

1 PURPOSE

- 1.1 For members to agree the process for external assessment against the Public Sector Internal Audit Standards (PSIAS).

2 RECOMMENDATIONS

- 2.1 That members agree the procurement route for an external assessment of Internal Audit against the PSIAS with final details to be agreed by the Audit & Governance Lead Manager in consultation with the Chair of the Audit Committee and CFO.

3 SUMMARY

- 3.1 The Public Sector Internal Audit Standards, effective from 1st April 2013, contain the requirement for an external assessment of the Internal Audit function once every 5 years. Our previous assessment took place in January 2017, therefore the council needs to ensure our second assessment is undertaken during 2022. This report sets out the background and proposed options alongside their associated opportunities, risks and costs.
- 3.2 The Chief Internal Auditor must discuss with the Audit Committee:
- The form of the external assessment
 - The qualification and independence of the external assessor or assessment team, including any potential conflicts of interests.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 28th September 2021 – Internal Audit Activity Report
Audit Committee 1st October 2020 – Internal Audit Activity Report

5 EXTERNAL ASSESSMENT OF INTERNAL AUDIT AGAINST THE PUBLIC SECTOR INTERNAL AUDITING STANDARDS (PSIAS)

- 5.1 Standard 1310 of the PSIAS sets out the requirement for a Quality Review and Improvement Programme (QAIP) which includes both internal and external assessments of the Internal Audit activity.
- 5.2 Standard 1311 states that internal assessments should comprise two interrelated parts; on-going monitoring and periodic self-assessment. On-going monitoring covers day to day operational issues such as file reviews etc. Periodic self-assessment looks at compliance

against the standards as a whole and this work is required to be completed by a person within the organisation with sufficient knowledge of internal audit practices. This is currently undertaken by the Audit & Governance Lead Manager and reported to Audit Committee.

- 5.3 Standard 1312 states that an external assessment must be conducted at least once every five years by a qualified, independent assessor, or assessment team from outside the organisation.
- 5.4 External assessments may be accomplished through a full external assessment or a self-assessment with independent external validation.
- 5.5 The Audit & Governance Lead Manager has considered a number of options with regards to the requirements of the external assessment, see summary in the table below:

Option	Comments – Pros and Cons
1. Peer review	<p>This would involve the authorities taking part undertaking a review of another authority.</p> <p>Considerations:</p> <p>(a) Due to different management arrangements for audit teams there is a danger that there would be inconsistencies.</p> <p>(b) Also as Midlands authorities regularly support each other in the development of documents/processes via networking events there is a risk that peer review would not be objective enough.</p> <p>(c) To undertake the reviews ourselves would have a significant impact on our own internal resources. This would include specification, completion of our own individual authority’s self-assessment and collating the necessary documentary evidence, which in itself is a considerable task but then we would be required to spend at least 3 days undertaking an assessment at another authority plus additional days for feedback, compiling a report and presentation to the Audit Committee.</p>
2. Procurement of an external self-assessment	<p>A procurement approach to the external assessment by appointing an external independent body/person to undertake the assessment for all the authorities.</p> <p>Considerations:</p> <p>(a) This option provides a true independent assessment.</p> <p>(b) Good practice ideas from other organisations that the assessors have reviewed.</p> <p>(c) Limited authority time during the assessment – just time for feedback, review of the report and response to Audit Committee.</p> <p>(d) This would be the most costliest option</p> <p>(e) This option would not encompass Internal Audit work already undertaken on the PSIAS self-assessment</p>
3. Hybrid – Procure an external independent assessor & combine with	<p>The Internal Audit team to carry out their own self-assessment annually against the standards which is then verified by an independent external assessor.</p> <p>Considerations:</p>

internal audit self-assessment.	<p>(a) Less intrusive for the Internal Audit team and other colleagues throughout the Authority.</p> <p>(b) Auditors have time to provide evidence and detailed explanation provided without pressures and timeframes stipulated during a site visit of an external assessor.</p> <p>(c) Less time on site by the external assessor therefore resulting in less cost to the Authority</p> <p>(d) The external assessor can share good practice ideas from other organisations that they have reviewed.</p> <p>(e) This is a cost effective solution as it uses work already undertaken by Internal Audit on the PSIAS self-assessment</p>
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5.6 Recommended Option – Hybrid approach where the internal self-assessment is reviewed by independent and objective external independent assessment

The Audit & Governance Lead Manager considers this option to be a good mix of using internal assessment resource and receiving external verification of the Council’s Internal Audit arrangements using a cost effective method.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	<p>All members of the Internal Audit Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.</p> <p>The procurement for the External Assessment will follow proper practices in respect to procurement and equalities.</p>
Environmental Impact	<p>All members of the Internal Audit Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager. The procurement process will ensure appropriate sustainability.</p>
Legal Implications	<p>The Accounts and Audit Regulations 2015 (Part 2, paragraph 5) state that the Council 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. The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>There is also a requirement to comply with the Public Sector Internal Audit Standards. Undertaking the audits as set out in the report and providing updates to this Committee contributes towards meeting these requirements. In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council’s Legal Services Team for further advice and assistance.</p> <p>RP 21.12.21</p>
Links with Corporate Priorities	<p>All aspects of the Internal Audit teams work support good governance which underpins the achievement of the Council’s objectives and priorities. An effective Internal Audit service will contribute to all corporate priorities and look to identify efficiencies and improvements in effectiveness.</p>

Risks and Opportunities	All aspects of the Internal Audit teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	The proposed hybrid solution is expected to result in costs of between £5k and £10k for the external element of the assessment subject to a procurement exercise. These and all other associated assessment costs will be met from within the existing resources available in 2022/23. TAS 21.12.21
Ward Implications	The work of the Internal Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

7 BACKGROUND PAPERS

Annual Audit Plan 2021/22 and Charter
Public Sector Internal Audit Standards
CIPFA Local Government Application Note – April 2013
Internal Professional Practices Framework
Accounts and Audit Regulations – 2015

Report by Audit & Governance Lead Manager