

Meeting Date	26 March 2014
Report Title	Internal Audit – External Quality Assessment of Conformance with the Public Sector Internal Audit Standards
Cabinet Member	Cllr Dewar-Whalley – Finance Portfolio
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Brian Parsons – Head of Audit Partnership
Lead Officer	Brian Parsons – Head of Audit Partnership
Key Decision	No
Classification	Open

Recommendation	That the Audit Committee note the outcomes of the External Quality Assessment and the action that will be taken to ensure full conformance with the Public Sector Internal Audit Standards.
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Purpose of Report and Executive Summary

- 1.1 The report sets out the results of the External Quality Assessment of conformance by Internal Audit to the Public Sector Internal Audit Standards and provides the responses from the Head of Audit Partnership to the recommendations made by the assessors.
- 1.2 The report provides assurance to the Committee that Internal Audit is already meeting the vast majority of the Standards and that full conformance can be achieved.

2 Background

- 2.1 The Public Sector Internal Audit Standards (PSIAS) were introduced on 1 April 2013 and set the standard for the way that internal audit is delivered in local government and in the public sector generally.
- 2.2 The basis for the Standards is the Institute of Internal Audit's (IIA's) International Professional Practice Framework which includes the Definition of Internal Auditing, Code of Ethics and International Standards. The Public Sector element adds a further dimension and provides clarification on how the international standards should be applied to the public sector.

- 2.3 The Standards specify that external quality assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 2.4 An external assessment of conformance with the standards covers the same elements of the internal audit function, whether the internal audit service operates in the finance sector, the public sector or within a FTSE top 100 company.
- 2.5 It was proposed that Mid Kent Audit would seek an early assessment and the Audit Committee was consulted accordingly.
- 2.6 An assessment of Mid Kent Audit was commissioned from the Chartered Institute of Internal Auditors (IIA). The assessment was carried out in January 2014.
- 2.7 The assessment was a 'validated self-assessment' based on a checklist completed by Internal Audit management. An evidence file was prepared to support the self assessment.
- 2.8 The team from the CIIA carried out their work on-site and had access to all Internal Audit files and records, which are held within the electronic audit management system, Team Mate. The team also conducted a series of interviews, which included the relevant senior officer from each of the four Councils, a Head of Service who was able to provide a 'client' view as the receiver of internal audit services, two of the four Audit Committee Chairmen, the External Auditor (the Director/Assurance for Grant Thornton) as well as the Head of Audit Partnership and the majority of the audit partnership team.
- 2.9 The assessment process was intensive, while also being very positive and participative. The assessment team was able to provide examples of good practice from elsewhere and to make suggestions for service improvements.
- 2.10 The External Quality Assessment (EQA) of Mid Kent Audit was the first EQA by the Institute of any local authority internal audit service in the country.
- 2.11 The report relating to the assessment was issued on 22 January 2014 and is attached at Appendix 1.
- 2.12 The report is very positive and confirms that Mid Kent Audit conform to 50 of the 56 principles and partially conforms to the remaining 6. There were no 'fails'. This is a considerable achievement in the context of the breadth of the PSIAS and provides a high level of independent assurance to the Committee that the Council receives a very good quality audit service from Mid Kent Audit.
- 2.13 A professional, independent and objective internal audit service is one of the key elements of good governance. Conformance with the Standards provides evidence that Mid Kent Audit matches this criterion. This means that Members, officers and the external auditors can place reliance on the work of Internal Audit

and that Internal Audit is able to make a significant contribution to the governance of the Authority.

- 2.14 There are six recommendations within the EQA report. Responses to the recommendations have been prepared by the incoming Head of Audit Partnership and are shown in the report. The actions will be developed during 2014/15.
- 2.15 It is intended that, on completion of the necessary actions, the IIA assessment team will be invited back to reassess the position and subject to the few partial conformances being addressed, will be able to verify that 'Mid Kent Audit conforms to the IIA's professional standards' and PSIAS. It will then be possible for Internal Audit to make this statement in its reports and promotional literature. This will be particularly helpful if Mid Kent Audit is tasked to seek external clients, as it will be possible to use the assessment to evidence the quality of the audit service.

3 Proposal

- 3.1 The report provides positive assurance of the quality of the Internal Audit provision and a high level of conformance with the professional standards of internal auditing. The Audit Committee is asked to formally note this position and the actions that will be taken to ensure full conformance with the standards.

4 Alternative Options

- 4.1 There are no relevant alternative options.

5 Consultation Undertaken or Proposed

- 5.1 The Audit Committee was consulted prior to the External Quality Assessment being commissioned.
- 5.2 The Director of Corporate Services was invited to give his views as part of the External Quality Assessment.
- 5.3 The Head of Audit Partnership has completed the responses section of the report.

6 Implications

Issue	Implications
Corporate Plan	None identified at this stage
Financial, Resource and Property	The External Quality Assessment cost £7,000. The cost was shared among the four partner Councils and the cost for each was therefore £1,750. The cost has been met from existing budgets.
Legal and Statutory	Internal Audit is a statutory requirement under the Accounts and Audit Regulations 2011. The Public Sector Internal Audit Standards are the 'accepted practices' in the context of the Regulations.
Crime and Disorder	None identified at this stage
Risk Management and Health and Safety	None identified at this stage
Equality and Diversity	None identified at this stage
Sustainability	None identified at this stage

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report
- Appendix I: Chartered Institute of Internal Auditors - External Quality Assessment Report for the Mid-Kent Audit Partnership

8 Background Papers

- 8.1 Report to Audit Committee 18 March 2013 - Public Sector Internal Audit Standards.
- Report to Audit Committee 25 September 2013 – Internal Audit Charter