

The Highland Council

Audit and Scrutiny Committee – 20th November 2014

Agenda Item	6
Report No	AS/28/14

Quality Assurance and Improvement Programme

Report by Head of Audit & Risk Management

Summary

This report refers to the completion of a Quality Assurance and Improvement Programme for the Internal Audit service, as required by the Public Sector Internal Audit Standards. The Programme also provides for performance monitoring and reporting, including new measures which have been introduced.

1. Introduction

- 1.1 A report on the Public Sector Internal Audit Standards was reported to this Committee on 19th June 2014 which provided a checklist of the 334 best practice questions and the extent to which the Council's Internal Audit Section complied with these. This was followed up by a report to this Committee on 24th September 2014 which provided a plan of the actions that needed to be taken to provide full compliance in due course.
- 1.2 One of the actions referred to within the action plan was the development of a Quality Assurance and Improvement Programme to give assurance over, and measure, the Internal Audit activity. The action plan showed that this would be completed by the end of December 2014 and would be reported to the March 2015 Committee.
- 1.3 Members are reminded of the importance of compliance with the Public Sector Internal Audit Standards as a whole:
 - They are intended to promote further improvement in the quality and effectiveness of internal audit across the public sector.
 - They reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management and the Audit & Scrutiny Committee with the key assurances they need.
 - The Local Authority Accounts (Scotland) Regulations which came into force on 10th October 2014 require local authorities to operate a professional and objective internal audit service. The Regulations state that this service must be provided in accordance with the Standards.

2. Quality Assurance and Improvement Programme

- 2.1 A Quality Assurance and Improvement Programme has been completed in accordance with guidance from the Institute of Internal Auditors. The Programme is attached at Appendix 1 and is designed to provide assurance that Internal Audit:
 - Performs work in accordance with its Charter.
 - Operates in an effective and efficient manner; and
 - Is adding value and continually improving the service that it provides.

- 2.2 The Quality Assurance and Improvement Programme provides for the following:
- Ongoing reviews of the performance of the internal audit activity.
 - Annual self-assessments against the Public Sector Internal Audit Standards.
 - External assessments every 5 years.
- 2.3 In drafting the Quality Assurance and Improvement Programme an opportunity has been taken to extend the remit of this beyond that provided for within the Institute of Internal Auditors' guidance. A section on performance management has therefore been added which, as well as capturing the existing performance indicators which are reported annually, also captures additional indicators with a view to improved performance reporting. The indicators have also been divided into the following headings:
- Financial.
 - Quality.
 - Business Processes.
 - Staffing.

All of the indicators will be introduced with effect from 1st April 2015.

3. Implications

- 3.1 Risk implications -The risk of not having a Quality Assurance and Improvement Programme in place or one which does not comply with the requirements of the Public Sector Internal Audit Standards is that the Council will not be compliant with the Local Authority Accounts (Scotland) Regulations 2014.
- 3.2 There are no resource, legal; equalities; climate change/carbon clever, rural and Gaelic implications as a direct result of this report.

Recommendation

Members are asked to consider and approve the Quality Assurance and Improvement Programme together with the revised performance measures.

Designation: Head of Audit & Risk Management

Date: 5th November 2014

Author: Nigel Rose, Head of Audit & Risk Management

Quality Assurance and Improvement Programme (QAIP)

1. Introduction

- 1.1 The Institute of Internal Auditors (IIA) Practice Guide “*Quality Assurance and Improvement Programme*” defines a quality assurance and improvement programme as:

“An ongoing and periodic assessment of the entire spectrum of audit and consulting work performed by the internal audit activity. These ongoing and periodic assessments are composed of rigorous, comprehensive processes; continuous supervision and testing of internal audit and consulting work; and periodic validations of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. This also includes ongoing measurement and analyses of performance metrics (e.g. internal audit plan accomplishment, recommendations accepted and customer satisfaction). If the assessments’ results indicate areas for improvement by the internal audit activity, the chief audit executive will implement the improvements through the QAIP.”

- 1.2 The Public Sector Internal Audit Standards (PSIAS) require the following:

Standard 1300: Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Standard 1310: Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments;

1311: Internal 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.

1312: External Assessments

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;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Standard 1320: Reporting on the Quality Assurance and Improvement Programme

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

1321: Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

The chief audit executive may state that the internal audit activity conforms with the International standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement programme support this statement.

1322: Disclosure of Non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

2. Purpose and Responsibility

2.1 The Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs work in accordance with its Charter.
- Operates in an effective and efficient manner; and
- Is adding value and continually improving the service that it provides.

2.2 The Head of Audit & Risk Management is responsible for the QAIP and will ensure that the results of this are communicated annually to the Audit & Scrutiny Committee as part of the annual assessment of the effectiveness of the Internal Audit Section.

3. Quality Assurance & Improvement Programme

3.1 The IIA Practice Guide requires that a QAIP should enable conclusions to be drawn on the quality of the internal audit activity and lead to recommendations for appropriate improvements. It enables an evaluation of:

- Conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.
- The adequacy of the Internal Audit Charter.
- The contribution to the organisation's governance, risk management and control processes.
- Completeness of coverage of the audit universe.
- Compliance with applicable laws and regulations.
- The risks affecting the operation of the internal audit activity itself.
- The effectiveness of continuous improvement activities and adoption of best practices.
- Whether the internal audit activity adds value, improves the organisation's operations and contributes to the attainment of objectives.

3.2 The QAIP is attached at [Appendix A](#) and demonstrates how this has been applied at the three levels (Engagement level; Activity level and External perspective) referred to within the IIA Practice Guide.

4. Performance

4.1 The Head of Audit & Risk Management, the Audit & Scrutiny Committee, the Executive Leadership Team and External Audit all need to be able to evaluate the effectiveness and efficiency of internal audit operations. In order to do this, a range of measures and indicators have been established which are provided in the table at [Appendix B](#). The measures concerned follow guidance from the Chartered Institute of Public Finance & Accountancy (Cipfa) and are designed to appraise the performance and value of internal audit work in addition to measuring the responsiveness of clients to Internal Audit work. The performance measures will be reported either quarterly or annually to the Audit & Scrutiny Committee as indicated within the table.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

Level	Evidence
Internal Audit Engagement Level	
The Head of Audit & Risk Management provides assurance that:	
<ul style="list-style-type: none"> Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements. 	<ul style="list-style-type: none"> The audit planning methodology is detailed within the Internal Audit Manual and provides for stakeholder consultation and assessment of resources. Audit plan sets out the resources required for each engagement. Terms of reference prepared for each audit engagement which are agreed with the appropriate stakeholder.
<ul style="list-style-type: none"> Planning, fieldwork conduct and reporting/ communicating results conform to the Definition of Internal Auditing, the Code of Ethics and the Standards. 	<ul style="list-style-type: none"> The Audit Manual sets out the various processes to ensure consistent conformance to the Definition of Internal Auditing, the Code of Ethics and the Standards.
<ul style="list-style-type: none"> Appropriate mechanisms are established and used to follow up management actions in response to audit recommendations. 	<ul style="list-style-type: none"> All agreed actions arising from audit engagements are “action tracked” and reported to the Audit & Scrutiny Committee. Where audit engagements report an unfavourable opinion or report “high risk” recommendations, consideration is given within the following year’s audit plan to conducting a detailed follow-up review. Actions are recorded in the Council’s Performance & Risk Management System and also “Galileo,” the automated audit management system. The action tracking process is detailed within the Internal Audit Manual and the Council’s Financial Regulations.
<ul style="list-style-type: none"> Post-engagement client surveys, lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed. 	<ul style="list-style-type: none"> Client Audit Questionnaires are issued at the end of each audit engagement and the results are acted upon and are reported annually to the Audit & Scrutiny Committee. Post-Audit Assessments are completed at the end of each audit engagement affording the opportunity for the auditor responsible for the assignment to discuss any issues, including performance

	<p>and lessons learned, with their line manager.</p> <ul style="list-style-type: none"> • Benchmarking and performance management are used as a tool for continuous improvement.
Internal Audit Activity Level	
The Head of Audit & Risk Management provides assurance that:	
<ul style="list-style-type: none"> • Written policies and procedures, covering both technical and administrative matters are formally documented to guide audit staff in consistent conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. 	<p>An annual assessment is undertaken, which is reported to the Audit & Scrutiny Committee, in order to determine the extent to which Internal Audit conforms to the Definition of Internal Auditing, the Code of Ethics and the Standards.</p> <p>The following policies and procedures are in place:</p> <ul style="list-style-type: none"> • Internal Audit Charter, setting out the purpose, authority and responsibility of Internal Audit. • Internal Audit Manual, providing guidance on working practices. • Galileo User Manual, providing technical guidance on the use of the automated audit management system.
<ul style="list-style-type: none"> • Audit work conforms to written policies and procedures. 	<ul style="list-style-type: none"> • Use of Galileo helps to ensure that audit assignments are undertaken in a consistent manner and also demonstrates that key stages of the audit have been subject to appropriate supervision and management. • Working papers, draft reports and final reports are checked and approved as appropriate by managers and by the Head of Audit & Risk Management in order to ensure that the work meets the objectives identified within the terms of reference and also that it has been completed in accordance with the Audit Manual and the Galileo User Manual.
<ul style="list-style-type: none"> • Audit work achieves the general purposes and responsibilities described in the internal audit charter, the Definition of Internal Auditing, the Code of Ethics, and the Standards. 	<p>As above, an annual assessment is undertaken, which is reported to the Audit & Scrutiny Committee, in order to determine the extent to which Internal Audit conforms to the Definition of Internal Auditing, the Code of Ethics and the Standards.</p>
<ul style="list-style-type: none"> • Internal audit work meets stakeholder expectation. 	<ul style="list-style-type: none"> • Annual planning meetings with Service Directors help to ensure that audit engagements meet stakeholder expectation, add value

	<p>and lead to improvement.</p> <ul style="list-style-type: none"> • Terms of reference are agreed with the appropriate stakeholder to ensure that the proposed scope of the work is appropriate and sufficient. • There is supervision and management of each engagement, including review of working papers, draft report and final report. • Client Audit Questionnaires are issued at the end of each audit engagement and the results are acted upon and are reported annually to the Audit & Scrutiny Committee.
<ul style="list-style-type: none"> • The internal audit activity adds value and improves the organisation's operations. 	As above
<ul style="list-style-type: none"> • Resources for the internal audit activity are efficiently and effectively utilised. 	<ul style="list-style-type: none"> • Time budgets are allocated for each audit engagement which are administered through Galileo, enabling weekly reports to be generated showing the resources used in comparison with the allocated budget. • Post-Audit Assessments are completed at the end of each audit engagement which consider the time budget allocated in comparison with the time allocated. • Client Audit Questionnaires enable feedback on whether the audit engagement met the client expectations and was effective.
External Perspective	
<ul style="list-style-type: none"> • The Head of Audit & Risk Management ensures that the internal audit activity undergoes an external assessment (either an independent external assessment or a self-assessment with independent validation) at least once every five years by an independent assessor or assessment team from outside the organisation that qualified in the practice of internal auditing as well as the quality assessment process. 	<p>The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is developing a framework for undertaking external assessments as follows:</p> <ul style="list-style-type: none"> • Each local authority will be reviewed within the required timetable for compliance (i.e. within the first 5 years of the PSIAS being in place). • The SLACIAG Committee will oversee the framework's implementation and will provide a level of scrutiny and quality assurance to ensure the adequacy of the process and to arbitrate over any disputed outcomes as required. • Each authority will be allocated another authority to assess.

	<p>Allocations will take cognisance of the existing closeness of relationships which already exist between authorities and also of geographical and logistical issues which may be relevant. The arrangements which will be developed will ensure that there is sufficient transparent independence in place to ensure that the assessment is truly an external assessment of conformance.</p> <ul style="list-style-type: none"> • Each Council's Chief Audit Executive may appoint a team to undertake the assessment of the body to whom it has been appointed, with the Chief Audit Executive being responsible for authorising the final report on the EQA. All members of any EQA team will be employed directly by the authority in question. • A qualified assessor, or assessment team, would need to demonstrate competence in two areas: the professional practice of internal auditing; and the external assessment process, and it is for the Chief Audit Executive of the body being assessed to determine whether the assessor or team is sufficiently competent. Where a team is undertaking the inspection, these competencies must be held by the team collectively and not necessarily by all individuals within the team.
<ul style="list-style-type: none"> • External assessors express an opinion on the entire spectrum of assurance and consulting work performed (or that should have been performed) by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Assessors also conclude on the efficiency and effectiveness of the internal audit activity in carrying out its charter and meeting the expectations of stakeholders. 	<p>The above framework will take full cognisance of this requirement.</p>

Performance Measures for Internal Audit

Category	Performance Indicator	Target	Reporting
Financial			
Cost of Internal Audit	Actual net expenditure v budgeted net expenditure, expressed as a percentage	<100%	Annually
Cost of Internal Audit	Cost per £m gross turnover	Lowest quartile of Cipfa benchmarking comparators	Annually
Quality			
Customer feedback	<ul style="list-style-type: none"> Percentage of satisfaction from individual audit engagements expressed through Client Audit Questionnaire Percentage of Client Audit Questionnaires returned 	90%	Quarterly
		70%	Quarterly
Compliance with PSIAS	Percentage of areas of full compliance against the PSIAS	95%	Annually
Business Processes			
Implementation of Recommendations	Percentage of recommendations accepted v number of recommendations made	95%	Quarterly
Timeliness of Draft Report	Percentage of draft reports issued within 15 days of Matters for Discussion meeting	90%	Quarterly
Timeliness of Final Report	<ul style="list-style-type: none"> Percentage of draft reports responded to by client within 20 days of issue Percentage of final reports issued within 10 days of receipt of management response 	85%	Quarterly
		90%	Quarterly
Completion of Audit Plan	Percentage of audits completed in the year against audits in the Plan	85%	Annually
Follow up reviews	Percentage of follow ups undertaken within due date	95%	Quarterly
Staffing			
Sickness Absence	Number of days absence per employee	5 days per annum	Annually*
Training & Development	Average number of training and development hours per employee	14 hours	Annually

* Also reported and monitored Quarterly through the Quarterly Performance Review