

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**MONDAY 24 MARCH 2014**

**REPORT OF HEAD OF AUDIT PARTNERSHIP**

**Report prepared by Brian Parsons**

**1. INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

1.1 Issue for Decision

- 1.1.1 To note the outcomes of the External Quality Assessment of the conformance of Internal Audit to the Public Sector Internal Audit Standards and the action that will be taken to ensure full conformance.

1.2 Recommendation of the Head of Audit Partnership

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.

1.3 Reasons for Recommendation

- 1.3.1 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.
- 1.3.2 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.
- 1.3.3 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.

- 1.3.4 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.
- 1.3.5 It was proposed that Mid Kent Audit would seek an early assessment and the Audit Committee was consulted accordingly.
- 1.3.6 An assessment of Mid Kent Audit was commissioned from the Chartered Institute of Internal Auditors (IIA). The assessment was carried out in January 2014.
- 1.3.7 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.
- 1.3.8 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.
- 1.3.9 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.
- 1.3.10 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.
- 1.3.11 The report relating to the assessment was issued on 22 January 2014 and is attached at Appendix 1.
- 1.3.12 The report is very positive and confirms that Mid Kent Audit conforms 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 assurance to the Committee that the Council receives a very good quality audit service from Mid Kent Audit.
- 1.3.13 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.

1.3.14 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.

1.3.15 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.

#### 1.4 Alternative Action and why not Recommended

1.4.1 There are no relevant alternative actions.

#### 1.5 Impact on Corporate Objectives

1.5.1 Internal Audit helps the Council to accomplish its corporate objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In order to be fully effective, Internal Audit needs to comply with and meet the requirements of the Public Sector Internal Audit Standards.

#### 1.6 Risk Management

1.6.1 Internal Audit needs to be able to demonstrate its quality in order to provide the necessary assurances to management and Members. The EQA provides evidence that this risk has been managed.

#### 1.7 Other Implications

1.7.1

1. Financial
2. Staffing

X

3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.7.2 Financial – 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.

1.7.3 Legal – The statutory Accounts and Audit Regulations 2011 state that ‘a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’. The Public Sector Internal Audit Standards have been defined as ‘the proper practices’.

## 1.8 Conclusions

1.8.1 The results of the External Quality Assessment provide evidence of the effectiveness and quality of the internal audit service (Mid Kent Audit).

1.8.2 The implementation of the responses to the EQA recommendations will further improve the quality of the audit service.

## 1.9 Relevant Documents

### 1.9.1 Appendices

Appendix 1: External Quality Assessment Report for the Mid-Kent Audit Partnership.

### 1.9.2 Background Documents

Report to Audit Committee dated 25 March 2013 - Public Sector Internal Audit Standards. Report to Audit Committee dated 16 September 2013 - Internal Audit Charter.

**IS THIS A KEY DECISION REPORT?**

**THIS BOX MUST BE COMPLETED**

Yes

No

If yes, this is a Key Decision because: .....

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Wards/Parishes affected: .....

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