

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference:

**Date of meeting: 22 November
2021**

Portfolio: Leader of the Council

**Subject: External Quality Assurance of Internal Audit against the Public
Sector Internal Audit Standards**

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Laura Kirman (01992 564243)

Recommendations/Decisions Required:

- (1) The Committee notes that Internal Audit complies with the requirements of the Public Sector Internal Audit Standards; and**
- (2) The Committee notes the actions proposed to enhance the Internal Audit service**

Executive Summary:

The overall conclusion of the report is that Internal Audit fully conforms to the Public Sector Internal Audit Standards (PSIAS) with clients valuing the professional and objective way the service fulfilled their role. Some minor actions have been identified by the external assessor which would enhance service provision, but these do not affect the overall level of compliance with the PSIAS.

Reasons for Proposed Decision:

To present the results of an independent external quality assessment of the Internal Audit shared service against the Public Sector Internal Audit Standards which is required at least every five years.

Other Options for Action:

None as the 2016 Public Sector Internal Audit Standards (PSIAS) makes it a mandatory requirement that an internal audit function is externally assessed at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

Report:

Approach to the External Quality Assessment

1. Following a procurement exercise Gard Consultancy Services was appointed to

undertake the External Quality Assessment (EQA) which took place in July 2021, covered all three councils in the shared service and included the following elements:

2. A self-assessment against the PSIAS requirements was completed by the Chief Internal Auditor followed by a desk top review by the assessor. This included an evaluation of core information as evidence; such as procedural notes, audit charter, audit plans, example audit file and report, and latest annual reports.
3. The assessor met with each of the Chief Internal Auditor's line managers (Section 151 Officers) and Audit Committee Chairmen.
4. A questionnaire was sent to a range of other key stakeholders in advance of the assessment commencing and the results analysed during the review. A summary of the survey results is given in the EQA report.
5. Production and discussion of draft report with the Chief Internal Auditor to highlight matters in relation to the assessment against the PSIAS, which has been shared with the Internal Audit shared service Board prior to being finalised.

Summary of the External Quality Assessment (EQA) Review

6. The overall conclusion from the EQA (appendix 1) is that the Shared Internal Audit Service's self-assessment is accurate and fully conforms to the requirements of the Public Sector Internal Audit Standards and the CIPFA (Chartered Institute of Public Finance and Accountancy) Local Government Application Note.
7. On an annual basis Internal Audit has assessed its own compliance and reported this annually to the Audit Committee confirming it is compliant with the Standards,
8. The introduction of the shared service has benefited the three Councils and receives positive feedback from both Audit Committee Chairmen as well as Executive Management.
9. The recommendations contained within the EQA report have been used to produce an Improvement Action Plan as detailed in the table below. There are no themes coming out of the recommendations and suggested areas for improvement are all minor in nature.

| Area for Improvement | Improvements Required | Agreed action to be taken | Due Date |
|---------------------------------------|--|---|-----------------|
| Internal Audit Charter (low priority) | Cross reference the definitions for senior management and the audit committees in the audit charter to the PSIAS definitions | Expand the wording used in Section 8 of the audit charter. Completed - see Internal Audit Charter review as part of the Internal Audit progress report elsewhere on the agenda | Completed |
| Independence statement (low priority) | Include a statement of impairments to independence in the annual report | The potential issue of impairment is included in the report where the Internal Audit Charter is presented to audit committee for approval. However, going forward it will also be included in the annual report when it goes to the summer 2022 audit committee | 31/07/2022 |

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|---|--|--|------------|
| Conform statement (low priority) | Add 'conforms to the public sector internal audit standards' to audit reports | Recommendation not accepted. This would not add value to individual audit reports. Instead, the conformance statement will continue to be included in the annual Internal Audit strategy and annual report | n/a |
| Use of confirmation statements (advisory) | Introduce confirmation statements for Internal Audit staff to sign on an annual basis to confirm that they have read and understood the Core Principles for the Professional Practices of Internal Auditing, the Code of Ethics for Internal Auditors, and the Seven Principles of Public Life. | The merits of this was considered in conjunction with the Internal Audit team and the Shared Internal Audit Service Board and rejected as being quite bureaucratic especially as the Core Principles and Code of Ethics are long documents to digest. | n/a |
| Data analytics (advisory) | Expand the use of data analytics especially as an effective and efficient way of auditing systems with large volumes of data. | Agreed. Use of data analytics already takes place, however, as there will be a resource implication to expand this, a data analytics strategy and cost/benefit analysis will be presented to the Shared Internal Audit Service Board for their approval. | 31/01/2022 |
| Add a disclaimer and limitations of use statement to audit reports (advisory) | This issue relates to the inclusion of a disclaimer and limitations of use paragraph in each audit report. Whilst the inclusion of such a statement cannot prevent internal audit reports being forwarded to people that management had not approved, or extracts from the report being taken out of context and used by people with an ulterior agenda, they act as a warning and can help facilitate subsequent disciplinary action should the need arise. | Agreed and will be added to all final reports issued after 31 August 2021. | Completed |

Legal and Governance Implications:

An effective Internal Audit function has a pivotal role in providing assurances on the Council's internal control, governance and risk management arrangements. This EQA review helps demonstrate this.

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

The Audit Committee Chairman and the Section 151 Officer from each Council were consulted as part of the EQA process.

Background Papers:

Public Sector Internal Audit Standards (2016)

Risk Management:

Non-compliance with PSIAS could undermine the work of the internal audit function and could lead to scrutiny from external agencies, for example the [Department for Levelling Up, Housing and Communities](#) and External Audit.

Equality Analysis:

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 2 to the report.