JOINT AUDIT COMMITTEE
8th June 2017

Public Sector Internal Audit Standards &
Quality Assurance and Improvement Programme Update

1. Purpose of the Report

1.1 The purpose of this report is to:
- update the Committee on those areas where action is required to increase compliance with the Public Sector Internal Audit Standards (PSIAS); and
- present, in compliance with Public Sector Internal Audit Standards (PSIAS), the latest version of the Quality Assurance and Improvement Programme.

2. Background

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) adopted a common set of Public Sector Internal Audit Standards (PSIAS) from April 2013 (updated April 2017). These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.

2.2 The objectives of the PSIAS are to:

- define the nature of Internal Auditing within the UK public sector;
- set basic principles for carrying out Internal Audit in the UK public sector;
- establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations;
- establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.

2.3 A self-assessment against the Standards was undertaken in June 2016 and a series of improvement actions were developed to address areas of non-compliance for which progress updates have been regularly reported to the Committee. The Standards require periodic self-assessments to be undertaken to assess compliance, a further assessment has therefore been undertaken and is included in the Annual Audit report presented to Committee, and is summarised in Appendix A.

2.4 Although this current assessment is broadly positive and reflects significant improvement since the same time last year, it has identified some aspects of the Standards which continue to be partly compliant, which are discussed later in this report. An Action Plan to address those areas where continued development and/or evidence of compliance continues to be required is attached at Appendix B. The Action Plan is part of the means by which the Committee monitors the effectiveness and quality of the service.

2.5 The PSIAS also sets out the requirement for a Quality Assurance and Improvement Programme (QAIP), which was originally agreed by the Committee in September 2016. A review has been undertaken of the QAIP and a revised version is provided at Appendix C. Slight changes to the report production performance indicators have been proposed for internal audit in 2017/18. A copy of the QAIP is provided at Appendix C.

2.6 As part of the QAIP, it is a requirement that an external assessment of an organisation's internal audit function is conducted once every five years by a qualified, independent assessor or assessment team from outside the organisation. As previously reported to the Committee, the service has commissioned an external assessment which will be undertaken by CIPFA in October 2017. The Committee will receive feedback on the outcome of that assessment.

3. Areas of potential non-conformance with PSIAS or where continued improvement is required

3.1 **Independence and Objectivity**
- **1100 - Does the Chief Audit Executive[1] (CAE) confirm to the board[2], at least annually, that the internal audit activity is organisationally independent?**

The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity: The board:

- **Approves the internal audit budget and resources plan**.

It is the responsibility of the Police and Crime Commissioners Chief Finance Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan. The allocated budget and resources were however summarised in the Annual Audit Strategy 2017/18, which was reported to and approved by Joint Audit Committee in March 2017.

- **Approves decisions relating to the appointment and removal of the CAE**

It is the responsibility of the Police and Crime Commissioners Chief Finance Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan, which includes the appointment and removal of the CAE. The Vice Chair of the Joint Audit Committee was however involved in the appointment process for the current Internal Audit Manager.

Therefore partial conformance has been reported for both of these aspects. There is no further action planned.

- **Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?**

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector, CIPFA advise that this can be achieved by ensuring that the Chief Executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee. Whilst the Chief Executive reviews the Performance Development review of the Internal Audit Manager and approves any pay increments, feedback is not currently sought from the Chair of the Joint Audit Committee.

This area of non-conformance is specifically mentioned in the improvement action plan as a requirement to be implemented during 2017/18.

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[1] *The Chief Audit Executive is the Internal Audit Manager*

[2] *The Board is the Joint Audit Committee*

3.2 **Proficiency and Due Professional Care**
- **1210.C1 Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?**

Whilst job descriptions exist for all posts within the Internal Audit Service, they will be reviewed during 2017/18 to ensure they fully reflect the requirements of the Public Sector Internal Auditing Standards and Code of Ethics and expected competencies associated with the role.

This is specifically mentioned in the improvement action plan as a requirement to be completed during 2017/18.

3.3 **Quality Assurance and Improvement Programme (QAIP) / Communicating Results**
- **1321 - Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"**
- **2430 Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"**

Such statements are not currently used. Until such a time an external assessment confirms that the Internal Audit Service conforms to the International Standards for the Professional Practice of Internal Auditing will this be considered. An external Assessment is due to be undertaken in October 2017.

3.4 **Managing the Internal Audit Activity**
- **2010 Planning: Does the risk-based plan take into account the organisation's assurance framework?**

To inform the 2017/18 planning exercise, an exercise was undertaken within the Internal Audit team to determine assurances around the areas of the Police and Crime Plan, non-policing functions and policing functions, and this standard is therefore considered compliant. However, due to the extent of transformation within the Force and significant changes to the Forces governance arrangements, the assurance map will continue to be developed and updated during 2017/18. This is therefore included as an action in the improvement plan.

- **2010 Planning: In developing the risk-based plan, has the CAE considered the requirement to use specialists, e.g. IT or contract and procurement auditors?**
- **2110 Governance: Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?**

Whilst the Internal Audit team have knowledge of basic IT risks and controls to perform most audits, the team lack expertise in more specialist IT areas. To bridge this gap, a Principal Auditor from the Internal Audit Service is undertaking an IIA IT Auditing Certificate to develop expertise in the threats and vulnerabilities associated with IT and Information Systems. Once this training is nearing completion, a reassessment will be undertaken to determine if there remains vulnerability around specialist IT expertise. This is identified in the improvement action plan to be considered during 2017/18.

When determining any specialist IT requirements, the external IT Health Check commissioned directly by the Force will be taken into account to ensure there is no duplication and wasted resources.

- **2050 Co-ordination: Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?**

The 2017/18 Audit Strategy confirmed that to minimise duplication and make the best use of limited resources we aim to rely on work undertaken by other assurance providers rather than undertake our own detailed checks. In addition, an assurance mapping exercise was undertaken as part of the 2017/18 audit planning exercise to determine assurances around the areas of the Police and Crime Plan, non-policing functions and policing functions, and this requirement is therefore considered to be compliant. However, the assurance map will continue to be updated to reflect other assurance providers and proposed changes in the Forces governance arrangements and systems of control.

4 RECOMMENDATIONS

4.1 The Committee to note the report, including compliance against PSIAS (Appendix A), the associated action plan for 2017/18 (Appendix B) and the latest Quality Assurance and Improvement Programme (Appendix C).

CONTACT OFFICER Name: Lynn Joyce Title: Internal Audit Manager	**BACKGROUND DOCUMENTS** Public Sector Internal Audit Standards

PSIAS Self- Assessment 2016-17

Attribute Standards:

Ref	Standard	Ref	Description	Assessment
1000	Purpose, Authority and Responsibility	1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter	Compliant
1100	Independence and Objectivity	1110	Organisational Independence	Mainly Compliant
		1111	Direct Interaction with the Board	Compliant
		1112	Chief Audit Executive Roles Beyond Internal Auditing	Compliant
		1120	Individual Objectivity	Compliant
		1130	Impairment to Independence or Objectivity	Compliant
1200	Proficiency and Professional Care	1210	Proficiency	Mainly Compliant
		1220	Due Professional Care	Compliant
		1230	Continuing Professional Development	Compliant
1300	Quality Assurance and Improvement Programme	1310	Requirements of the Quality Assurance and Improvement Programme	Compliant
		1311	Internal Assessments	Compliant
		1312	External Assessments	Compliant
		1320	Reporting on the Quality Assurance and Improvement Programme	Compliant
		1321	Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	N/A
		1322	Disclosure of Non-Conformance	Compliant

Performance Standards:

Ref	Standard	Ref	Description	Assessment
2000	Managing the Internal Audit Activity	2010	Planning	Mainly Compliant
		2020	Communication and Approval	Compliant
		2030	Resource Management	Compliant
		2040	Policies And Procedures	Compliant
		2050	Co-ordination	Compliant
		2060	Reporting to Senior Management and the Board	Compliant
		2070	External Service Provider and Organisational Responsibility for Internal Audit	N/A
2100	Nature of Work	2110	Governance	Mainly Compliant
		2120	Risk Management	Compliant
		2130	Control	Compliant
2200	Engagement Planning	2201	Planning Considerations	Compliant
		2210	Engagement Objectives	Compliant
		2220	Engagement Scope	Compliant
		2230	Engagement Resource Allocation	Compliant
		2240	Engagement Work Programme	Compliant
2300	Performing the Engagement	2310	Identifying Information	Compliant
		2320	Analysis and Evaluation	Compliant
		2330	Documenting Information	Compliant
		2340	Engagement Supervision	Compliant
2400	Communicating Results	2410	Criteria for Communicating	Compliant
		2420	Quality of Communications	Compliant
		2421	Errors and Omissions	Compliant
		2430	Use of Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing	N/A
		2431	Engagement Disclosure of Non-Conformance	Compliant
		2440	Disseminating Results	Compliant
		2450	Overall Opinions	Compliant
2500	Monitoring Progress			Compliant
2600	Communicating the Acceptance of Risks			Compliant

PSIAS Action Plan

Ref	Standard	Action	Date	Update
1110	**Organisational Independence** *Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?*	Chief Finance Officer to seek feedback from the Joint Audit Committee Chair on the Internal Audit Managers performance appraisal.	09/17	
1210	**Proficiency** *Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?*	Internal Audit Manager to review and confirm that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.	10/17	
2010 & 2050	**Planning** *Does the risk-based plan take into account the organisation's assurance framework?* **Co-ordination** *Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?*	Internal Audit Manager to complete/update Assurance Mapping exercise in time to inform 2018/19 planning exercise reflecting changes in the Forces Governance framework.	01/18	
2010 & 2110	**Planning** *In developing the risk-based plan, has the CAE also considered the requirement to use specialists, e.g. IT or contract and procurement auditors?* **Audit Coverage – Governance** *The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.*	Internal Audit Manager to assess whether the organisations' IT Governance supports the organisations' strategies and objectives. Internal Audit Manager to fully explore the IT health check process to determine any potential gaps in the IT assurance framework. If any identified gaps in the IT assurance framework cannot be undertaken internally within the Internal Audit team, consider buying-in support from external provider (in conjunction with the Chief Finance Officer)	12/17	

Note - The term "Board" in this context is the Joint Audit Committee.
   - The term 'CAE' is Chief Audit Executive, which in this context is the Internal Audit Manager.

Internal Audit
Quality Assurance and
Improvement Programme
(QAIP)
2017/18

1   Introduction

1.1   Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS);
- Operates in an effective and efficient manner; and
- Is perceived by stakeholders as adding value and continually improving its operations.

1.2   Internal Audit's QAIP covers all aspects of Internal Audit activity in accordance with the PSIAS Standard 1300 (Quality Assurance and Improvement Programme), including:

- Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner (1300);
- Ensuring compliance with the PSIAS' Definition of Internal Auditing and Code of Ethics (1300);
- Helping the Internal Audit activity add value and improve organisational operations (1300);
- Undertaking both periodic and on-going internal assessments (1311); and
- Commissioning an external assessment to the Joint Audit Committee at least once every five years, the results of which are communicated to the Joint Audit Committee (1312 & 1320).

1.3   The Internal Audit Manager is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consulting.

2   Internal Assessments

2.1   In accordance with the PSIAS Standard, internal assessments are undertaken through both on-going and periodic reviews.

On-going Reviews

2.2   Continual assessments of quality are undertaken via:

- The maintenance of an integrated audit management, documentation and reporting system to ensure consistency;
- Management supervision of all engagements;
- Structure, documented review of working papers and draft reports by Internal Audit management;
- Feedback from audit clients obtained through post audit questionnaires at the closure of each engagement;
- Monitoring of internal performance targets (Appendix 1) and quarterly reporting to the Joint Audit Committee; and
- Review and approval of all final reports, recommendations and levels of assurance by the Internal Audit Manager.

Periodic Reviews

2.3   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 which is regularly reviewed.

2.4   Periodic assessments are designed to evaluate conformance with these standards and are conducted via:

- Quarterly Progress Reports to the Joint Audit Committee which includes progress against the annual plan, reports issued during the period including details of the opinion and summaries of key issues and outcomes from the work undertaken in the period;
- Annual Satisfaction Surveys to key stakeholders;
- Annual self-assessment of conformance with PSIAS;
- Annual review of compliance against the requirements of the QAIP, the results of which are reported to senior management and the Joint Audit Committee;
- Feedback from the Chief Finance Officer and Chair of the Joint Audit Committee to inform the annual appraisal of the Internal Audit Manager in accordance with Standard 1100; and
- Periodic Skills and Competency exercise for each Internal Auditor.

2.5   Significant areas of non-compliance with PSIAS identified through internal assessment will be reported in the Internal Audit Annual Report and used to inform the Annual Governance Statement.

2.6   Results of internal assessments will be reported to the Joint Audit Committee at least annually. The Internal Audit Manager will implement appropriate follow-up to any identified actions to ensure continual improvement of the service.

2.7   The Internal Audit Manager will also periodically identify improvement requirements, for example in respect of audit planning, assurance mapping, audit processes, counter fraud, skills development for the team, audit profile and performance.

3   External Assessments

3.1   An external assessment will occur at least once every five years to ensure continued application of professional standards. This process will express an opinion about Internal Audit's conformance with the Standards, Definition of Internal Audit and Code of Ethics and include recommendations for improvement, as appropriate.

3.2   The appointment of the External Assessor and scope of the External Assessment will be approved by the Joint Audit Committee.

3.3   The external assessment will consist of a broad scope of coverage that should include the following elements of Internal Audit activity:

- Conformance with the Standards, Definition of Internal Auditing, the Code of Ethics, and Internal Audit's Charter, plans, policies and practices;

- Expectations of Internal Audit as expressed by senior management and operational management;
- Tools and techniques used by Internal Audit;
- The mix of knowledge, experiences and disciplines within the team; and
- Whether Internal Audit adds value and improves the organisation's operations.

3.4   Results of external assessments will be reported to the Joint Audit Committee at the earliest opportunity following receipt of the external assessors report. The external assessment report will be accompanied by a written action plan in response to significant comments and recommendations identified. Any significant areas identified of non-conformance will be reported in the Annual Internal Audit Report.

4   Review of the QAIP

4.1   This document will be reviewed at least on an annual basis.

Appendix 1

Performance Targets 2017/18*

Type	Description	Narrative	Target
Outputs	Audit Coverage	% of Audit Plan Delivered.	90%
	Report Production	Completion of Draft Audit Report within 10 working days.	95%
	Report Production	Completion of Final Report within 5 days of agreement of the draft.	95%
	Audit Recommendations	Recommendations accepted v made.	100%
Quality	Client Satisfaction	% of Post Audit Questionnaires in which management have responded as "Very Good" or "Good".	95%
	Management Perception	% of Positive Responses in respect of perceived benefits and value of Internal Audit work.	95%
Compliance	Public Sector Internal Audit Standards (PSIAS) Compliance	Level of Compliance with PSIAS.	100%

* Subject to review by Joint Audit Committee