

# Audit Committee

29<sup>th</sup> January 2024



<b>Title</b>	Annual Review of Internal Audit Effectiveness
<b>Purpose of the report</b>	To note
<b>Report Author</b>	Punita Talwar, Internal Audit Manager
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	N/A
<b>Corporate Priority</b>	Community Affordable housing Recovery Environment Service delivery
<b>Recommendations</b>	<b>Committee is asked to:</b>  <b>1. Note the Annual Review of Internal Audit Effectiveness, overall conclusions and actions arising from the External Quality Assessment (EQA).</b>
<b>Reason for Recommendation</b>	Not applicable

## 1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"><li>The independent External Quality Assessment (EQA) concluded that Spelthorne's Internal Audit Service conform to the Public Sector Internal Audit Standards (PSIAS) to a large degree and in some areas excel in meeting the standards. The overall assessment grading was 'generally conform' which represents the highest level that</li></ul>	<ul style="list-style-type: none"><li>Regardless of the size of Internal Audit functions, conformance with the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF) is a widely recognised measure of demonstrating and achieving quality, effectiveness and professionalism for Internal Audit Services. In the UK public sector, conformance is evaluated against</li></ul>

<p>can be achieved in the grading category.</p> <ul style="list-style-type: none"> <li>Several areas of good practice have been identified with examples highlighted in the separate EQA report. Of the thirteen assessment categories reported on, there is only one area regarded as 'partially conforming' – in all other categories Spelthorne either 'fully conforms' or 'generally conforms'.</li> </ul>	<p>the Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements of the IPPF and considers the Local Government Application Note (LGAN) .</p> <ul style="list-style-type: none"> <li>Continuous improvement measures.</li> </ul>
<p><b>This is what we want to do about it</b></p>	<p><b>These are the next steps</b></p>
<ul style="list-style-type: none"> <li>Pursue any identified improvement actions arising from the EQA of November 2023 (where agreed) to strive for even greater conformance with PSIAS and good practice.</li> </ul>	<ul style="list-style-type: none"> <li>A Draft Action Plan has been produced by the Internal Audit Manager to address the recommendations raised during the External Quality Assessment (EQA). This is attached at Appendix 1 to this report and is being discussed with key Senior Managers/reporting lines to seek steer and direction in the context of future service planning . In terms of how/if recommendations are taken forward this will be dependent upon how the service is delivered in the future.</li> <li>At the next annual review of Internal Audit Effectiveness, progress and status of the agreed actions may be reported to the Audit Committee and Management Team, and again this will be dependent on how the service is delivered in the future.</li> </ul>

1.1 Public Sector Internal Audit Standards (PSIAS) require internal audit functions to carry out an annual self-assessment to determine conformance against the standards, as well as arrange an independent external quality assessment to be undertaken at least every five years.

1.2 This report seeks to inform the Audit Committee and Management Team of the findings of the external quality assessment undertaken during November to December 2023 and the draft action plan to address recommendations raised. Taking forward recommendations and implementation timeframes are likely to be impacted by future service delivery arrangements being explored by the Group Head of Corporate Governance and Chief Finance Officer, and

therefore this needs to be considered before finalising and prioritising the draft EQA action plan.

## 2. Key issues

- 2.1 “A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector “(PSIAS).
- 2.2 PSIAS requires an EQA of Internal audit provision to be undertaken at least once every 5 years. Spelthorne’s Internal Audit service has been reviewed by an independent external assessor during November and December 2023 through a reciprocal arrangement with two other Surrey authorities (Elmbridge and Surrey Heath). This approach was applied at the last EQA review of 2018 and was considered by all parties to have worked well, also being proportionate given the relatively small size of the audit teams. The methodology and approach adopted conform with PSIAS requirements in terms of experienced and professionally qualified Internal Audit representatives undertaking such reviews. It involved a rigorous self-assessment process by each Audit Manager against the standards, collation of supporting evidence, and subsequent validation and evaluation by the reviewer. It was recognised that the self-assessment stage represents a comprehensive exercise for the respective Audit leads, and that the independent reviews would also evaluate and conclude on overall levels of conformance against thirteen assessment categories and highlight any improvement actions arising.
- 2.3 **Overall grading assessment** – The review concluded that the overall assessment is that Spelthorne’s Internal Audit Service ‘generally conforms’ to the PSIAS. This represents the highest level that can be achieved in the grading category, as set out below.

### A1 Global Grading Definitions

The following rating scale has been used in this report:

Generally Conforms (GC)	The reviewer has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The reviewer has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The reviewer has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

- 2.4 The independent External Quality Assessment (EQA) concluded that Spelthorne’s Internal Audit Service conform to the Public Sector Internal Audit Standards (PSIAS) to a large degree and in some areas excel in meeting the standards. Several areas of good practice have been identified with examples highlighted in the separate EQA report. Of the thirteen assessment areas

reported on, there is only one area regarded as 'partially conforming'. In all other categories Spelthorne either 'fully conforms' or 'generally conforms'. Overall, Spelthorne have received a positive report and further to discussing the findings with the reviewer, Spelthorne's Internal Audit Manager has produced management comments and a draft action plan in response to the recommendations raised. In terms of how/if/when recommendations are taken forward this will be dependent upon how the service is delivered in the future.

- 2.5 The detailed EQA report which includes full insight of the findings and draft action plan are attached at Appendix 1 to this report. Some key matters have been highlighted below:
- (i) Completion of the self-assessment documentation recognised as being of a good standard and well evidenced.
  - (ii) Spelthorne's Internal Audit Service conform to the majority of Public Sector Internal Audit Standards (PSIAS) and in some areas excel in meeting the standards such as a highly effective Audit Charter as a mandate for the Service, as well as embedding a robust and comprehensive risk assessment process to direct and navigate the Service through the organisation.
  - (iii) Several areas of good practice are reported. Some examples include an effective audit planning process including the production of a comprehensive Annual Plan addressing key risks, priorities and resources, regular and effective reporting to Members via an Audit Committee, strong and clear reporting lines with direct links to the S151 officer, senior management and to Members, an effective audit assignment reporting mechanism in place highlighting main risks and areas for improvement, an established Audit Manual with detailed themes on the audit framework, development of a number of measures to assess Quality Assurance.
  - (iv) Eight out of thirteen assessment areas reported as 'fully conforming' against the standards as follows:
    - Definition of Internal Auditing*
    - Code of Ethics*
    - Independence and Objectivity*
    - Nature of Work*
    - Engagement Planning*
    - Performing the engagement*
    - Monitoring Progress*
    - Communicating the acceptance of risk*
  - (v) Four out of thirteen assessment areas reported as 'generally conforming' against the standards as follows:
    - Purpose, authority and responsibility*
    - Proficiency and Due Professional Care*
    - Managing the Internal Audit Activity*

*-Communicating results*

- (vi) 1 out of thirteen assessment areas reported as 'partially conforming' against the standards as follows:
  - *Quality Assurance and Improvement Process (QAIP)*
- (vii) There are no assessment areas reported as 'not conforming' against the standards.

2.6 Six recommendations for improvement have at this stage been agreed in principle which the independent reviewer has advised could enable the Internal Audit Service to further demonstrate excelling in many aspects of the PSIAS. These are summarised below:

- (a) **QAIP** - Further review, development and reporting of the Quality Assurance and Improvement Process (QAIP) in consultation with the Audit Committee and the management team.
- (b) **Integrated Assurance** - Embedding integrated assurance into internal audit processes, i.e., where reliance can be placed on alternative assurance providers to maximise assurance coverage in a more coordinated way.
- (c) **Audit Strategy** - Producing a high-level audit strategy document that complements the audit plan and demonstrates clear linkage with the Council's corporate priorities and objectives.
- (d) **Reporting arrangements** - When communicating results of audit assignments, verbally presenting findings to management team where deemed necessary as part of assurance provision (beyond current reporting arrangements). Discussing with audit leads potential cost implications of audit recommendations raised.
- (e) **Key stakeholder feedback** - Obtaining periodic informal feedback from specific stakeholders under PSIAS which could also over time feed into QAIP reporting and service delivery.
- (f) **Audit Manual** - Expanding some sections of the Audit procedure manual at the next review.

### **3. Options analysis and proposal**

3.1 The Audit Committee are asked to note the outcomes of the annual effectiveness review of the system of Internal Audit, which has comprised an independent external quality assessment (EQA) of the service's conformance to PSIAS, and any improvement actions arising. The review focussed on the 2022/23 period to align with reporting requirements whilst also considering any relevant activity during the current financial year.

### **4. Financial management comments**

4.1 There are none to specifically report for the purpose of this report.

### **5. Risk management comments**

5.1 Failure to conform with PSIAS core principles would imply that an internal audit function is not as effective as it could be in achieving internal audit's

mission 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' (PSIAS).

5.2 The recent EQA demonstrates that overall Spelthorne's Internal Audit Service 'generally conforms' to the PSIAS. There are a few assessment areas where the degree of conformance could be further enhanced, with most of the improvements deemed by the reviewer as minor. These could be managed and mitigated through addressing the recommended improvement actions as summarised at section 2.6 above.

5.3 The 2024/25 Service Plan for Internal Audit produced in August 2023 already recognised that implementation of recommendations arising from the EQA would represent an area of activity in delivering the service for 2024/25, supporting continuous improvement. In terms of how/if/when recommendations are taken forward this will be dependent upon how the service is delivered in the future.

## **6. Procurement comments**

6.1 There are none.

## **7. Legal comments**

7.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory further to the Accounts and Audit (England) Regulations 2011. The PSIAS require public sector bodies to have an external quality assessment undertaken at least once every five years and for this to be communicated and noted by the Audit Committee. This is also referenced in the opening paragraph of this report at 1.1.

## **8. Other considerations**

8.1 There are none other than those matters already highlighted in this report.

## **9. Equality and Diversity**

9.1 There are no specific implications.

## **10. Sustainability/Climate Change Implications**

10.1 An internal audit review of Climate Change was concluded during 2023/24 and provided assurance on how the authority is addressing climate change risks. This demonstrates how Internal Audit is adhering to principle 4 of PSIAS '*Aligns with the strategies, objectives, and risks of the organisation*', given also that the Environment forms part of the Council's current corporate priorities under the acronym 'CARES'.

## **11. Timetable for implementation**

11.1 Initial proposed timeframes for implementation of the improvement actions arising from the EQA are set out in the draft Action Plan at Appendix 1. Taking this forward will be dependent upon how the service is delivered in the future. Some actions will also be subject to discussion and agreement with key reporting lines as referred to in the report summary at section 1.

## **12. Contact**

12.1 Punita Talwar, Internal Audit Manger

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**Background papers:**  
**Public Sector Internal Audit Standards (PSIAS) 2017 and Local Government Application Note**

**Appendices:**  
**Appendix A – External Quality Assessment (EQA) of conformance to the Public Sector Internal Audit Standards**