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To: Governance and Audit Committee – 22nd July 2021
Subject: **Internal Audit – External Quality Assessment 2021**
Classification: Unrestricted

Summary:

This report summarises:

- The significant outcomes of the independent External Quality Assessment process undertaken between January and April 2021 in compliance with the requirements of the Public Sector Internal Audit Standards.

Recommendation: FOR ASSURANCE

Introduction

- 1.1 The outcome of the review provides positive assurance that the internal audit service provided to Kent County Council and other organisations, which contract with the internal audit team, is a service which is generally compliant with the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The standards contain requirements regarding compliance with the following:
 - The Definition of Internal Audit
 - The Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing, which provide guidance regarding interpretation in respect of both Attribute standards, the characteristics of organisations and parties performing internal audit activities, as well as Performance Standards which describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. These criteria are subject to interpretation at a local level.
- 1.3 The essence of the review is therefore focused on providing assurance regarding general compliance with the standards, set within the context of what the assessor sees as current practice within the sector and the profession.
- 1.4 Current provision compares favourably with peers within the sector and with commercial providers. The report therefore highlights good practice, which was observed during the review, as well as indicating areas where the Internal Audit Service should seek to review its approach particularly with regard to further alignment of its risk-based approach with the risk management policy and associated procedures operating within each client.

Good practice observed during the assessment.

- 1.5 The review noted numerous areas of good practice, however of particular mention are the:
 - approach to maintaining a Quality Assurance Improvement Programme (QAIP) reflects best industry practice.
 - attention given to gaining feedback and demonstration of the quality of services through use of KPI's, which are routinely presented to Audit Committees.
 - Internal Audit team has a strong commitment to training, with service delivery being supported by a comprehensive skills matrix and a detailed Internal Audit Manual, cross referenced to the PSIAS and use of Pentana Audit Software.

- conduct and documentation of meetings with management during annual audit planning, and
- where a shortfall of resources occurs, there is a commitment to the use of external resources with relevant skills and experience, in order to complete appropriate activity to allow provision of the Head of Internal Audit's Annual Report.

Areas for review observed by the review.

1.6 There are no areas where non-compliance was observed.

1.7 A number of aspects of provision have been discussed with the Head of Internal Audit where it has been recommended that the Head of Internal Audit should review the current approach to planning and the conduct of engagements which it is felt will be beneficial to clients by enhancing service in relation to deeper alignment with each clients' risk appetite. These are:

- through increasing integration of the use of risk-based internal audit techniques with the risk appetite of its clients regarding planning and the scoping of engagements and the recognition of the concept of 'control risk',
- developing a clear alignment through working papers for each assignment to focus on the achievement of agreed Management (Business) objectives and agreed significant risks along with relevant key controls, which would likely enhance the benefit of, and value gained from audit reports.
- giving consideration to the revision of the basis for expressing internal audit issues and opinions in order to align with risk impact definitions recognised by each client in respective Risk Management Policies.
- enhancing the Head of Internal Audit Annual Report through inclusion of a summary of the significant risks being faced by each client and those other assurances available to the Head of Internal Audit in reaching an annual opinion.

Recommendations

1.8 The Governance and Audit Committee note the positive outcome of the External Quality Assessment 2021.

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June 2021