

Audit Committee

20 March 2025

Internal Audit Strategy 2025-28 and Internal Audit Quality Assurance & Improvement Programme

Report from: Phil Watts, Chief Operating Officer, Business Support Directorate

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

Summary

This report presents the Internal Audit Strategy 2025-28 and the Internal Audit Quality Assurance & Improvement Programme (QAIP) for review and approval.

1. Recommendations

- 1.1. The Committee is recommended to approve the Internal Audit Strategy 2025-28 presented at Appendix 1.
- 1.2. The Committee is recommended to approve the Internal Audit Quality Assurance & Improvement Programme (QAIP) presented at Appendix 2.

2. Budget and policy framework

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

3. Background

- 3.1. From 1 April 2025, the current Public Sector Internal Audit Standards (PSIAS) will be replaced, and the council's internal audit function will instead need to be delivered in accordance with the Institute of Internal Auditor's (IIA) Global Internal Audit Standards, as well as the requirements of the Application Note: Global Internal Audit Standards in the UK Public Sector.
- 3.2. The Global Internal Audit Standards ('the Standards') require that the Chief Audit Executive:
 - Develops and implements a Strategy for the internal audit function that supports the strategic objectives and success of the organisation and aligns with the expectations of senior management, the Audit Committee and other key stakeholders.
 - Develops objectives to evaluate the internal audit function's performance, which consider the input and expectations of senior management and the Audit Committee and are approved by the Audit Committee at least annually.

- Develops a performance measurement methodology to assess progress towards achieving the internal audit function's objectives and to promote the continuous improvement of the internal audit function.
- Develops, implements and maintains a Quality Assurance and Improvement Programme that covers all aspects of the internal audit function and includes two types of assessment: internal assessments and external assessments.
- Develops a plan for external quality assessments that must be performed at least once every five years by a qualified, independent assessor or assessment team.
- Develops and conducts internal assessments of the internal audit function's conformance with the Standards and progress toward performance objectives.
- Establishes and implements methodologies for engagement supervision, quality assurance and the development of competencies.

4. Internal Audit Strategy 2025-28

- 4.1. As mentioned above, it is a requirement of the new Standards to have an Internal Audit Strategy in place, which aligns with the expectations of senior management and the Audit Committee. This is a new requirement and is intended to provide a framework to ensure the internal audit function is able to fulfil its purpose and mandate, as detailed in the Internal Audit Charter.
- 4.2. Historically, the Internal Audit & Counter Fraud Shared Service has had a joint strategy to set out a clear vision and set of objectives for the development of the shared service. The most recent strategy, covering the period 2020-24, was approved by the Audit Committee on 19 March 2020, with further approval given by the Audit Committee on 10 January 2024, for the strategy to be extended to March 2025.
- 4.3. In light of the requirements introduced by the new Standards, it has become necessary to develop a strategy specifically for Internal Audit and this is provided at appendix 1 for Members' review and approval. The strategy sets a vision for the internal audit function by the end of the strategy period in 2028, and identifies three strategic objectives that will drive progress towards attaining that vision:
 - Aligning internal audit coverage to key strategic objectives and risks.
 - Optimizing our workforce planning and talent management processes, ensuring we can attract, develop and retain internal audit staff.
 - Delivering a positive impact.
- 4.4. The council's strategy for counter fraud is detailed in the Counter Fraud & Corruption Strategy. Therefore, it is not proposed that an equivalent, additional strategy is developed for the counter fraud function.

5. Internal Audit Quality Assurance & Improvement Programme

- 5.1. As mentioned above, it is a requirement of the new Standards to have an Internal Audit Quality Assurance & Improvement Programme (QAIP) in place, which includes both internal and external assessments.
- 5.2. Although this was also a requirement of PSIAS, with the current QAIP approved by the Audit Committee on 21 March 2024, the new Standards have been used as an opportunity to review and refresh this document.
- 5.3. The updated QAIP, provided at Appendix 2 for Members' review and approval, continues to set out the internal audit function's arrangements for supervision & quality management, internal assessments and external assessments. However, the performance measurement methodology has been updated to ensure this enables assessment of progress towards achieving the strategic objectives identified within the Internal Audit Strategy and promotes the continuous improvement of the internal audit function.
- 5.4. Practically, this means that the QAIP now only includes performance indicators which are designed to evaluate the overall performance of the internal audit function, its strategic objectives and pursuit of continuous improvement. Progress against the QAIP (including these performance indicators) and the Internal Audit Strategy will form the subject of a progress report that will be presented to the Audit Committee on an annual basis.
- 5.5. Performance indicators relating to delivery of the Internal Audit Plans, will now be agreed as part of the Internal Audit Plans. Outturns will continue to be reported as part of the progress update and annual reports, presented to the Audit Committee to detail progress against delivery of the agreed Internal Audit Plans.

6. Risk management

- 6.1. Development, implementation and maintenance of an Internal Audit Strategy and Quality Assurance & Improvement Programme are requirements of the Global Internal Audit Standards, which are widely recognised as the 'public sector internal auditing standards or guidance' referenced in the Accounts & Audit Regulations 2015, which must be taken into account when undertaking an effective internal audit to evaluate the effectiveness of risk management, control and governance processes.
- 6.2. The Internal Audit Strategy provides a framework to ensure the internal audit function is able to fulfil its purpose and mandate, as detailed in the Internal Audit Charter. The purpose and mandate grant the authority needed to provide internal audit services, which in turn help improve the effectiveness of the council's risk management, control, and governance processes. The Internal Audit Quality Assurance & Improvement Programme enables evaluation and promotion of the internal audit function's conformance with the Standards, achievement of its objectives (including the strategic objectives identified within the Internal Audit Strategy) and pursuit of continuous improvement.

7. Climate change implications

- 7.1. There are no climate change implications in this report.

8. Financial implications

- 8.1. 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. The budgeted costs for 2024/25 for the audit element of the shared service is £504,000 with Medway's share of these costs being £323,000. The Round 3 revenue budget monitoring projected an underspend on the shared service as a whole of £58,000.

9. Legal implications

- 9.1. 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 function.

Lead officer contact

James Larkin, Head of Internal Audit and Counter Fraud Shared Service
james.larkin@medway.gov.uk.

Appendices

Appendix 1 – Internal Audit Strategy 2025-28.

Appendix 2 – Internal Audit Quality Assurance & Improvement Programme

Background papers

None