



Meeting:	Audit & Governance Committee	Date:	20 th June 2016
Subject:	Internal Audit Quality Assurance and Improvement Programme (QAIP)		
Report Of:	Head of Audit Risk Assurance (Chief Internal Auditor)		
Wards Affected:	N/A		
Key Decision:	No	Budget/Policy Framework:	No
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Appendices:	1: Internal Audit Quality Assurance and Improvement Programme		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To provide the Audit and Governance Committee with an introduction to the Internal Audit Quality Assurance and Improvement Programme (QAIP) as required by the Public Sector Internal Audit Standards (PSIAS) 2013.

2.0 Recommendations

- 2.1 It is recommended that the Audit and Governance Committee reviews and considers the Internal Audit QAIP (which includes both internal and external assessments and reporting arrangements) and formally approves its adoption.

3.0 Background and Key Issues

- 3.1 The Council's Constitution defines Council Committee responsibilities for functions and terms of reference. The Audit and Governance Committee terms of reference includes the accountability arrangement in relation to Internal Audit *'to contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least every five years'*. This requirement is met through the presentation of the QAIP to the Audit and Governance Committee.

4.0 Asset Based Community Development (ABCD) Considerations

- 4.1 There are no ABCD implications as a result of the recommendation made in this report.

5.0 Alternative Options Considered

- 5.1 Consideration has been given to not producing a QAIP. This has been discounted, due to the PSIAS mandatory requirements.

6.0 Reasons for Recommendations

- 6.1 The PSIAS 2013 requires the Chief Internal Auditor to develop and maintain a QAIP that covers all aspects of the internal audit activity and enables an evaluation of the internal audit activity conformance against the standards. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The QAIP assists the Audit and Governance Committee in their role to '*consider the effectiveness of internal audit*'.

7.0 Future Work and Conclusions

- 7.1 The QAIP will be reviewed annually to ensure that it is in accordance with the requirements of the PSIAS. Any changes will be presented to the Audit and Governance Committee for review and formal adoption.

8.0 Financial Implications

- 8.1 There are no financial implications arising out of this report.

(Financial Services have been consulted in the preparation this report.)

9.0 Legal Implications

- 9.1 There are no direct legal implications arising out of this report.

(One Legal have been consulted in the preparation this report.)

10.0 Risk & Opportunity Management Implications

- 10.1 Non delivery of an Internal Audit QAIP would risk non-compliance with legislation / mandatory professional standards.
- 10.2 Failure to deliver an effective Internal Audit Service would prevent an independent, objective assurance opinion from being provided to those charged with governance, that the key risks associated with the achievement of the Council's objectives are being adequately controlled.

11.0 People Impact Assessment (PIA):

- 11.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

12.1 There are no community safety implications arising out of this report.

Sustainability

12.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

12.3 There are no staffing or trade union implications arising out of this report.

Background Documents: Accounts and Audit Regulations 2015
Public Sector Internal Audit Standards 2013
Council Constitution
Audit and Governance Committee Terms of Reference

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

Document Information

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Introduction

The Institute of Internal Auditors (IIA) / Global Practice Guide “Quality Assurance and Improvement Programme” (QAIP) defines a QAIP 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 confirmation 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 Internal Auditor will implement the improvements through the QAIP.”

The Public Sector Internal Audit Standards (PSIAS) 2013

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

Standard 1300: Quality Assurance and Improvement Programme

The Chief Internal Auditor must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity which enables an evaluation of the internal audit activity’s conformance with the standards. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

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 Internal Auditor must discuss with the board:

- The form of external assessments (full external assessment or a self-assessment with independent validation);
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest; and
- The need for more frequent external assessments.

Standard 1320: Reporting on the Quality Assurance and Improvement Programme

The Chief Internal Auditor must communicate the results of the quality assurance and improvement programme to 'senior management' (in the City Council – Senior Management Team) and the board (in the City Council - Audit and Governance Committee):

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

The Chief Internal Auditor 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 on the overall scope or operation of the internal audit activity, the Chief Internal Auditor must disclose the non-conformance and the impact to senior management and the board.

Benefits of a QAIP

Internal Audit's QAIP is designed to provide reasonable assurance to its key stakeholders that it:

- Performs its work in accordance with its Charter (which is consistent with the PSIAS);
- Operates in an effective and efficient manner; and
- Is adding value and continually improving the service it provides.

Responsibility

The Chief Internal Auditor is responsible for the QAIP which covers all types of Internal Audit activities, including consultancy work, and will ensure that the results of this programme are communicated to the Senior Management Team and the Audit and Governance Committee as part of the review of the effectiveness of the Internal Audit Service. The Chief Internal Auditor is required to develop a QAIP that includes both internal and external assessments.

To achieve comprehensive coverage of all aspects of the internal audit activity, a QAIP must effectively be applied at three fundamental levels (or perspectives):

- Internal Audit Engagement Level;
- Internal Audit Activity Level; and
- External Perspective.

Appendices 1 to 3 below provide the detail of Gloucester City Council's Internal Audit QAIP, which is in line with the above three perspectives:

- Appendix 1: Internal Audit QAIP;
- Appendix 2: Specific Internal Audit Performance Measures; and
- Appendix 3: Improvement Plan 2016/17 onwards.

Internal Audit Engagement Level

This is a self-assessment at the audit, engagement or operational level where the Chief Internal Auditor provides assurance that:

Evidence

Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements.

- The audit planning methodology is detailed within the Internal Audit Manual and provides for stakeholder consultation.
- The risk based internal audit plan sets out the estimated resources required for each activity.
- The right people with appropriate skills and expertise are allocated – Capacity/Resource planning spreadsheet. This includes external specialist skills if required e.g. ICT audit.
- Audit work is co-ordinated / correlated with other sources of assurances identified as part of planning and Annual Governance Statement processes.
- Annual planning meetings are arranged between Directors / Managers, External Audit and Finance to establish audit priorities and agree the format and timetabling for ongoing dialogue during the year. The plan is also discussed with the Chair of the Audit and Governance Committee in advance of the full committee meeting.
- Risk Based planning templates completed by Principal Auditors for consideration by the Chief Internal Auditor.

This is a self-assessment at the audit, engagement or operational level where the Chief Internal Auditor provides assurance that:	Evidence
	<ul style="list-style-type: none"> ➤ Terms of reference are prepared for each audit activity which is agreed with the appropriate client, clearly articulating the risks, the scope of our work, the assurance to be provided.
<p>Planning, fieldwork conduct and reporting / communicating results to conform to the Definition of Internal Auditing, the Code of Ethics and the Standards.</p>	<ul style="list-style-type: none"> ➤ The Internal Audit Manual sets out the various processes to ensure consistent conformance to the Definition of Internal Auditing, the Code of Ethics and Standards. ➤ In accordance with the PSIAS the Internal Audit Charter has been developed and is operational. The Charter is reviewed annually and approved by the Senior Management Team and the Audit and Governance Committee. The Charter details the Definition of Internal Audit, Code of Ethics and is in compliance with the PSIAS. ➤ Risks relevant to the activity have been assessed and the objectives of the audit reflect this risk assessment. ➤ Audit findings, conclusions and recommendations are adequately supported by relevant, reliable and sufficient evidence. ➤ Working papers and evidence to support opinions and recommendations.

This is a self-assessment at the audit, engagement or operational level where the Chief Internal Auditor provides assurance that:	Evidence
	<ul style="list-style-type: none">➤ Communications of results at closing meeting.➤ Regular plan monitoring to ensure that the work is achieved within the resource budget and approved plan.➤ KPI's to ensure reports are accurate, objective, clear, concise and timely.➤ Annual staff appraisal and 6 monthly reviews completed.➤ Post audit self-evaluation forms completed by staff for all audit activities identifying what's gone well, lessons learned and any opportunities for improvement.➤ Internal Audit Feedback Survey forms sent to the client at the end of each activity. Results are reported annually to the Audit and Governance Committee.➤ Quality control process: review and sign-off of working papers/reports.➤ Annual conflict of interest forms completed.

This is a self-assessment at the audit, engagement or operational level where the Chief Internal Auditor provides assurance that:	Evidence
	<ul style="list-style-type: none"> ➤ Annual reminder sent to Internal Audit staff to obtain their sign up to their responsibilities under PSIAS including ethical responsibilities including our integrity, objectivity, competence and confidentiality in accordance with Internal Audit's Code of Ethics.
Appropriate mechanisms are established and used to follow up management actions in response to audit recommendations.	<ul style="list-style-type: none"> ➤ The recommendation monitoring process is detailed within the Internal Audit Manual. ➤ Actions are recorded in the Council's Audit Management System (Galileo). ➤ Where audit activities report a limited opinion on control and/or risk, consideration is given within the following year's audit plan to conducting a detailed follow-up review. ➤ Management, at the request of the Audit and Governance Committee, are required to attend Audit and Governance Committee to report on progress of recommendations made in relation to limited assurance reports. ➤ Limited Assurance reports are provided to relevant risk champions to ensure findings are embedded into corporate performance/risk monitoring and reporting processes.

This is a self-assessment at the audit, engagement or operational level where the Chief Internal Auditor provides assurance that:	Evidence
<p>Post-engagement client surveys, lessons learned, self-assessments and other mechanisms to support continuous improvement are completed.</p>	<ul style="list-style-type: none"> ➤ Internal Audit Feedback Survey forms sent to the client at the end of each activity. Feedback informs enhancements. Results are reported annually to the Audit and Governance Committee. ➤ Post audit self-evaluation forms completed by all auditors for all audit activities identifying what's gone well, lessons learned and any opportunities for improvement. ➤ 121s, annual staff appraisal and 6 monthly reviews completed. ➤ Attendance at training courses, webinars, briefing sessions (internal and external) and corporate groups to ensure that staff are up to date with current developments. Sharing of the knowledge gained is completed with the wider team to ensure that all staff are aware of current relevant areas. ➤ Members of peer groups e.g. District Council's Chief Internal Auditor Group, Counties Chief Internal Auditors Network (CCAN), Midland Counties Chief Internal Auditors Group (MCCIAG), Fraud/ICT Groups, and National Fraud Initiative.

Internal Audit Activity Level

This is a self-assessment at the internal audit activity or organisational level where the Chief Internal Auditor provides assurance that:

Evidence

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.

An annual assessment is undertaken, which is reported to the Audit and Governance 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.

The following policies and procedures are in place:

- Internal Audit Charter setting out the purpose, authority and responsibility of Internal Audit.
- Internal Audit Manual providing guidance on working practices.
- Galileo User guide providing technical guidance on the use of the automated audit management system.
- Internal Audit Guide issued to client at the start of each activity.
- Internal Audit Code of Ethics – signed up to annually.
- Anti-Fraud and Corruption Policy Statement and Strategy.
- Risk Management Strategy.

This is a self-assessment at the internal audit activity or organisational level where the Chief Internal Auditor provides assurance that:	Evidence
Audit work conforms to written policies and procedures	<ul style="list-style-type: none"> ➤ Use of Galileo (Audit Management System) helps to ensure that activities 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 approved as appropriate by Principal Auditors / Chief Internal Auditor 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, where applicable, the Galileo User Guide. ➤ Regular plan monitoring by the Chief Internal Auditor.
Audit work achieves the general purposes and responsibilities described in the Internal Audit Charter, and conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards.	<ul style="list-style-type: none"> ➤ As above, an annual assessment is undertaken, which is reported to the Audit and Governance 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.

This is a self-assessment at the internal audit activity or organisational level where the Chief Internal Auditor provides assurance that:	Evidence
Internal audit work meets stakeholder expectation.	<ul style="list-style-type: none"> ➤ Annual planning meetings are arranged between Directors / Managers and Finance to establish audit priorities and agree the format and timetabling for ongoing dialogue during the year. ➤ Terms of reference are agreed with the client to ensure that the proposed scope of the work is aligned to risk. ➤ Internal Audit Guide issued to client at the start of each activity which explains the role of internal audit. ➤ An Activity Manager / Principal Auditor is assigned to each activity to QA-review the working papers, draft and final report. ➤ Closing meetings held with the client to discuss the key findings, any proposed recommendations to be made and the assurance opinions given. ➤ Internal Audit Feedback Survey forms sent to the client at the end of each activity. Feedback informs enhancements. Results are reported annually to the Audit and Governance Committee. ➤ Quarterly activity / monitoring reports to Audit and Governance Committee.

This is a self-assessment at the internal audit activity or organisational level where the Chief Internal Auditor provides assurance that:	Evidence
	<ul style="list-style-type: none"> ➤ Review of the effectiveness of the Audit and Governance Committee may highlight additional areas of training required.
The internal audit activity adds value and improves the organisation's operations.	<ul style="list-style-type: none"> ➤ Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other Chief Internal Auditors (County and District Chief Auditor's Networks) and learning from them, implementing improvements where appropriate. ➤ Attendance at training courses, webinars, briefing sessions (internal and external) and corporate groups to ensure that staff are up to date with current developments. Sharing of the knowledge gained is completed with the wider team to ensure that all staff are aware of current relevant areas. ➤ Risk based Internal Audit Planning – Assurance where required. ➤ Audit report outcomes (including number of recommendations made and accepted by management) are reported to Audit and Governance Committee quarterly. ➤ Gain management's acceptance of risk, which therefore reduces risk.

This is a self-assessment at the internal audit activity or organisational level where the Chief Internal Auditor provides assurance that:	Evidence
	<ul style="list-style-type: none"> ➤ A detailed Terms of Reference is agreed with the client prior to the commencement of every audit to ensure audit activity is continually focused on the key risks and is undertaken within agreed time periods, to ensure our service adds value to the Council. ➤ Refer to the self-assessment document "The Role of the Head of Internal Audit". ➤ Financial savings as a result of identifying irregularities.
Resources for the internal audit activity are efficiently and effectively utilised.	<ul style="list-style-type: none"> ➤ The risk based internal audit plan sets out the resources required for each activity. ➤ Principal auditors have allocated portfolio areas to understand the business area and focus resources accordingly. ➤ Completion of staff timesheets in Galileo allow reports to be generated for monitoring the plan. ➤ Post Audit Self Evaluation forms are completed at the end of each activity which consider the risks, time spent compared to the time allocated and costs.

This is a self-assessment at the internal audit activity or organisational level where the Chief Internal Auditor provides assurance that:

Evidence

- Internal Audit Feedback Survey forms enable feedback on whether the activity met the client expectations.
- ICT audit is externally commissioned due to the technical expertise required.
- NHS Counter Fraud Service commissioned based on in year need.

External Perspective	
This is independent external assessment of the entire internal audit activity including individual engagements where the Chief Internal Auditor provides assurance that:	
	Evidence
<p>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>	<ul style="list-style-type: none"> ➤ Gloucestershire County Council (host authority for Audit, Risk, Assurance) had a validated self-assessment against the PSIAS undertaken by the Chartered Institute of Internal Auditors (CIIA - i.e. the standard setters) in May 2015. ➤ Outcome – 100% adherence to the Standards. ➤ Consistent, integrated systems and processes being adopted across the shared service enables adherence.
<p>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>	<ul style="list-style-type: none"> ➤ As above.

Specific Internal Audit Performance Measures

Objective	KPI / Measure of assessment	Target	Reporting
To provide maximum assurance to inform the annual audit opinion	To undertake a risk based annual plan formulation exercise (for the portfolio areas designated) which then feed into the overall audit plan(s). (As per the approved methodology).	As per annual planning timetable set by CIA	Annually to the Board (Audit and Governance Committee) and Senior Management (SMT).
To provide maximum assurance to inform the annual audit opinion	Planned audit activities completed. Percentage of planned assurance work from revised plan (including carry forwards) completed to draft report stage as at 31st March 2017.	85%	Monitored at 121s Annual report to the Board and Senior Management.
To provide maximum assurance to inform the annual audit opinion	Planned audit activities completed. Percentage of individual audit activities completed to final report stage from the issue of the Terms of Reference. Allocated days up to 15 (3 months). Allocated days 16+ (4 months).	80%	Monthly monitoring of individuals by the line management. Quality Assurance process and overall monitoring by the Chief Internal Auditor.

Objective	KPI / Measure of assessment	Target	Reporting
To provide maximum assurance to inform the annual audit opinion	Planned audit activities completed. Percentage of individual audit activities completed to draft report stage within 15 working days from the end of the fieldwork stage.	90%	Monthly monitoring of individuals by the line management. Quality Assurance process and overall monitoring by the Chief Internal Auditor.
To ensure that the service is customer focused, adds value and continually improves	Post Audit Customer Satisfaction Survey Feedback % of customers scoring audit service good or above (3 out of 4) where 1 is poor and 4 is excellent.	80%	Internal review as above identifying 'lessons' learned' for improvement. Annual report to the Board and Senior Management.
To ensure that the service is customer focused, adds value and continually improves	Development of Terms of Reference To develop a quality terms of reference with minimal input from the activity manager which focuses on the 'right first time' principle which then informs the final audit report.	Quality	Post audit evaluation assessment and assessment of progress of lessons learned.

Objective	KPI / Measure of assessment	Target	Reporting
To ensure that the service is customer focused, adds value and continually improves	<p>Development of Audit Report</p> <p>To develop a quality first draft audit report with minimal input from the activity manager which focuses on the 'right first time' principle and is ready to be discussed with the client, prior to submission to the activity manager for quality assurance.</p>	Quality	Post audit evaluation assessment and assessment of progress of lessons learned.
Fraud/Irregularity	To undertake a fraud risk assessment in accordance with relevant best practice / guidance to enable the direction of counter fraud activity and risk based auditing.	December of each year to help inform annual plan	Outcomes form part of Annual Internal Audit Plan which is presented to the Board and Senior Management annually.
Personal Development	To undertake one quality assurance review of an audit that has been undertaken, by a peer member of the Internal Audit team.	One per year	121s. Post Audit Evaluations
Time Management	Any variation over budget for completion of an audit activity needs to be authorised by the Activity Manager, and if this is to exceed the allocated days by 5 working days this will need to be authorised in advance by the Chief Internal Auditor.	Compliance	121s. QA process and CIA Plan Monitoring

Objective	KPI / Measure of assessment	Target	Reporting
Time Management - Timesheets	Any instances (unless circumstances dictate) where timesheets are more than two weeks in arrears will be referred to the Chief Internal Auditor.	Compliance	121s. QA process and CIA Plan Monitoring
Audit opinions	Where a "limited" opinion is made, the report will be reviewed by the Chief Internal Auditor or in her absence by the Group Manager (who has had no involvement in the activity) before being issued to the client. This time needs to be factored in, to still ensure the client receives the report within the 15 working day target. In addition, all limited assurance reports are sent to the relevant risk champion to enable the risks to be monitored via the risk management framework.	15 working days	QA process and CIA plan monitoring
Chargeable Hours/productivity (non-official KPI)	The audit plan is stated in terms of estimated productive days provided to the Council.	70% productivity levels	Resource allocation at annual planning stage. QA process and CIA plan monitoring

Improvement Plan 2016/17 onwards

	Opportunities for improvement Actions / Comments	Responsible	Timescale
1	Review the internal audit and risk management shared service needs and continue to develop and implement a fit for purpose service.	Chief Internal Auditor	Monitored by the Shared Services Board
2	Re-perform a self-assessment of Internal Audit's compliance with the revised PSIAS 2016.	Chief Internal Auditor	Annual Report on Internal Audit Activity June 2017
3.	Review Internal Audit Charter and Code of Ethics and revise accordingly in relation to the Shared Service.	Chief Internal Auditor	Completed - Approved by all partner's Senior Management and Boards.
4.	Update Internal Audit Manual to reflect new shared services working practices, to reflect any recommendations made as part of the external quality assessment.	Chief Internal Auditor	1 st June 2016
5.	Continue to enhance the current assurance framework in line with recommended practice which underpins the Annual Governance Statement and annual internal audit planning processes.	Chief Internal Auditor	1 st January 2017

	Opportunities for improvement Actions / Comments	Responsible	Timescale
6.	Progress against the QAIP to be set out in annual report on Internal Audit Activity.	Chief Internal Auditor	Annually in June to Audit and Governance Committee and Senior Management
7.	Annual declaration to be obtained from all auditors where the auditors confirm conformance with the Standards.	Audit and Risk Support Officer	Annually - April
8.	Chief Internal Auditor to select a sample of reports across the team and review adequacy / consistency of information to support the satisfactory / substantial opinions.	Chief Internal Auditor	Ongoing