Audit Standards require the Head of the Southern Internal Audit Partnership (Chief Internal Auditor) to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit service and includes provision for both internal and external assessment.

- 2.4. To ensure effective use of resource, the requirements and subsequent outputs from internal / external assessments required within the Standards have been used to underpin the report on the 'Effectiveness of Internal Audit' as prescribed in the Accounts and Audit (England) Regulations 2011.

3. Quality Assurance and Improvement Programme (QAIP)

- 3.1. The QAIP through its interpretation in the Public Sector Internal Audit Standards is:

'a quality assurance and improvement programme designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and 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'.

- 3.2. The QAIP must make provision for both internal and external assessments of the audit service

4. Internal assessments

- 4.1. Internal assessments must include:

- On-going 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 (sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework).

On-going Monitoring

- 4.2. The Head of the Southern Internal Audit Partnership has established procedures to guide internal audit staff in performing their duties to ensure they conform to the Public Sector Internal Audit Standards. This is demonstrated through the maintenance of key policies and procedures that are regularly reviewed and updated to reflect changes in working practices and standards, underpinned by an audit management software system providing consistency and common principles in the conduct of audit reviews.
- 4.3. In order to ensure that work is carried out to an appropriate level and quality, the Head of the Southern Internal Audit Partnership ensures that audit work is allocated to staff with the appropriate skills, experience and competence.
- 4.4. The Head of the Southern Internal Audit Partnership also ensures that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff.

4.5. The Southern Internal Audit Partnership operates a quality system (ISO 9001:2008) which covers all our audit reviews including irregularity reviews. Compliance against our quality processes are regularly assessed by an external/independent accreditor from the British Standards Institution (BSI)

4.6. On-going performance monitoring also incorporates:

- A set of targets to measure performance, developed in consultation with appropriate parties. Such measures are monitored and regularly reported through quarterly progress reports to 'senior management' and 'the board'.
- Stakeholder feedback in the form of Quality Appraisal Questionnaires; and
- An action plan to implement improvements (QAIP)

4.7. Performance measures as at the end of 2013-14 were:

Performance Measure	2013-14
Revised plan delivered (including 2012/13 c/f)	96%
Positive response to quality appraisal questionnaire	99%
Compliant with Public Sector Internal Audit Standards	Yes

5. Internal Self Assessment 2013-14

5.1. For 2013/14 a self-assessment against the Public Sector Internal Audit Standards has been undertaken.

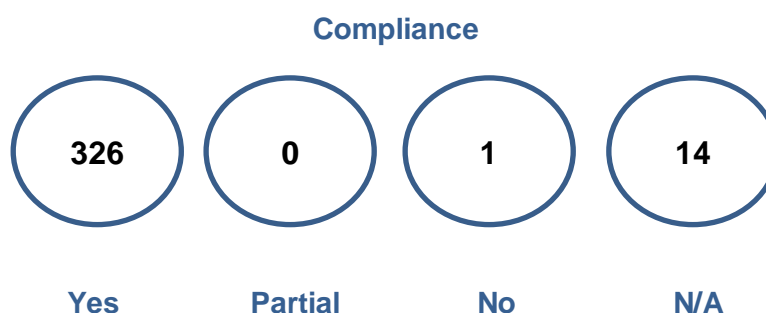
5.2. The 'Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards' provides a checklist that has been developed to enable periodic self-assessment as part of the Quality Assurance and Improvement Programme. It is this checklist that has been used as the basis of the 2013-14 self-assessment review.

5.3. In compiling the self-assessment, the Head of the Southern Internal Audit Partnership undertook an initial evaluation of the audit service against the checklist, and compiled documentary evidence to verify compliance.

5.4. To provide independent scrutiny the Deputy Monitoring Officer then considered the Standards for compliance against the self assessment and supporting documentation, concluding:

'I am satisfied that this is an accurate assessment of the internal audit function'.

5.5. The summary of the self-assessment against the 341 Standards highlights



5.6. In areas where the Southern Internal Audit Partnership do not meet 'the Standards' an action plan has been compiled to explain non-conformance or stimulate improvement.

6. External Assessments

6.1. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation.

6.2. The Head of the Southern Internal Audit Partnership must agree with the sponsor (the S151 or Chair of the Audit Committee):

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

7. Form of External Quality Assessment (EQA)

7.1. External assessment can be in the form of a full external assessment or a self-assessment with external validation.

Full External Assessment

7.2. A full EQA incorporates surveys and interviews with the head of internal audit, internal audit staff, customers and stakeholders. This is supported by examination of the internal audit approach and methodology leading to the completion of an independent report.

Validated self-assessment

7.3. An initial self-assessment is carried out by the Head of Southern Internal Audit Partnership. The external assessment team will review / validate evidence produced and conduct interviews with internal audit staff, senior management and the chair of the audit committee.

- 7.4. A validation report will be appended to the Head of the Southern Internal Audit Partnership's self-assessment.
- 7.5. The fundamental difference between the two approaches is that the Full EQA will independently undertake a significant proportion of the PSIAS / LGAN checklist, whereas with the validated self-assessment the PSIAS / LGAN checklist will be completed by the Head of the Southern Internal Audit Partnership and the assessors will review the compiled evidence. Both approaches will undertake interviews with key stakeholders
- 7.6. The additional time required of the Full EQA would be significantly more than the validated self assessment with little or no additional benefits gained.

8. Qualification and Independence of the External Assessor

- 8.1. A qualified assessor or assessment team must demonstrate competence in two areas:
 - the professional practice of internal auditing; and
 - the external assessment process.
- 8.2. 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.
- 8.3. An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

External Firm

- 8.4. There are a number of organisations capable of providing external assessments for the purposes of the requirements of the Public Sector Internal Audit Standards including Chartered Institute Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA).
- 8.5. Indicative costs and estimated time commitments from the IIA for the validated self assessment are between 6 – 8 working days at a cost of £6,000 - £9,000.
- 8.6. Indicative costs relate purely to an in-house team and do not consider a consortia arrangement such as the Southern Internal Audit Partnership. As such it can be assumed that costs will increase exponentially to reflect the numerous stakeholders across the partnership
- 8.7. Standard setters are currently exploring the option of external audit being a further avenue through which external assessments can be acquired.

Collaborative Assessment Teams

- 8.8. There are a number of internal audit partnerships across the country similar in size and compilation to that of the Southern Internal Audit Partnership. There is potential of external assessment as a peer review between like partnerships working as a minimum in a tri-partite agreement. To maintain independence peer reviews would not be reciprocal.
- 8.9. Whilst this approach does provide savings through the engagement of an external firm, there would remain the opportunity costs in respect of the time that the Head of the Southern Internal Audit Partnership incurs in conducting and reporting on peer reviews requested.

9. Conclusion

- 9.1. Compliance with the Public Sector Internal Audit Standards provides assurance that the internal activity meet with industry best practice and are efficient and effective in their approach.
- 9.2. The external assessment is a fundamental component in providing such assurance. With the Standards in their relative infancy and the diversity of organisations to which the Southern Internal Audit Partnership provide services, it maybe considered beneficial that the initial external assessment be carried out by an independent external firm through a validated self assessment approach.

10. Recommendation(s)

- 10.1. That the Audit Committee:
 - a) Approve the review conducted in assessing the 'Effectiveness of Internal Audit'; and
 - b) Endorse the action plan generated from the assessment against the Public Sector Internal Audit Standards; and
 - c) Approve the approach to selecting an independent external firm to undertake a validated self assessment during 2015-16

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:	
In accordance with the Accounts and Audit Regulations 2011 and proper internal audit practices (Public Sector Internal Audit Standards), to review annually the effectiveness of the system of internal audit	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u> Internal Audit Charter	<u>Reference</u> 4944	<u>Date</u> 27 Jun 2013
Direct links to specific legislation or Government Directives		
<u>Title</u> Accounts and Audit (England) Regulations 2011	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals within this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, however internal audit work is planned to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific changes

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change