

AUDIT COMMITTEE

27 JUNE 2018

EXTERNAL QUALITY ASSESSMENT

Report from: James Larkin, Head of Audit & Counter Fraud Shared Service

Summary

This report informs Members of the outcomes of the External Quality Assessment conducted by Gateway Assure in February 2018.

1. Budget and Policy Framework

- 1.1 Council delegates responsibility for the oversight and monitoring the effectiveness of the Audit & Counter Fraud Shared Service to the Audit Committee.

2. Background

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that at least once every five years, providers of internal audit services must have an External Quality Assessment (EQA). This assessment measures the services compliance with the PSIAS and provides recommendations for improvement as appropriate.
- 2.2 Since 1 March 2016 the Council's internal audit activity has been delivered by the Audit & Counter Fraud Shared Service with Gravesham Borough Council. Based on the five year cycle, the service was required to have an EQA conducted during 2017-18.

3. External Quality Assessment

- 3.1 The Audit & Counter Fraud Shared Service was subject to an external quality assessment in February 2018, which assessed the services compliance with the PSIAS. This was broken down into three key areas;
- **Resources:** Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct
 - **Competency:** Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development.
 - **Delivery:** Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and

advisory opinions, Reporting at assignment and strategic levels.

- 3.2 The assessment outcomes are graded under a Red, Amber Green (RAG) rating system and for benchmarking purposes are also allocated a score. These being; one for '**Developing**' (**Red**), two for '**Established**' (**Amber**) and three for '**Excelling**' (**Green**).
- 3.3 The following conclusions were provided by the assessor;
- **Resources: Excelling** - Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with PSIAS expectations.
 - **Competency: Established** - Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.
 - **Delivery: Established** - Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.
- 3.4 Benchmarking data provided within the report shows that the average scores within the local government sector are 2.5 for Resources, 2 for Competency and 1.5 for Delivery. This indicates that the Audit & Counter Fraud Shared Service is performing at or above the average levels for its sector.
- 3.5 The full report of the assessor's findings can be found at **APPENDIX 1** of this report.
- 3.6 While the service is performing well in relation to its compliance with the standards, a number of recommendations have been made for further improvement. These are categorised as;
- **Enhance**: The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
 - **Review**: The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
 - **Consider**: The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services.
- 3.7 These recommendations have been entered into a matrix, which can be found at **APPENDIX 2**, which also details; any action already taken by the Audit & Counter Fraud Team, action that will be taken by the team in due course and decisions required by Members in order to action recommendations.

4. Risk management

- 4.1. The work of the Audit & Counter Fraud team provides a key source of assurance for the council on the adequacy and effectiveness of its internal control arrangements. This work must be conducted in accordance with the PSIAS.
- 4.2. This report provides assurance to the council in relation to the Audit & Counter Fraud team's level of compliance with the PSIAS.

5. Financial implications

- 5.1. An adequate and effective Audit & Counter Fraud function provides the council with assurance on the proper, economic, efficient and effective use of council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the financial statements of the council.

6. Legal implications

- 6.1. The Accounts & Audit Regulations 2015 require local authorities to: 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 Section 151 Officer of a local authority is responsible for establishing the internal audit service; Gravesham Borough Council has delegated this responsibility to the Section 151 Officer of Medway Council.

7. Recommendations

- 7.1. Members are requested to;
 1. Endorse the work already undertaken in relation to recommendations R2, R5, R6, R7, R8, R9, R10, R12, R15 and R17, and the proposed actions to be taken by the audit & counter fraud team in relation to recommendations R1, R3, R4 and R11.
 2. Approve the proposed changes to audit opinions and recommendation priorities as per recommendations R13 and R16.
 3. In relation to recommendation R14 consider the proposal to remove the need to include low priority recommendations in audit reports .

Lead officer contact

James Larkin, Head of Audit & Counter Fraud Shared Service

Appendices

Appendix 1- External Quality Assessment Report .

Appendix 2 – Recommendations of the External Quality Assessment and Actions

Background papers

None