

Appendix A: Relevant standards within *PSIAS*

Appendix A

Lancashire County Council

Internal Audit Service Quality Assurance and Improvement Programme

April 2016

1 Introduction

- 1.1 Lancashire County Council's Internal Audit Service aims to serve the council effectively and efficiently, to meet its professional obligations under applicable professional standards and to continuously improve. Accordingly this quality assurance and improvement programme enables the Internal Audit Service to evaluate and demonstrate its conformance with the *Public Sector Internal Audit Standards* ('PSIAS') published by the Chartered Institute of Public Finance and Accountancy (CIPFA). It also assesses the efficiency and effectiveness of the Internal Audit Service's work and identifies opportunities for improvement.
- 1.2 It will be subject to periodic review by the Head of Service – Internal Audit ('head of internal audit') and presented to the council's Management Team and Audit and Governance Committee for approval.
- 1.3 Where the Internal Audit Service provides either the full internal audit function or ad hoc assurance for organisations external to the county council its work for those organisations will be subject to the same quality assurance and improvement set out in this programme.

2 Relevant professional standards and interpretation

- 2.1 The Accounts and Audit Regulations 2015 refer to "public sector internal auditing standards or guidance". The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom and has published *Public Sector Internal Audit Standards* ('PSIAS') which encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework.
- 2.2 The *PSIAS* sets out the requirement for a 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."

PSIAS 1300 Quality Assurance and Improvement Programme
- 2.3 A number of other subsidiary standards follow from this that establish clear requirements of any quality assurance and improvement

programme. The *PSIAS* also adds further interpretations and requirements for the public sector under the following standards:

- 1310: Requirements of the quality assurance and improvement programme;
- 1311: Internal assessments;
- 1312: External assessments;
- 1320: Reporting on the quality assurance and improvement programme;
- 1321: Use of “conforms with the *International Standards for the Professional Practice of Internal Auditing*”;
- 1322: Disclosure of non-conformance.

2.4 The *PSIAS* refers to the 'chief audit executive' who, under Lancashire County Council's Internal Audit Charter, is deemed to be the Head of Service – Internal Audit, or 'head of internal audit'.

2.5 CIPFA has also published a *Local Government Advisory Note* setting out additional interpretation and guidance for local government within the United Kingdom. The quality assurance and improvement programme set out in this document has been designed in accordance with applicable professional requirements, as well as supporting the Internal Audit Service's own drive for continuous improvement.

3 The framework for quality assurance and improvement

3.1 The *PSIAS* standards referred to above require that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.

Type of review Frequency	Internal review		External review
	Ongoing	Periodic	At least 5-yearly
Audit assignment quality	✓		✓
Professional and operational framework		✓	✓

4 The quality assurance and improvement programme

4.1 Following this framework, the quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

Internal ongoing monitoring of audit assignment quality

"Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to

manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*."

PSIAS 1311: Interpretation – Internal assessments

- 4.2 The Internal Audit Service has designed procedures and an audit methodology that conform with *PSIAS* and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The team meets regularly and routinely considers any technical issues arising through its work, both to ensure that individual interpretations of our procedures and methodology are consistent, and to identify any technical areas that should be reconsidered.
- 4.3 The Internal Audit management team ensures that audit work is allocated to staff with the appropriate skills, experience and competence. Ongoing monitoring and supportive coaching is built into the planning, execution and completion of every audit assignment through the managers' supervision and structured review of working papers and reports. Feedback is sought from auditees as each assignment is completed.
- 4.4 The Internal Audit management team routinely assesses the team's performance against its performance targets, which are set out at Appendix B. Any matters arising from the periodic self-assessment and external assessment processes are considered and promptly addressed.

Periodic internal assessment of the professional and operational framework

"Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*."

PSIAS 1311: Interpretation – Internal assessments

- 4.5 The Internal Audit Service operates to a *Charter* that mandates compliance with relevant professional standards and specifically the *Definition of Internal Auditing*, the *Code of Ethics* and the *PSIAS* and is regularly reviewed.
- 4.6 Reports on progress against the annual audit plan are presented to each meeting of Lancashire County Council's Audit and Governance Committee, and to the audit committees of each external client.
- 4.7 The head of internal audit assesses the Service, and specifically its conformance with *PSIAS*, at least annually. This is considered by the Internal Audit management team and shared with the whole team to ensure that all understand where any changes or improvement are necessary. The outcome of this review, and progress against any improvement plans, are included in the head of internal audit's annual report to the Audit and Governance Committee.

External review

"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."

PSIAS 1312: External Assessments

4.8 Lancashire County Council's Internal Audit Service has joined the peer review process operated by a group of 20 local authorities across the North West of England. The Internal Audit Service will therefore be subject to external review by a team of at least two other heads of internal audit (one reviewer and at least one moderator), working under a memorandum of understanding that sets out a methodology that has been piloted and agreed by the North West Chief Audit Executive's Group. This methodology addresses the following areas:

- The Internal Audit Service's purpose and positioning within the organisation;
- Structure and resources;
- Execution of internal audit assignments;
- The impact of the Internal Audit Service's work on the organisation's governance, risk and control environment.

4.9 Under *PSIAS*, external assessments can take the form of a full external assessment or a self-assessment with independent external validation and this second option has been adopted by the North West Chief Audit Executive's Group. The first external review of Lancashire County Council's Internal Audit Service under this methodology will be undertaken by 31 March 2018.

Each of the relevant standards within *PSIAS* is set out in full below.

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.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

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.

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

Public sector requirement:

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

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.

Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

Public sector requirement:

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

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.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the *Definition of Internal Auditing*, *Code of Ethics* and *Standards*.

The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

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.

Public sector requirement:

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

Appendix B: Internal Audit Service performance targets

Quality

- Achieve 90% satisfaction with the overall quality of the audit process in questionnaires completed by auditees.
- Achieve positive feedback overall from the Management Team and Audit and Governance Committee regarding the value of internal audit work.

Productivity

- Achieve 85% of the *Strategic internal audit plan: 2015/16, 2016/17 and beyond* by 31 March 2017, by number of reviews completed.

Compliance

- Achieve full compliance with the *Public Sector Internal Audit Standards*, demonstrated through annual self-assessment and five-yearly external assessment.

Operational

- Deliver an internal audit service to Lancashire County Council within the agreed budget.
- Fully comply with any other operational requirements determined by the county council.