

AUDIT COMMITTEE

29 JUNE 2023

EXTERNAL QUALITY ASSESSMENT

Report from: James Larkin, Head of Internal Audit & Counter Fraud Shared Service (Chief Audit Executive)

Summary

This report informs Members of the outcomes of the External Quality Assessment conducted by Business Risk Solutions in February 2023.

1. Budget and policy framework

1.1. Council delegates responsibility for the oversight and monitoring the effectiveness of the Internal Audit and 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 Internal Audit & Counter Fraud Shared Service with Gravesham Borough Council and the last EQA was conducted during 2017-18.

3. External Quality Assessment 2023

3.1. The Internal Audit team was subject to an external quality assessment in February 2023, which assessed the service's compliance with the PSIAS. The full report of the assessor's findings can be found at Appendix 1 of this report.

3.2. The assessment is 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.
- 3.3. The outcomes are graded under a Red, Amber Green (RAG) rating system, these being: '**Developing**' (**Red**), '**Established**' (**Amber**) and '**Excelling**' (**Green**).
- 3.4. In 2018 internal audit were assessed as follows:
- **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.
- 3.5. The following conclusions were provided by the assessor for the 2023 assessment:
- **Resources: Excelling** - Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
 - **Competency: Excelling** - Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations. A number of areas exist where additional benefit can be derived from alignment with client risk appetite.
 - **Delivery: Established** - Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.
- 3.6. This shows improvement since the 2018 assessment with, 'Competency' now graded as Excelling. It is accepted that further improvements are still required in the area of 'Delivery'.
- 3.7. There was a **Green** opinion overall, which stated 'The Internal Audit Shared Service is delivering to a standard that generally conforms with the Public Sector Internal Audit Standards.'
- 3.8. Benchmarking data provided within the report indicates that the team is performing above the average level for the Local Government sector in all three key areas (page 16 of Appendix 1) and is also above average in relation to all specific standards that have been listed (page 17 of Appendix 1).

3.9. While the service is performing well in relation to its compliance with the PSIAS, 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 standards 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.

3.10. These recommendations have been entered into a matrix, which can be found at Appendix 2, which also details; any action already taken by the Internal Audit team, action that will be taken by the team in due course and reasons for the rejection of any recommendations.

4. Risk management

4.1. The work of Internal Audit 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.

5. Climate change implications

5.1. There are no climate change implications in this report.

6. Financial implications

6.1. An adequate and effective Internal Audit function provides the council with assurance on the proper, economic, efficient, and effective use of council resources in delivery of services.

7. Legal implications

7.1. The Accounts and 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.

8. Recommendations

- 8.1. The Committee is recommended to note the work already undertaken in relation to recommendation R2 and agree the proposed actions to be taken by the Internal Audit & Counter Fraud team in relation to recommendations R1, R3, R7, R9 and R11 as set out in appendix 2 EQA Recommendations Matrix.
- 8.2. The Committee is recommended to approve the rejection of recommendations R4, R5, R6, R8 and R10 as set out in appendix 2 EQA Recommendation Matrix.

Lead officer contact

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Appendices

Appendix 1 – External Quality Assessment Report 2023

Appendix 2 – EQA Recommendations Matrix

Background papers

None