
**REPORT OF THE CHIEF FINANCE OFFICER
AND
HEAD OF INTERNAL AUDIT**

**TO THE AUDIT & ACCOUNTS COMMITTEE
ON WEDNESDAY 23rd SEPTEMBER 2020**

TITLE: Quality Assurance and Improvement Programme

RECOMMENDATIONS:

That Members approve the content of this report and consider comment on and approve the updated Internal Audit Quality Assurance and Improvement programme (Appendix 1).

EXECUTIVE SUMMARY:

Public Sector Internal Audit Standards (PSIAS) require the formal documenting of a Quality Assurance and Improvement Programme (QAIP). This covers all aspects of the internal audit activity and enables compliance with all aspects of the PSIAS to be evaluated.

It allows for the assessment of the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This is through both internal and external assessments. The requirement for an external assessment of the internal audit activity is at least once in every 5 years.

The results of the QAIP must be reported to senior management and the Audit and Accounts Committee on an annual basis. This may be provided within internal audit's annual report and opinion.

The QAIP is designed to provide assurance that internal audit performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). The updated QAIP for Salford City Council is attached as appendix 1 to this report.

BACKGROUND DOCUMENTS:

Public Sector Internal Audit Standards

KEY DECISION: NO

DETAILS: See above

KEY COUNCIL POLICIES: N/A

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS:

If the Council fails to comply with the legislation and regulations, then there are reputational risks as well as financial and legal risks.

ASSESSMENT OF RISK:

The work of internal audit forms a key element of the council's overall system of internal control. An effective internal audit service also helps to promote and implement best practice and process improvements in the management of risks. A key requirement in producing the Annual Governance Statement is to be able to place reliance on the opinion and annual report of the Head of Internal Audit. The Corporate risk register is reviewed to ensure that the internal audit plan reflects the issues raised. A key requirement for the Audit and Accounts Committee in order for the Committee to meet its Terms of Reference is to assess the adequacy of the internal audit service.

LEGAL IMPLICATIONS Supplied by: Melinda Edwards, Principal Solicitor

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs.

The Accounts and Audit Regulations 2015 also require authorities to ensure that they have a sound system of internal control which:

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
-

(c) includes effective arrangements for the management of risk.

A relevant 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.

In that regard, the Public Sector Internal Audit Standards (CIPFA/IIA) require that the chief audit executive develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity.

A quality assurance and improvement programme is 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.

The quality assurance and improvement programme must include both internal and external assessments. Internal assessments must include ongoing 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.

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board the form of external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter.

To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

FINANCIAL IMPLICATIONS Supplied by: Jean Gleave, Head of Audit

Managed through the normal revenue budget, the only additional cost relates to staff training.

PROCUREMENT IMPLICATIONS Supplied by: Christine Flisk, Procurement Manager.

There are no known procurement implications with this report.

HR IMPLICATIONS Supplied by: Catherine Sharples, HR Manager

There are no known HR implications with this report.

CLIMATE CHANGE IMPLICATIONS: Supplied by: N/A

OTHER DIRECTORATES CONSULTED: N/A

CONTACT OFFICER: Jean Gleave TEL NO: 0161 607 6651

WARDS TO WHICH REPORT RELATES: All

INTERNAL AUDIT

QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

**Prepared by: Jean Gleave
Head of Internal Audit**

**Version 6.0
October 2020**

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1. Introduction

- 1.1 Internal audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of internal audit activity that internal audit:
- performs its work in accordance with its Charter, which is consistent with The Public Sector Internal Audit Standards (PSIAS), the PSIAS definition of Internal Auditing and Code of Ethics;
 - operates in an effective and efficient manner; and
 - is perceived by stakeholders as adding value and improving internal audit's operations.
- 1.2 Internal audit's QAIP covers all aspects of the internal audit activity in accordance with the PSIAS, including:
- monitoring the internal audit activity to ensure it operates in an effective and efficient manner;
 - ensuring compliance with the PSIAS' Definition of Internal Auditing and Code of Ethics;
 - helping the internal audit activity add value and improve organisational operations;
 - undertaking both periodic and on-going internal assessments; and
 - commissioning an external assessment at least once every five years, the results of which are communicated to the Audit & Accounts Committee and Chief Finance Officer in accordance with PSIAS.
- 1.3 The Head of Internal Audit is ultimately responsible for the QAIP, which covers all types of internal audit activities, including consulting.

2. Internal Assessments

- 2.1 In accordance with the PSIAS, internal assessments are undertaken through both on-going and periodic reviews.

On-going Reviews

- 2.2 Continual assessments are conducted through:
- management supervision of all engagements;
 - structured, documented review of working papers and draft reports by Internal Audit management;
 - audit Policies and Procedures used for each engagement to ensure consistency, quality and compliance with appropriate planning, fieldwork and reporting standards;

INTERNAL AUDIT - QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

- feedback from audit clients obtained through post audit Quality Control Questionnaires (QCQs) at the closure of each engagement;
- review and approval of all final reports, recommendations and levels of assurance by Audit Manager and the Head of Internal Audit, and
- regular team briefings attended by all members of the internal audit team for which minutes are retained.

Periodic Reviews

- 2.3 Periodic assessments are designed to assess conformance with Internal Audit's Charter, the PSIAS, Definition of Internal Auditing, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Periodic assessments are conducted through:
- monitoring of internal performance targets and regular progress reports to Audit & Accounts Committee;
 - periodic audit survey to all Heads of Service;
 - annual risk assessments, in accordance with the internal audit Development Plan, for the purposes of annual audit planning;
 - annual review of the effectiveness of internal audit, undertaken by the Head of Internal Audit;
 - annual review of compliance against the requirements of this Quality Assurance & Improvement Programme, the results of which are reported to Senior Management and the Audit & Accounts Committee;
 - feedback from the Chief Finance Officer and the Chair of the Audit & Accounts Committee to inform the annual appraisal of the Head of Internal Audit, in accordance with Standard 1100;
 - periodic appraisal process to identify individual training and development needs; and
 - annual review of performance and development of all internal audit staff in accordance with the council's PDR process.
- 2.4 Results of internal assessments will be reported to the Audit & Accounts Committee at least annually. The Head of Internal Audit will implement appropriate follow-up to any identified actions to ensure continual improvement of the service.
- 2.5 Any significant areas of non-compliance with the PSIAS that are identified through internal assessment will be reported in the Head of Internal Audit's Annual Report and used to inform the Annual Governance Statement (AGS).

3. External Assessments

3.1 External assessments will appraise and express an opinion about internal audit's conformance with the PSIAS, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate.

Frequency of External Assessment

3.2 An external assessment will be conducted at least every five years, in accordance with the PSIAS. Appointment of the External Assessor and scope of the external assessment will be approved by the Audit & Accounts Committee.

Scope of External Assessment

3.3 The external assessment will consist of broad scope of coverage that includes the following elements of Internal Audit activity:

- conformance with the *Standards*, Definition of Internal Auditing, Mission of Internal Auditing; the Code of Ethics, and Internal Audit's Charter, plans, policies, procedures, practices, and any applicable legislative and regulatory requirements;
- integration of the internal audit activity into the council's governance framework, including the audit relationship between and among the key groups involved in the process;
- tools and techniques used by internal audit;
- the mix of knowledge, experiences, and disciplines within the staff, including staff focus on process improvement delivered through this Quality Assurance and Improvement Programme; and
- a determination whether internal audit adds value and improves the council's operations.

3.4 Results of external assessments will be provided to the Chief Finance Officer and the Audit & Accounts Committee. The external assessment report will be accompanied by a written action plan in response to significant comments and recommendations identified.

3.5 Any significant areas of non-compliance will be reported in the Annual Report of the Head of Internal Audit and in the council's Annual Governance Statement (AGS).

4. Review of the QAIP

This document will be updated appropriately following any changes to the PSIAS or internal audit's operating environment and will be reviewed at least on an annual basis.

Key Performance Indicators

Detailed below are Key Performance Indicators that we should be measured against when delivering our Internal Audit Service:

Performance Plan delivered in accordance with agreed timescales
(*Measure*: 80% of plan delivered in financial year, 90% compared to planned, by the time of the HOIA)

The average utilisation of audit days achieved by staff.
(*Measure*: target average utilisation of staff is 88% of days available.)

Draft report issued in accordance with timescales agreed within the individual Terms of Reference
(*Measure*: 90% of draft reports issued within timescales)

Timely issue of the draft report, following completion of fieldwork.
(*Measure*: 90% of draft reports issued within 10 working days of the receipt of management response)

Timely issue of the final report following receipt of management responses (*Measure*: 90% of final reports issued within 5 working days of the receipt of management response)

The Head of Internal Audit Opinion is issued in accordance with the agreed timescale. (*Measure*: Met or not met)

Compliance with Public Sector Internal Audit Standards
(*Measure*: 100% compliance)

Contribution Strengthening of the control framework
(*Measure*: Percentage of critical, high and medium priority recommendations agreed – target 100%)

(*Measure*: Percentage of critical, high and medium priority recommendations implemented – target 80%)

Council sees a positive contribution from Audit Services
(*Measure*: Feedback on client satisfaction survey in relation to satisfaction with the quality, accuracy and usefulness of the audit output - 75% Overall satisfaction rate)

Audit and Accounts Committee members (and attendees) see a positive contribution from Audit Services
(*Measure*: Feedback on committee self-assessment)

External Audit opinion on Internal Audit
(*Measure*: no adverse comments in Management Letter)

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Action Plan Partial/Non Compliance – September 2020

| Ref | PARTIAL COMPLIANCE | Required Action | Timescale/ Responsibility | Comment/Outcome |
|--|--|--|------------------------------|--|
| STANDARDS | | | | |
| 3. ATTRIBUTE STANDARDS | | | | |
| 3.2: 1200 Proficiency and Due Professional Care | | | | |
| 1210 Proficiency | | | | |
| Action Point 1 | Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities? | Further skills required in the following areas: Counter fraud Contract audit Financial audits | CAE March 2020 | <p>Complete - Financial: The team now has a CIPFA qualified auditor and another studying towards CIPFA.</p> <p>Complete - Fraud: Audit Manager CIPFA qualified and undertook CIPFA counter fraud specialist training and the team has an auditor holding the accredited counter fraud technician qualification.</p> <p>In progress - Contracts: A principal auditor has joined the re-formed north west contract auditors group. One of the senior auditors undertook contract audit training.</p> |

| Ref | PARTIAL COMPLIANCE | Required Action | Timescale/ Responsibility | Comment/Outcome |
|--|--|---|------------------------------|-----------------|
| 3.4: 1300 Quality Assurance and Improvement Programme | | | | |
| 1320 Reporting on the Quality Assurance and Improvement Programme | | | | |
| Action Point 2 | Has the CAE reported the results of the QAIP to senior management and the board? | Results of the QAIP to be reported to senior management and the Audit & Accounts Committee. | CAE April 2020 | Complete |
| Action Point 3 | Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report? | Results of the QAIP and progress against any improvement plans to be included in the annual report. | CAE April 2020 | Complete |
| 4. PERFORMANCE STANDARDS | | | | |
| 4.1 2000 Managing the Internal Audit Activity | | | | |
| 2050 Co-ordination | | | | |
| Action Point 4 | Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance? | Develop assurance map to inform planning for 2021/22 | CAE March 2021 | In Progress |

| Ref | NON-COMPLIANCE | Required Action | Timescale/ Responsibility | Comment/Outcome |
|---------------------------------|--|----------------------------------|------------------------------|-----------------|
| STANDARDS | | | | |
| 4. PERFORMANCE STANDARDS | | | | |
| 2450 Overall Opinion | | | | |
| Action Point 5 | Does the annual report incorporate the following: h) The results of the QAIP? i) Progress against any improvement plans resulting from the QAIP? | Include in 2019/20 annual report | CAE April 2020 | Complete |

| PSIAS Ref | Rec No. | Points for consideration | Responsible | Action | Updated Action September 2020 |
|-----------|---------|---|------------------------|--|--|
| 1110 | 2 | In addition to taking reports about Internal Audit activity to the Audit and Accounts Committee, such reports should also be taken to the Council's Senior Management Team to increase visibility of the function at this level. | Head of Internal Audit | Agreed – discussed with S151 and Corporate Management Team Feb 18. The Head of Internal Audit will make progress reports available to the Corporate Management Team twice yearly. Ongoing | To Service Reform SLT Oct 20 |
| 1110 | 4 | Feedback from the Chief Executive and / or the Chair of the Audit and Accounts Committee should be sought and provided as part of the Head of Internal Audit's appraisal process. | Head of Internal Audit | Feedback from Audit and Accounts Committee Chair and S151 will be requested to inform the S151 at Warrington re CAE appraisal process. September 2020 | As required |
| 1210 | 7 | All job descriptions and person specifications need to be updated to reflect the roles, responsibilities, qualifications, competencies, skills and experience required to carry out each post within the service. This includes the Shared Head of Internal Audit role. | Head of Internal Audit | Agreed and complete. Role profiles are now being developed. | HolA complete. Audit Manager complete. Principal Auditors Complete. Senior Auditors reviewed and updated. |
| 2010 | 10 | The assurance mapping exercise | Head of Internal Audit | Agreed and in progress. This will be assessed in the | 2021/22 planning |

| | | | | | |
|------|----|---|------------------------|--|------------------|
| 2010 | | should be completed to support the audit planning process, and provide a clearer demonstration of how risks to the organisation are considered and assessed during the process of producing the annual Internal Audit plan. | | planning process | |
| | 11 | The audit planning process should be supported by a fully documented audit universe to support a more methodical approach to the consideration and assessment of risk in the development of the annual Internal Audit plan. | Head of Internal Audit | Agreed and in progress. This will be developed fully to support the strategic plan 2020/21 to 2022/23. | 2021/22 planning |

