

# Thurrock Council

## Public Sector Internal Audit Standards Self-Assessment 2023

Presented at the Standards & Audit Committee meeting of 30<sup>th</sup>  
October 2023

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# 1. Introduction

## The International Standards for the Professional Practice of Internal Auditing

The Institute of Internal Auditors (IIA) is the global professional body for internal auditing. It publishes the International Professional Practices Framework (IPPF) which includes the definition of internal auditing; a Code of Ethics for internal auditors; International Standards for the Professional Practice of Internal Auditing; plus other strongly recommended guidance for internal auditors, designed to help them to implement and interpret the standards.

## Public Sector Internal Audit Standards (PSIAS)

In the UK, the Public Sector Internal Audit Standards (PSIAS) are based on the mandatory elements of the IPPF and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. In accordance with the PSIAS, the Chief Internal Auditor is required to provide an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The report 2022/23 was presented to the Standards and Audit Committee meeting on 19<sup>th</sup> July 2023.

The PSIAS are broken down into 2 specific areas around the Attribute Standards, which looks at the characteristics of the organisation and the individuals performing internal audits, and the Performance Standards, which describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured.

The Attribute Standards and Performance Standards cover the following areas:

### Attribute Standards:

#### 1000 – Purpose, Authority, and Responsibility:

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework

#### 1100 – Independence and Objectivity:

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

#### 1200 – Proficiency and Due Professional Care:

Engagements must be performed with proficiency and due professional care.

#### 1300 – Quality Assurance and Improvement Program:

The Chief Internal Auditor must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

**Performance Standards:****2000 – Managing the Internal Audit Activity:**

The Chief Internal Auditor must effectively manage the internal audit activity to ensure it adds value to the organisation.

**2100 – Nature of Work:**

The internal audit activity must evaluate and contribute to the improvement of the organisation's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

**2200 – Engagement Planning:**

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

**2300 – Performing the Engagement:**

Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.

**2400 – Communicating Results:**

Internal auditors must communicate the results of engagements.

**2500 – Monitoring Progress:**

The Chief Internal Auditor must establish and maintain a system to monitor the disposition of results communicated to management.

**2600 – Communicating the Acceptance of Risks:**

When the Chief Internal Auditor concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Chief Internal Auditor must discuss the matter with senior management. If the Chief Internal Auditor determines that the matter has not been resolved, the Chief Internal Auditor must communicate the matter to the board.

It is against the above Standards that the self-assessment is undertaken.

## **2. Compliance with the Public Sector Internal Audit Standards**

It has previously been reported through the Chief Internal Auditor's Annual Reports for 2021/22 and 2022/23 that the Internal Audit Service is non-compliant with the PSIAS. The issues highlighted within the Best Value Inspection Report issued on 15<sup>th</sup> June 2023, and the Improvement & Recovery Plan developed in response to the intervention and

appointment of Essex Commissioners in September 2022, identified that the service was starting from a low base. Compliance with the Standards has been identified as key to the Council's Improvement and Recovery Plan as part of the Governance and Scrutiny workstream.

### **Attribute Standards:**

#### **1000 – Purpose, Authority, and Responsibility:**

The existing Internal Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit Service. It was presented to the Standards and Audit Committee on 23<sup>rd</sup> February 2023 for endorsement and adoption. (Compliant)

#### **1100 – Independence and Objectivity:**

It is clear from the outcomes of the Best Value Report that the internal audit activity was not independent, and the resourcing issues meant little work was being completed. However, this is being addressed and the Chief Internal Auditor now has regular monthly meetings with the Chair of the Standards and Audit Committee, quarterly meeting with the Chief Executive and now attends DMT's on a quarterly basis. (Part compliant)

#### **1200 – Proficiency and Due Professional Care:**

The Head of Audit is suitably qualified and experienced. He has been supported since April 2023 by a very competent Senior Internal Auditor. However, the other 2 more junior members of the team do not have the level of competencies, skills and experience that they require to work independently so additional close supervision has had to be provided. The APEX framework with Mazars is being utilised to provide additional support. (Part compliant)

#### **1300 – Quality Assurance and Improvement Program:**

The Service does not currently have a quality assurance and improvement program. The Chief Internal Auditor and the Senior Internal Auditor have, however, been progressing improvements to address shortfalls in the services' compliance with the Performance Standards. In response to this self-assessment, the Chief Internal Auditor will be developing a formal quality assurance and improvement plan and program that covers all aspects of the internal audit activity. This will be presented to the Senior Leadership Team and Standards and Audit Committee. (Non-compliant)

### **Performance Standards:**

#### **2000 – Managing the Internal Audit Activity:**

There is a 6-month rolling plan in place which was developed through discussions with senior management and considered the Council's Corporate Risk and Opportunity Register and the work of other assurance providers. Changes to the plan have to be agreed with the Chair of the Standards and Audit Committee and reported to its next meeting. The Internal Audit Manual is currently being revised and updated to reflect the changes brought about by the introduction of the new TeamMate Working Papers software. A formal assurance mapping exercise has not been carried out. Progress

reports are presented to the Standards and Audit Committee which highlight any specific risks or governance issues as they arise. (Part compliant)

### **2100 – Nature of Work:**

The internal audit service does contribute to the Council's governance, risk management and internal control frameworks through the 6-month plan. However, due to past issues with resourcing, the work undertaken in the previous year was very limited. This is being addressed in the current year. Whilst the service promotes appropriate ethics and values within the organisation, it has not undertaken any specific work around the ethical framework or IT governance arrangements. It is currently undertaking a review of the risk management culture within the Council. Implementation of the new Teammate software has resulted in a more disciplined and systematic approach to the work being carried out, Internal Auditors do evaluate internal controls when carrying out work assigned to them from the audit plan. (Part compliant)

### **2200 – Engagement Planning:**

The engagement planning arrangements require Internal auditors to develop an Assignments Planning Sheet (APS) for each review. This sets out the engagement's objectives, risks, any managements concerns, the scope of the review and the controls being tested, any limitations to the scope, document requirements before the review commences, timing, and resource allocations. All of this information is entered on to TeamMate which automatically generates a draft APS. Following consultation with the client and approval from the Chief Internal Auditor, a final version of the APS is signed off by the Internal Audit team and the Client Sponsor. (Compliant)

### **2300 – Performing the Engagement:**

Internal auditors do identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives. All the evidence to support this is recorded on TeamMate. However, as previously stated, this currently involves quite a lot of additional supervision. The expectation is that this level of support will reduce as the Internal Auditors develop their skills and knowledge, and become familiar with meeting their obligations under the Performance Standards. All work undertaken through TeamMate has to be reviewed and formally signed off by either the Chief Internal Auditor or Senior Internal Auditor. (Compliant)

### **2400 – Communicating Results:**

A debrief meeting is held with the client following completion of the review explaining what has been found and the recommendations arising from the work carried out. A draft report is produced which is split into three sections.

- The first section is the Executive Summary which details: the scope of the review including the objective(s) of the review and risk(s) considered as part of the review; an overall conclusion; a summary of the effectiveness and design of the control framework, application of and compliance with the control framework and a summary of the recommendations.
- The second section is the Action Plan which details: the recommendations; the risk rating (high, medium or low); whether the client agrees with each of the

recommendations; the management actions to address the recommendations; implementation dates; and, identifies each responsible officer.

- The third section is the Detailed Findings and Recommendations which provides; a breakdown of the controls that internal audit tested; the results of the testing and implications of non-compliance; the recommendations; and the risk ratings

A draft report is issued to the client's team with a request to confirm the factual accuracy of the report and supply action plans that address the recommendations. A response deadline of ten working days is usually set for the client to respond. Upon receipt of the client's responses, internal audit's team reviews the completeness and appropriateness of the responses. Where there are concerns, the internal audit team resolves these through documented and direct engagement. When this engagement concludes, the internal audit team produces a final report that is approved by the Chief Internal Auditor before being issued to all those named on the distribution list. Final reports are then presented to the Standards and Audit Committee as part of the progress reporting cycle.

The Chief Internal Auditor provides the Standards and Audit Committee with an annual report which gives an overall opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks. This was presented to the Standards and Audit Committee at its meeting on 19<sup>th</sup> July 2023. (Compliant)

#### **2500 – Monitoring Progress:**

Arrangements are already in place to monitor and follow up on recommendations made to management to enhance the control environment. For low level risks, confirmation is sought from management. For medium and high level recommendations, evidence is sought to confirm they have been implemented. However, during 2022/23, the resourcing issues resulted in little work being undertaken so no follow-up work was carried out. The Internal Audit Service is in the process of re-activating its tracking of management actions. (Part compliant)

#### **2600 – Communicating the Acceptance of Risks:**

When the Chief Internal Auditor concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Chief Internal Auditor would discuss the matter with senior management. If the Chief Internal Auditor determines that the matter has not been resolved, the Chief Internal Auditor will communicate the matter to the Standards and Audit Committee. However, to date, this has not happened. (Compliant)

### **3. Overall Conclusion and Actions Moving Forward**

Compliance with the Standards is a three staged approach. The first stage is to undertake the self-assessment. This report represents completion of this first stage. The next stage is the development of a quality assurance improvement plan/program to address the issues arising from the self-assessment. The final stage is to have an external assessment undertaken to provide independent assurance that the service is meeting the Standards.

The result of this self-assessment is that whilst the service is meeting most of the Performance Standards, more work is required to meet the Attribute Standards, particularly around the Independence and Objectivity of the service and the quality assurance improvement plan/program. Some of this work has started with the Chief Internal Auditor setting up regular meetings with the Chair of the Standards and Audit Committee and quarterly meetings with the Chief Executive.

The Internal Audit Service only fully implemented the TeamMate audit software in June 2023. While this has had a significant positive impact on demonstrating the service's compliance with the majority of the Performance Standards, evidence to support an external assessment is naturally very limited.

A key outcome of this self-assessment will be the second stage, which is the development of a quality assurance improvement plan to address areas of non-compliance or part compliance. This will be aligned to the requirements of the PSIAS and provide a baseline against which service improvements can be measured. This will be shared with both the Senior Leadership Team and the Standards and Audit Committee.

In respect of the third stage, the current Global Standards (which include the IPPF) are being revised and a consultation on a new set of Standards has recently concluded. A report on the revised Standards is due to be issued in January 2024 with implementation of the new Standards expected from January 2025. The Global Standards underpin the PSIAS so are very likely to result in some new elements being added to them. The general consensus amongst the various heads of internal audit forums is that these changes will not result in a wholesale review of the PSIAS but will enhance the current Standards. However, this should not be a reason to wait and see but provides an opportunity for the service to undertake more reviews and develop further evidence during the next 16 months to work towards an external assessment against the new PSIAS in early 2025.