DRAFT

External Quality Assessment

Internal Audit Shared Services

Executive report – January 2023

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External Quality Assessment
Medway Council and Gravesham BC Shared Internal Audit Service

> Opinion: The Internal Audit Shared Service is delivering to a standard that **generally conforms** with the Public Sector Internal Audit Standards.

Key matters arising from the review:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of each Council particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Defining 'significance' which the PSIAS encourages as the basis for internal audit provision in line with each Councils levels of risk impact would be beneficial'
- Where high risk recommendations are identified ensure these support a negative audit opinion which is appropriately reflected in strategic and operational risk registers,,
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect the strategic planning process and therefore the cumulative knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.

Good Practice identified during the review

- An Internal Audit Charter setting out the role and responsibilities of Internal Audit within the Councils guides delivery and establishes the basis for delivery of Internal Audit.
- Internal Audit plans are refreshed at the mid-year point to reflect current need;
- Client engagement is robust and supported by detailed records of discussions;
- **T**he service has developed a documented internal audit methodology and supporting templates that are routinely updated to reflect best practice' and therefore deliver a consistent risk-based service, which is well regarded by clients;
- Quality review of internal audit work is consistent, documented and timely;
- The Quality Assurance Improvement Programme identifies areas in which future development will be beneficial, and is directly aligned with PDR and training processes;
- The Head of Internal Audits performance appraisal is supported by requesting input from other senior interested parties;
- DBS checks are completed for internal audit staff; and
- Routine reporting informs clients and the Audit Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations.

Executive summary

Internal Audit Services are delivered by a shared service in-house team and can be supported by externally contracted support services if required. Services are managed by James Larkin, as Head of Internal Audit and Counter Fraud, who assumes the role of Chief Audit Executive (CAE) for the purposes of this review. James is supported by Helen Thaqi as Internal Audit Manager, who plays a significant role in the organisation and management of operational activity. The service has been carrying a number of vacant positions, regarding which delays in appointment have been experienced. This has impacted upon the efficiency of delivery although does not appear to have impacted on the quality of work performed and therefore compliance with the PSIAS.

The service has responded to the changes of focus in professional standards through continued development of its risk based approach with regard to planning and the completion of assignment work; the Internal Audit Assurance Engagement Process (Manual) has been updated to reflect this although further update is required to reflect the latest developments; cross referencing the document to the relevant PSIAS standard would aid training as the vacant posts are recruited to.

From an internal audit perspective, considerable advantage is to be gained from increasing development and recognition of each client's Risk Management processes, and therefore provide a fully aligned basis for risk-based internal audit as required by the standards. The approach can be used to fully reflect the risk appetite of each Council. If fully embedded within audit engagement planning, as recognition of Management's Objectives, this will also align with current practice to identify significant risks and provide a basis for an assurance opinion in relation to risk management, governance and control . Clear alignment will enable internal audit plans and assignments to focus on the value of identified 'Control Risk' and thereby increasingly focus its attention on recognised key controls and the assurances available to mitigate risk. Continuing to develop this thread will enhance both the efficiency and effectiveness of internal audit as well as its benefit to each Council.

Consequently, with a constantly changing risk environment, particularly as the service responds to the changing needs of the Councils, there is a need and opportunity for the internal audit service to continue to enhance delivery through acting as a catalyst to ensure that robust risk management systems are operational, increasing its awareness of the assessment of risk and as a consequence informing its own approach. This will help ensure that internal audit focuses on the most appropriate areas and can demonstrate that it continues to provide a service that effectively contributes towards the achievement of the Council's stated objectives, through the provision of independent assurance.

Current services are assessed to **'generally conform'** with the PSIAS standards with the service demonstrating a high standard of delivery which is well regarded by stakeholders and compares well with best sector practice. A series of specific recommendations are made in the report that follows which reflect building on the existing strengths in relation to resources, competency and delivery in order to enhance future services and as a result enhance the benefit of the service to clients.

Overall assessment

1	**RESOURCES**		**Excelling** – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
2	**COMPETENCY**		**Excelling** – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations. A number of areas exist where additional benefit can be derived from alignment with client risk appetite.
3	**DELIVERY**		**Established** – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

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Summary of good practice identified within EQA

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Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit Committees (AC).	The combination of the Charter, supported by the Internal Audit process documentation is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A process is in place regarding the identification and management of potential conflicts and/or declarations of interest.
1311	The service has conducted internal assessment exercises regarding its performance in accordance with a Quality Assurance Improvement Programme.	Performance review is embedded within quality control procedures and identifies and supports performance development needs.
2020	Active engagement at Member and management levels.	Represents the establishment of a good understanding of key issues through routine interaction with Officers and Members.
2030	The need for appropriate internal audit resources can supported by support from appropriate other external sources.	This represents a firm basis for the successful delivery of the internal audit plan and the use of support, if required.
2040	A recognised process for delivery of internal audit services has been established.	Provides for a consistent methodology, within which the service is delivered through a series of appropriate and comprehensive templates.
2060	Reports are produced using a standard template which is consistently applied.	Demonstration of a consistent approach to communication which is well received by management and the AC's – effective follow-up ensures that issues are not lost.
2300	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Effective supervision and review of progress ensures a consistent approach and delivery of the approved methodology.
2450	Internal auditors must communicate the results of engagements.	Timely and informative communication is undertaken and documented at all stages of the internal audit process.

Part one

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Compliance with the
Public Sector Internal Audit Standards

Resources

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Business Vision and Mission, Governance arrangements, Recognition of standards, Charter, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action	
1.	**Quality Assurance Improvement Programme (QAIP)** The service has developed a QAIP which was updated for 2022/23. The QAIP includes various aspects of the review and assessment process but could beneficially be extended to also reflect training needs and satisfactory completion of agreed training requirements.	Consider introducing further performance related information arising from the completion of half yearly PDR's and the completion of training programmes. Ensure that the Annual Report confirms that all aspects of the QAIP have been completed during the year. . **PSIAS 1320**	
2.	**Internal Audit Processes** The internal audit methodology has been documented in accordance with standards with the latest version of the engagement programme template reflecting best sector practice as the basis for evidencing and supervision of each engagement.	Following conclusion of the EQA update the internal audit assurance engagement process for the latest versions of documentation and any revisions in order to support use of a consistent approach to completion of all reviews. **PSIAS 2040**	
3.	Internal Audit Charter The Internal Audit Charter provides a formal identification of the role and responsibilities of the Internal Audit Service. Section 9 details the responsibilities regarding establishment of internal audit plans.	Section 9 could beneficially align production of the plan with the CAE's ability to provide a positive opinion regarding risk management, governance and control within each Council. **PSIAS 2010**	

Competency

Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

	Issue identified	Recommended action	
1.	**Definition of significance** The PSIAS emphasises a focus on 'Significant Risk' which is terminology used within the definitions used for establishing opinions in relation to assurance on each engagement. Review of internal audit reports shows that the use of the term is flexible and is based on judgement of the internal auditor and the supervision process. Reports at engagement level and to Audit Committees contain considerable detail rather than emphasis on the assurance opinion and significant risk.	Consider aligning the terminology used for defining grading of recommendations and the levels of assurance given to each Council's risk management process where the risk appetite is established in terms of impact and likelihood. This would assist in communication with clients at both planning and reporting phases of each engagement and ensure that there was a focus on that which is agreed to be of significant risk with management and Members Further development of this process would enable limited assurance opinions to relate to directly to where risks deemed to reflect the highest categories of risk within each Councils risk management system were observed. This may align with a single High (Red) recommendation/action or a stated multiple of medium (amber) recommendations, which together compromise the likelihood of achieving objectives. **PSIAS 2060**	
2.	**Internal Audit Planning** There is significant evidence of a consistent approach to the recognition of significant risks at both strategic planning and engagement planning stages. This may be enhanced through greater recognition of the concept of 'Control Risk' being the difference between assessed inherent and residual risk values. Where assurance sources are identified which confirm that the control framework is effective these may be used as part of the services role within assurance mapping.	Identification of the value of control risk in addition to inherent risk would allow internal audit to focus on particular areas where management have recognised concerns, these may relate to: - Areas where control risks scores are highest and where failure of controls may expose the Council to critical risks, or where - Areas where control risk is zero or negative, being areas where controls are either not having the desired impact or where further mitigating controls need to be introduced in order to reduce the residual risk to an appropriate level against the established risk appetite. An additional benefit may also arise through identification of existing assurance sources. **PSIAS 2010/2300**	

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Competency continued

	Issue identified	Recommended action	
3.	**Purpose of the system subject to review** Internal Audit Engagement Programmes specify the objective of the audit and focus on identification of agreed significant risks and those key controls which it is expected will be identified within the area subject to review.	This process provides for a robust engagement however the further inclusion of a Management Objective is regarded as good practice, perhaps replacing the objective of the audit. This may be beneficial to increasing focus on the specific aims of management in each review and enable increasing alignment with the significant risks being faced to the non-achievement of objectives. This will assist with the discussions with client managers and specifically the identification of the significant risks which may impact upon achievement of the established objectives and upon which the assurance opinion should be based. **PSIAS 2201**	
4.	**Consideration of Fraud** The Counter Fraud Team are currently compiling a Fraud Risk Register demonstrating compliance with the standards regarding the recognition of potential fraud, however until this is available there is not a direct link to fraud risk assessment when scoping engagements. Finalisation of the Fraud Risk Register would allow the Internal Audit Team to better demonstrate compliance with the PSIAS.	Ensure that the areas reviewed within an engagement include those where the Counter Fraud Team have identified the potential that significant fraud risks exist. **PSIAS 2030**	

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Delivery

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

	Issue identified	Recommended action	
1.	**Governance** The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements. Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and Members expenses.	In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to map internal audit activity to the content of the Code in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report. **PSIAS 2110**	
2.	**Risk Management** Internal Audit has reviewed risk management as an assignment in Gravesham BC (2021/22) and Medway Council (current 2022/23) providing an 'Amber' assurance opinion in both cases.	The standards require an annual opinion to be made in the Head of Internal Audit's Annual Report regarding the adequacy and effectiveness of each Councils risk management processes. It would therefore be beneficial to support the opinion with evidence of how this has been reached through a combination of the assurances gained at both a strategic level and at an operational level within engagements. **PSIAS 2120**	
3.	**Confidentiality and Limitation of Liability** Current reporting regarding engagements and to the Audit Committees fails to recognise the sensitivity and confidentiality of the matters being raised.	The Internal Audit Team should consider the need to include appropriate confidentiality and limitation of liability clauses in reports which are shared with third parties directly or in published Audit Committee papers. **PSIAS 2440**	

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Delivery continued

	Issue identified	Recommended action	
4.	**Head of Internal Audit Annual Opinion** The current opinion is supported by an analysis of the evidence that has been recognised in reaching the opinion. This currently fails to recognise the extensive and continuous planning processes that are in place to consider both past knowledge as well as future risks and priorities.	In practice, the opinion is actually based upon the continuous thread or trend of assurance work completed in recent years as a result of the focus of internal audit plans, the wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes. Future opinions should state the full basis upon which the opinion has been reached and could beneficially reflect on the significant risks which each Council is facing and the wider assurance sources that have been recognised including each clients risk management process. This would establish full alignment with each Council's Corporate Governance Statement. **PSIAS 2450**	

Part two

Suggested enhancements for consideration

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Suggested Enhancements for consideration

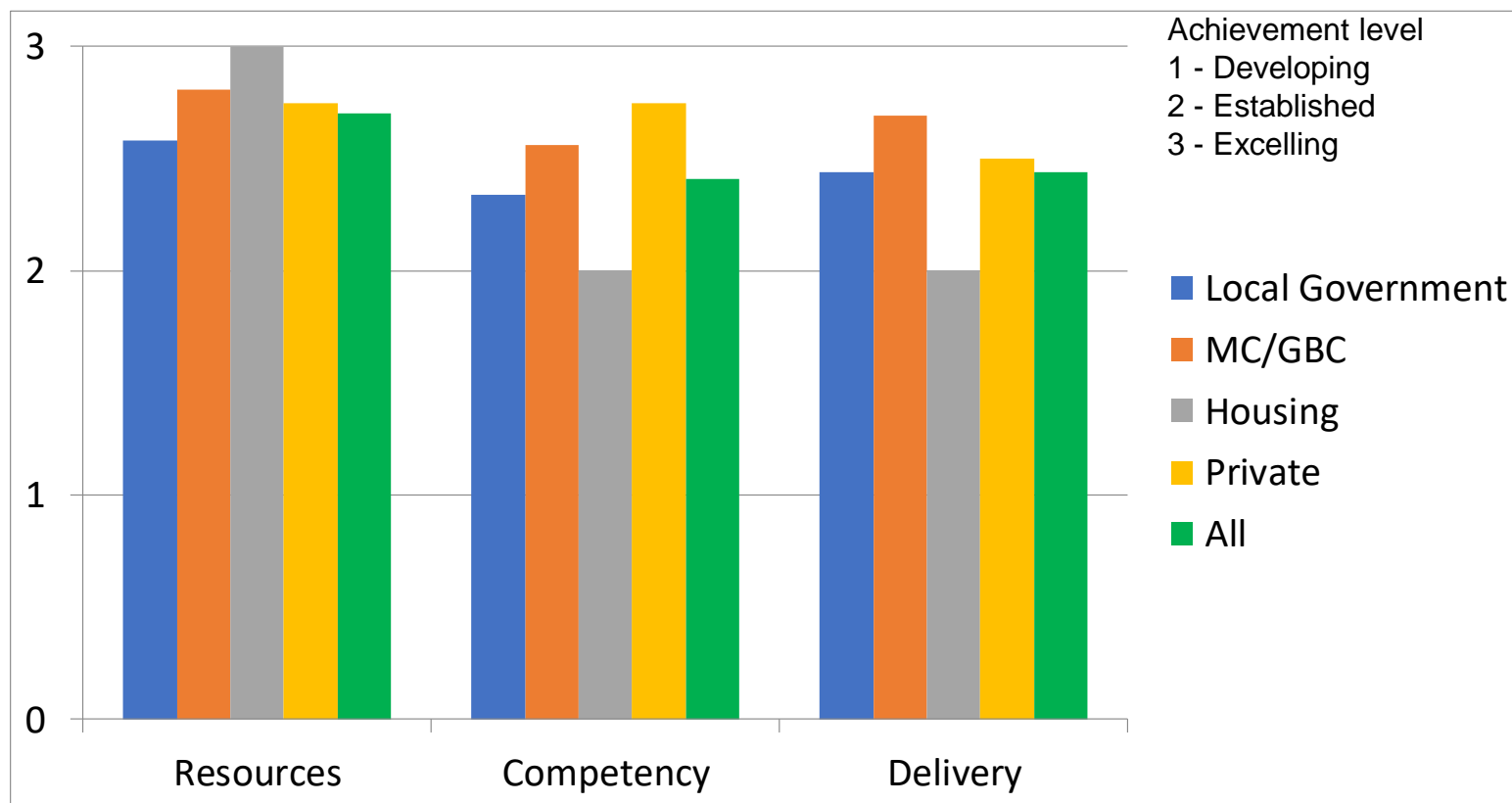|	Issue identified	Recommended action
1.	**Client surveys** Progress has been made in obtaining feedback from auditees following each audit at an operational level and through discussions with client managers supported by use of an annual survey. Discussions within the annual planning process also provide feedback at senior management levels. This provides confirmation from clients regarding the Teams ability to deliver upon its responsibilities and particularly add value. Response rates to the annual survey remain inconsistent.	Whilst this represents a common issue for internal audit the Team should experiment with alternative mechanisms for obtaining feedback which may include: a) Reducing the length of questionnaires b) Focusing upon different aspects of the service with the range of stakeholder groups (Service Managers, Management Teams, and Audit Committee Members) c) Timing of correspondence to off-peak periods. A summary of feedback should be included as part of the QAIP process. **PSIAS 2000**
2..	**Internal Audit Assurance Engagement Process** Whilst the existing document provides a comprehensive analysis of the established engagement process it contains reference to the PSIAS in relation to each section header.	It may be beneficial to cross reference the various elements of the approved process to the relevant individual standards within the PSIAS as this would help establish the relationship to specific aspects of the service for new appointments to the internal audit team. This would follow the style of presentation within the Internal Audit Charter, which reflects good practice. **PSIAS 2030**

Part three

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Benchmarking

Benchmarking - Sector analysis

Benchmarking - Industry analysis

Achievement level
1 - Developing
2 - Established
3 - Excelling

■ Local Government
■ MC/GBC
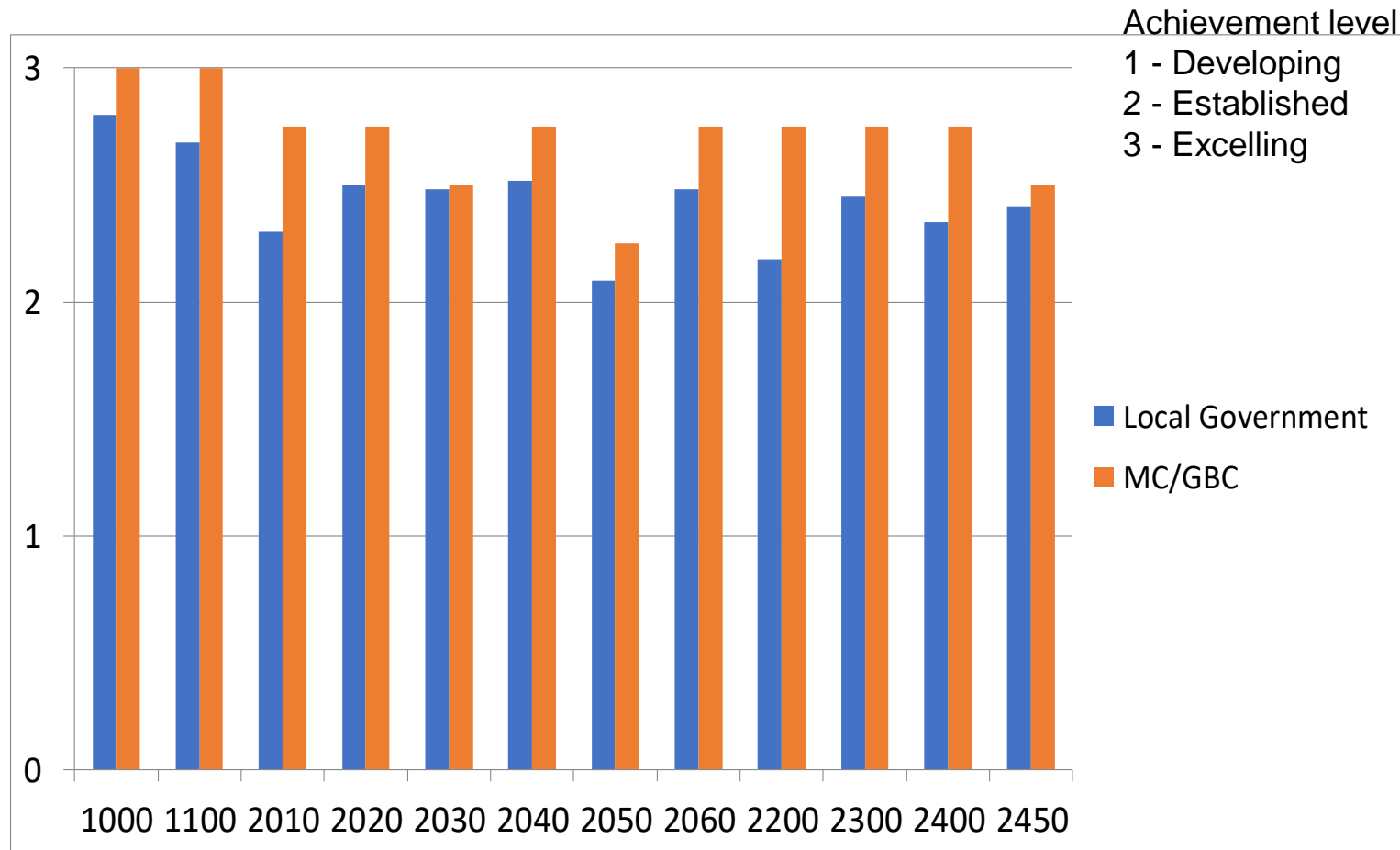
Appendix

1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations

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Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	100	
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	100	
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	100	
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	90	10
Average	**97**	**3**

Conclusion:
Feedback from stakeholders confirms that the Internal Audit Shared Service is considered to provide a good quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded. A single respondent was less positive regarding the emphasis placed on significant risk and the increasing need to add value through provision of advice regarding new ideas and best practice elsewhere.

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Key PSIAS Standards assessed
(for benchmarking purposes)

Standard		Focus
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 Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	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
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

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Basis for EQA

Compliance with IPPF/PSIAS

- **Resources**

  Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

  Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

  Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

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Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
Review	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.