

Report to the Audit and Governance Committee



Report reference: **AGC-016-2016/17**
Date of meeting: **06 February 2017**

**Epping Forest
District Council**

Portfolio: **Governance and Development Management**

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

Responsible Officer: **Sarah Marsh** **(01992 564446).**

Democratic Services: **Gary Woodhall** **(01992 564470).**

Recommendations/Decisions Required:

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

Executive Summary:

This report presents the results of an independent external quality assessment of the Internal Audit shared service against the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013. It also details how an action plan will be developed to addresses the recommendations for improvement noted during the review.

The overall conclusion of the report is that Internal Audit complies with the PSIAS and continues to provide an effective and efficient service to each Council (Epping Forest, Harlow and Broxbourne). There are some actions identified by the external assessor which would enhance service provision but these do not affect the overall level of compliance with the PSIAS, but do ensure Internal Audit continues to develop and demonstrate best practice.

Reasons for Proposed Decision:

To demonstrate Internal Audit's compliance with the Public Sector Internal Audit Standards.

Other Options for Action:

None.

Report:

1. Section 1312 (External Assessments) of the 2016 Public Sector Internal Audit Standards (PSIAS), which came into force April 2013, states it is a mandatory requirement under the Standards that an internal audit function is externally assessed at least once every five years by a qualified, independent assessor or assessment team. This assessment is often referred to as an External Quality Assessment (EQA).

2. In line with the Standards the Audit Committee (via the Chairman) and the Chief Internal Auditor):

- discussed the form of the external assessment;
- discussed the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest; and
- agreed the scope of the external assessment (as well as with the external assessor).

3. This report presents the results from that independent assessment which had to be completed by 2017/18 at the very latest. It was agreed with the Audit Chairmen that it would be prudent to bring this forward in order to help shape the future of the shared service prior to Epping Forest joining it formally in April 2017. A single EQA was undertaken covering all three councils, as the same audit methodology and practices are employed across the three.

4. Following a procurement exercise, Gateway Assure was appointed to undertake the EQA. Gateway Assure provide specialist assurance services to a a range of private, public and third sector clients in the UK.

Approach to the External Quality Assessment

5. The EQA took the assessor five days in November 2016 to complete and included the following elements:

- A self-assessment against the PSIAS requirements was completed by the Chief Internal Auditor and then a desk top review by the assessor, including core information as evidence such as procedural notes, audit charter, audit plans, example file and example report, and latest annual reports.
- The assessor met with each of Chief Internal Auditor's direct reports (the Section 151 Officers at Harlow and Broxbourne and the Monitoring Officer at Epping). They also conducted an electronic survey with the Audit Committee Chairmen.
- Visit to all three sites for the file review exercise, and to meet the team, with an exit interview at the end with the Chief Internal Auditor.
- Production and discussion of draft report in Powerpoint format with the Chief Internal Auditor to highlight matters in relation to the assessment against PSIAS, benchmark data regarding comparison with other internal audit provisions and best practice advice as well as ensuring factual accuracy.

6. The review assessed the Internal Audit function against three recognisable standards:

- **Resources** – business vision and mission, governance arrangements, recognition of standards, guidance, procedures and supervision, terms of engagement, ethics and business conduct.
- **Competency** –Charter, Internal Audit manual, planning and allocation of staffing, recruitment (numbers and skills), training (professional and technical), appraisal and development.

- **Delivery** – client engagement and relationships, directed led service, terms of engagement (audit/assignment brief), discussion of assurance and advisory opinions, reporting at assignment and strategic levels.

Summary of the External Quality Assessment (EQA) Review

7. The overall conclusion from the EQA is internal audit provision within the Councils of Broxbourne, Epping Forest and Harlow **complies** with the Public Sector Internal Audit Standards. The full report can be found as Appendix A.

8. Since 2013 Internal Audit has assessed its own compliance and reported this annually to the Audit Committees; being mostly compliant with the Standards with a few minor areas for enhancement.

9. The EQA outcome reported has been benchmarked against other provision in both the sector and the wider industry which shows that the Internal Audit team compares favourably with regard to its peers.

10. The introduction of the shared service has benefited the three Councils and receives positive feedback from both Audit Committee Chairs as well as Executive Management.

11. A key theme featuring throughout the report is the need to develop aspects of the audit process to improve focus on the significant risks facing each Council in the achievement of its objectives. Internal Audit continues to move to an approach that reflects full recognition of risk factors.

12. The recommendations contained within the report are being used to produce an improvement Action Plan which will be presented to the March Audit and Governance Committee to enable time for consultation with the Internal Audit team and each Council to ensure a consistent approach.

Resource Implications:

The cost of the external assessment was a fixed fee and was shared equally by all three councils, met from the Internal Audit budget.

Legal and Governance Implications:

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. 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 Communities and Local Government).

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Audit Chairman and the lead Officer and from each Council were consulted as part of the EQA process.

Background Papers:

Public Sector Internal Audit Standards.

Risk Management:

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.

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 B to the report.