

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EFFECTIVENESS of the SYSTEM of INTERNAL AUDIT		
DATE OF DECISION:	14 JULY 2014		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

Under the Accounts and Audit (England) Regulations 2011 the Council is required, at least once a year, 'to conduct a review of the effectiveness of its internal audit'. The purpose of this paper is to provide the Governance Committee with an overview of the measures currently in place to monitor and maintain internal audit effectiveness, taking cognisance of the Public Sector Internal Audit Standards and the Local Government Application Note.

RECOMMENDATIONS:

That the Governance Committee

- (i) approve the review conducted in assessing the 'Effectiveness of the System of Internal Audit'; and
- (ii) endorse the action plan generated from the assessment against the Public Sector Internal Audit Standards and Local Government Application Note.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with the Accounts and Audit (England) Regulations 2011 and proper internal audit practices (Public Sector Internal Audit Standards & Local Government Application Note), the Governance Committee is required to receive a report on the effectiveness of the system of internal audit.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None.

DETAIL (Including consultation carried out)

3. The Accounts and Audit (England) Regulations 2011 - S6 states:
'(1) 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.'
'(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit'
4. With effect from 1 April 2013 the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) together are recognised as proper practices.
5. There is no prescriptive guidance to conducting the effectiveness review, however, the Public Sector Internal Audit Standards require the Head of the Southern Internal Audit Partnership (Chief Internal Auditor) to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit service and includes provision for both internal and external assessment.
6. To ensure effective use of resource, the requirements and subsequent outputs from internal / external assessments required within the Standards have been used to underpin the report on the 'Effectiveness of Internal Audit' as prescribed in the Accounts and Audit (England) Regulations 2011.

Quality Assurance and Improvement Plan (QAIP)

7. The QAIP through its interpretation in the Public Sector Internal Audit Standards is:
'a quality assurance and improvement programme 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'
8. The QAIP must make provision for both internal and external assessments of the audit service

Internal Assessments

9. Internal assessments must include:
 - On-going 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 (sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework).

On-going Monitoring

10. The Head of the Southern Internal Audit Partnership has established procedures to guide internal audit staff in performing their duties to ensure they conform to the Public Sector Internal Audit Standards. This is demonstrated through the maintenance of key policies and procedures that are regularly reviewed and updated to reflect changes in working practices and standards, underpinned by an audit management software system providing consistency and common principles in the conduct of audit reviews.
11. In order to ensure that work is carried out to an appropriate level and quality, the Head of the Southern Internal Audit Partnership ensures that audit work is allocated to staff with the appropriate skills, experience and competence.
12. The Head of the Southern Internal Audit Partnership also ensures that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff.
13. The Southern Internal Audit Partnership operates a quality system (ISO 9001:2008) which covers all our audit reviews including irregularity reviews. Compliance against our quality processes are regularly assessed by an external/independent accreditor from the British Standards Institution (BSI)
14. On-going performance monitoring also incorporates:
 - A set of targets to measure performance, developed in consultation with appropriate parties. Such measures are monitored and regularly reported through quarterly progress reports to 'senior management' and 'the board'.
 - Stakeholder feedback in the form of Quality Appraisal Questionnaires; and
 - An action plan to implement improvements (QAIP)
15. Performance measures as at the end of 2013-14 were:

Performance Measure	2013-14
Revised plan delivered (including 2012/13 c/f)	98%
Positive response to quality appraisal questionnaire	98%
Compliant with Public Sector Internal Audit Standards	Yes

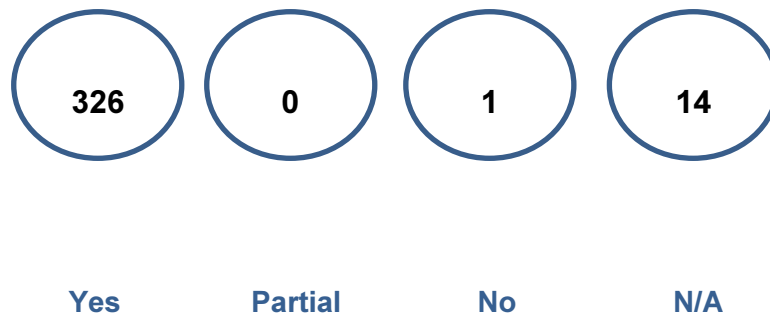
Internal Self-Assessment

16. For 2013/14 a self-assessment against the Public Sector Internal Audit Standards has been undertaken.

The 'Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards' provides a checklist that has been developed to enable periodic self-assessment as part of the Quality Assurance and Improvement Programme. It is this checklist that has been used as the basis of the 2013-14 self-assessment review.

17. In compiling the self-assessment, the Head of the Southern Internal Audit Partnership undertook an initial evaluation of the audit service against the checklist, and compiled documentary evidence to verify compliance.
18. To provide independent scrutiny the Deputy Monitoring Officer (Hampshire County Council) then considered the Standards for compliance against the self-assessment and supporting documentation, concluding:
'I am satisfied that this is an accurate assessment of the internal audit function'
19. The summary of the self-assessment against the 341 Standards highlights

Compliance



20. In areas where the Southern Internal Audit Partnership do not meet 'the Standards' an action plan has been compiled to explain non-conformance or stimulate improvement.

External Assessments

21. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation.
22. The Head of the Southern Internal Audit Partnership must agree with the sponsor (the S151 or Chair of the Audit Committee):
 - The form of external assessments;
 - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Form of External Quality Assessment (EQA)

23. External assessment can be in the form of a full external assessment or a self-assessment with external validation.

Full External Assessment

24. A full EQA incorporates surveys and interviews with the Head of the Southern Internal Audit Partnership, internal audit staff, customers and stakeholders. This is supported by examination of the internal audit approach and methodology leading to the completion of an independent report.

Validated self-assessment

25. An initial self-assessment is carried out by the Head of Southern Internal Audit Partnership. The external assessment team will review / validate evidence produced and conduct interviews with internal audit staff, senior management and the chair of the board.
26. A validation report will be appended to the Head of the Southern Internal Audit Partnership's self-assessment.

Qualification and Independence of the External Assessor

27. A qualified assessor or assessment team must demonstrate competence in two areas:
- the professional practice of internal auditing; and
 - the external assessment process
28. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience.
29. An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.
30. The Head of the Southern Internal Audit Partnership will present a paper to the Key Stakeholder Board exploring the options, form, timing and scope of the external assessment in September 2014.

RESOURCE IMPLICATIONS

Capital/Revenue

31. None

Property/Other

32. None.

