

<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Contact Officer:</b>	<b>Stephen Baddeley</b>
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<b>Report Track:</b>	<b>Audit &amp; Governance Committee only</b>

**AUDIT & GOVERNANCE COMMITTEE**  
**21 MARCH 2017**  
**EXTERNAL QUALITY ASSESSMENT REPORT FOR INTERNAL AUDIT**

**1 Purpose of Report**

- 1.1 To present to the Audit & Governance Committee for information the report and action plan following the External Quality Assessment of Internal Audit carried out in 2016.

**2 Recommendations**

- 2.1 That the Committee notes the contents of the External Quality Assessment Report and the action plan contained within it.
- 2.2 That the Committee notes the conclusion of the Assessor that the section is compliant with the standards.

**3 Key Issues and Reasons for Recommendation**

- 3.1 Under the Public Sector Internal Audit Standards the Internal Audit section has a requirement to have an External Quality Assessment carried out by an independent person at least once every five years. This forms part of the section's Quality Assurance and Improvement Programme.
- 3.2 The Internal Audit Section had a review carried out in November 2016 by CIPFA and the report and action plan is attached for information.

**4 Relationship to Corporate Priorities**

- 4.1 The work of Internal Audit is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities.

**5 Report Detail**

- 5.1 The Internal Audit Section is required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP) approved by the Audit Committee on 28<sup>th</sup> June 2016 to have an External Quality Assessment (EQA) at least once every five years.
- 5.2 A decision was taken by the Chief Internal Auditor in consultation with the Head of Governance to arrange for the EQA to be carried out in 2016-17. To obtain consistency of views across the County and in an attempt to seek value-for-money a joint tender was put out for a supplier to deliver the EQA for the majority of the Staffordshire Authorities, Shropshire Council and Telford & Wrekin Council. CIPFA were selected to carry out the EQA as a result of this tender exercise. The Head of Governance acted as the sponsor for the EQA so that it was carried out independently of the Chief Internal Auditor.
- 5.3 The review took place in November 2016 and included reviewing the Internal Audit files, working practices and documentation. The assessor also held interviews with the Internal Audit employees, a number of clients, representatives from the Audit Committee and key Council Officers including the Managing Director, s151 Officer and Monitoring Officer.
- 5.4 At the end of the review the Head of Governance and Chief Internal Auditor received verbal feedback and a formal report setting out the findings. The report stated that Internal Audit generally conformed with the PSIAS requirements but that there were some areas where improvements could be made.
- 5.5 The assessor's overall opinion as stated in the report is "*I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. However, the service acknowledges that it has yet to move fully from control-focussed audits to risk-based auditing, which was reflected in the audits that I reviewed. In addition, the emphasis on keeping audit documentation concise, especially the assignment brief and report, has resulted in some missing information.*"
- 5.6 An action plan with 11 Recommendations and 14 Suggestions for improvements was included in the report. Management comments have been added to this by the Chief Internal Auditor, Head of Governance and Head of Law & Administration to set out how the recommendations contained in the report will be taken forward.
- 5.7 The EQA will be used to help to inform the annual review of the effectiveness of Internal Audit for 2016-17. This will be presented to the Audit Committee in June.

**6 Implications**

**6.1 Financial**

None

**6.2 Legal**

None

**6.3 Human Resources**

None

**6.4 Section 17 (Crime Prevention)**

None

**6.5 Human Rights Act**

None

**6.6 Data Protection**

None

**6.7 Risk Management**

None

**6.8 Equality & Diversity**

None

**6.9 Best Value**

None

**7 Appendices to the Report**

Appendix 1 – Final Report for the external assessment of the shared internal audit function Cannock Chase District Council and Stafford Borough Council

**Previous Consideration**

**Background Papers**

- Quality Assurance & Improvement Programme for Internal Audit
- Review of Internal Audit 2015-16
- Audit Charter

## **Final Report for the external assessment of the shared internal audit function**

### **Cannock Chase District Council and Stafford Borough Council**

**Lead Associate: Elizabeth Humphrey, CPFA**

**Internal QA: Keeley Lund, Technical Manager, CIPFA, Professional  
Standards & Guidance**

**23<sup>rd</sup> November 2016**

## **Review of Cannock Chase District Council and Stafford Borough Council's Shared Internal Audit service (November 2016)**

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013. The standards require periodic self-assessments and an assessment by an external person every five years. Now that Cannock Chase District Council and Stafford Borough Council's shared audit service has been operating under the standards for over three years, this was deemed a good time for the first external review. The review also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The review was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed six audits carried out during the 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to the Audit Committee.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. However, the service acknowledges that it has yet to move fully from control-focussed audits to risk-based auditing, which was reflected in the audits that I reviewed. In addition, the emphasis on keeping audit documentation concise, especially the assignment brief and report, has resulted in some missing information as detailed below.

I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards, in particular revising the audit assignment brief and report to give a greater emphasis to risk. The Chief Internal Auditor will need to take action to implement them and an action plan is included as appendix 1.

During my review, it became clear that the service is shared at only the most basic level with a strong "them and us" culture. This has made it difficult to deliver a consistent service or a consistently directed service and, until this is addressed, the service will not be as effective as it could be.

## Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	Full	The nature of assurance and consultancy work is defined in the Charter		
<b>1100</b> Independence and objectivity	Full	<b>Standard 1110</b> Independence and objectivity are well managed. All interviewees emphasised the importance of these aspects of audit behaviour. The annual report did not, however, confirm no impairments to independence	Include a statement to confirm that independence has not been impaired in the past year in the annual report	S1
		<b>LGAN 4.2.4</b> Neither audit committee has reviewed its own effectiveness for some time	Reinstate annual audit committee effectiveness reviews	S2
<b>1200</b> Proficiency and due professional care	Partial compliance	<b>Standard 1210.A2</b> None of the audits that I reviewed showed any documented consideration of fraud risks	Give greater consideration of fraud risks in audit planning, ruling out fraud risks explicitly in a revised assignment brief where appropriate	R1
		<b>Standard 1220.A1 and 1220.A3</b> The audit assignment brief does not indicate who should receive either it or the report and so some auditees may not be consulted when planning an audit	Ensure all appropriate people receive both the audit brief and report	R2
		Auditees and auditors had mixed views on the focus of audits in relation to risk or internal control	Expand the audit assignment brief to give greater emphasis to risk Continue to work with auditors to develop the risk focus of their work through improved documentation and further training and guidance	R1 R3
<b>1300</b> Quality assurance and improvement programme	Full	<b>Standard 1311</b> The audit team reviews itself annually, with the help of the Head of Governance but no-one else contributes	Involve others (for example the s151, audit committee members, auditees) in the annual review of audit	S3

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<b>Standard 1312</b> No formal notes were kept of meetings with the sponsor for this review	Make and retain notes of discussions with the EQA sponsor	S4
<b>Performance standards</b>				
<b>2000</b> Managing the internal audit activity	Partial	<b>Standard 2010</b> The form of the annual audit opinion and the opinion given on individual audits is different	Consider using the same opinion for audit reports and for the annual audit opinion	S5
		<b>Standard 2010.A1</b> Both audit committees were engaged with the audit planning process but the Stafford audit committee did not seem to be aware that the plan was risk based.	Ensure that the audit committees are aware of the risk basis of the audit plan and how this is determined	S6
		<b>Standard 2020 and 2060</b> Internal audit activities are reported to each audit committee during the year. Senior management see and comment on the audit plan but receive interim activity reports and the annual report only as part of their review of all committee reports. The CIA does not present at any senior management meetings	Report audit activity during and at the end of the year to senior management, with the CIA presenting those reports	R4
		Neither Stafford nor Cannock Chase's audit committee meets privately with the CIA although Stafford's audit committee does meet privately with the external auditors for pre-audit briefings	The CIA should meet privately with the audit committee at least once a year	R5
		<b>LGAN 8.2.3</b> There is no guidance in the audit approach regarding raising serious issues with management as they arise	Hold briefings with the CIA before each audit committee	S7
			Include guidance on raising serious interim findings with management in the audit manual	R6
<b>2100</b> Nature of work	Partial	<b>Standard 2110</b> Audit has undertaken no reviews of ethics	Include ethics work in the audit plan	R7
		<b>Standard 2110.A2</b> Work on IT governance is now underway but there has been little work in this area recently	Complete the IT governance work and include in future audit plans	R8

<b>Standard</b>	<b>Compliance</b>	<b>Findings</b>	<b>Recommendations and suggestions</b>	<b>Rec no</b>
		<b>Standard 2120.A2</b> Fraud risks are not explicitly identified in audits	See above	R1
<b>2200</b> Engagement planning	Partial	<b>Standard 2201 and 2210</b> The focus on system notes and the brevity of the audit assignment brief means that many key areas are missed or limited	Expand the audit assignment brief to give greater emphasis to risk, errors, non-compliance and opportunities for adding value/value for money Shift audit planning to be entirely risk based	R1  R9
<b>2300</b> Performing the engagement	Full	The review showed that audits are well-performed and well-documented, although the limitations in the planning may mean that not all key areas are covered	See recommendations elsewhere regarding the audit brief	R1
<b>2400</b> Communicating the results	Partial	<b>Standard 2410</b> Audit reports do not include the engagement's objectives or scope  <b>Standard 2410.A1</b> The audit opinions are aligned to those used for risk and performance, which should be maintained. However, the use of a three-point scale makes it hard to distinguish between reviews that are generally good with weaknesses and reviews that are poor with redeeming factors <b>Standard 2410.A2</b> Satisfactory performance is acknowledged but only in passing <b>Standard 2420</b> Reports meet the requirements for quality of communications but their brevity limits their value <b>Standard 2440.A1</b> Reports do not include the names of the auditor, CIA or recipients and are sent out by the auditor, with the CIA cc-ed in	Outline the engagement's objectives and scope in the audit report, perhaps by including audit brief as an appendix to audit reports Consider moving to a four-point opinion while maintaining alignment with performance and risk  Give greater acknowledgement to satisfactory performance  Expand the executive summary to include key risks, findings and recommendations  Ensure that audits are sent out in the name of the CIA, perhaps by including the CIA's name on audit reports	R10  S8  S9  S10  R11

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p><b>Standard 2450</b> The form of the annual opinion is not that used for individual audits</p> <p><b>LGAN 10.1.4 and 10.2.6</b> The process for agreeing reports and their circulation is not set out for auditees</p>	<p>Consider using the same opinion for audit reports and for the annual audit opinion</p> <p>Include the process for agreeing reports in the assignment brief</p>	<p>S5</p> <p>S11 R2</p>
<p><b>2500</b> Monitoring progress</p>	Full	<p><b>Standard 2500.A1</b> The follow up process works well but auditees were unclear as to how it works. They are only rarely asked to attend audit committees to discuss their reports</p>	<p>Include details about the follow up process in the report</p> <p>Invite auditees to audit committees when discussing unsatisfactory reports or progress</p>	<p>S12</p> <p>S13</p>
<p><b>2600</b> Communicating the acceptance of risks</p>	Full	<p>There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at each council on audit findings</p>		
<p><b>Code of Ethics</b></p>	Full	<p>All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity</p>		
<p><b>Mission</b></p>	Full	<p>The Charter includes the newly developed internal audit mission</p>		
<p><b>Core principles of internal audit</b></p>	Full	<p>No significant problems were identified with following the new core principles, although improving the current audit planning documents will aid compliance. Further work will be needed to demonstrate compliance in the annual report for 2016/17</p>	<p>Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future</p>	<p>S14 R1 R2</p>

The Chief Internal Auditor has details of the findings, standard by standard.

Elizabeth Humphrey CPFA

## Appendix 1: action plan

### Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Expand the audit assignment brief to give greater emphasis to: <ul style="list-style-type: none"> <li>• Risk</li> <li>• Fraud risks</li> <li>• Errors</li> <li>• Non-compliance</li> <li>• Opportunities for adding value</li> <li>• Value for money arrangements</li> </ul>	Agree – will look to refine process and amend brief to become more of a planning document to provide required evidence	Chief Internal Auditor	1/4/17
R2	Ensure all appropriate people receive both the audit brief and report	Process does try to identify key recipients/client contacts but will review to ensure greater clarity in the process. We may consider developing a leaflet for auditees setting out roles & responsibilities, contacts etc assist with this	Chief Internal Auditor	Immediate
R3	Continue to work with auditors to develop the risk focus of their work through improved documentation and further training and guidance	Work is continuing to develop and refine working practices and documentation to improve the risk focus of work. Support and Training will continue to be given to the Auditors to help their understanding of and focus on risks.	Chief Internal Auditor	Ongoing
R4	Report audit activity during and at the end of the year to senior management, with the CIA presenting those reports	Key reports already circulated informally to Leadership Team by CIA directly and CIA meets with each HoS to discuss the plan and individual concerns in the area. We had moved away from formally presenting reports at LT. Will consider reintroducing a formal presentation to LT on the Annual Report to discuss key issues arising from the findings and the level of CIA Assurance initially.	Chief Internal Auditor	30/6/17
R5	The CIA should meet privately with the audit committee at least once a year	This will be explored with the Committees	Chief Internal Auditor/ Head of Governance/ Head of Law & Administration	31/3/17

<b>No</b>	<b>Recommendation</b>	<b>Response</b>	<b>Responsible officer</b>	<b>Action date</b>
R6	Include guidance on raising serious interim findings with management in the audit manual	Audit documentation will be revised to include this	Chief Internal Auditor	1/4/17
R7	Include ethics work in the audit plan	CIA is working on developing an approach to ethics audits and will aim to include some ethics audit work on 2017-18 Audit Plan.	Chief Internal Auditor	1/4/17
R8	Complete the IT governance work and include in future audit plans	The IT Governance Framework identifications/documentation work is ongoing and the intention has always been to use this as the basis for IT Audit Work.	Chief Internal Auditor	1/4/17
R9	Shift audit planning to be entirely risk based	This is an ongoing process to become fully risk based but it is taking time to become fully embedded. Further work will be carried out to ensure this occurs	Chief Internal Auditor	Ongoing
R10	Outline the engagement's objectives and scope in the audit report, perhaps by including audit brief as an appendix to audit reports	The content and format of the report and other documentation will be reviewed to ensure that the objectives and scope of the review is appropriately communicated,	Chief Internal Auditor	1/4/17
R11	Ensure that audits are sent out in the name of the CIA, perhaps by including the CIA's name on audit reports	As part of the review of documentation greater clarity will be provided to demonstrate that all audit reports are issued in the name of the CIA	Chief Internal Auditor	1/4/17

## Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Include a statement to confirm that independence has not been impaired in the past year in the annual report	Will look to include in Annual Report for 2016-17	Chief Internal Auditor	1/4/17
S2	Reinstate annual audit committee effectiveness reviews	The position will be reviewed with the aim of carrying out reviews of the committee on a periodic basis.	Head of Governance/ Head of Law & Administration	2017-18
S3	Involve others (for example the s151, audit committee members, auditees) in the annual review of audit	Will look to involve others on periodic basis to ensure fresh eyes review the evidence.	Chief Internal Auditor	30/6/17
S4	Make and retain notes of discussions with the EQA sponsor	Will consider improving documentation of agreement for future EQA	Chief Internal Auditor	Next EQA
S5	Consider using the same opinion for audit reports and for the annual audit opinion	The presentation/wording of the Annual Opinion will be reviewed for the Annual Report for 2016-17	Chief Internal Auditor	30/6/17
S6	Ensure that the audit committees are aware of the risk basis of the audit plan and how this is determined	The induction training for the committee already states that the audit plan is risk based, as does the covering report when the Audit Plan is taken and the summary risk assessments are provided. The risk basis for Audit Planning is also stressed when the report is presented to the committee by the CIA.		
S7	Hold briefings with the CIA before each audit committee	This will be explored with the Committees – a Pre-meeting with the Chair is always offered.	Chief Internal Auditor/ Head of Governance/ Head of Law & Administration	31/3/17
S8	Consider moving to a four-point opinion while maintaining alignment with performance and risk	This will be considered and as a minimum we will explore providing greater clarity in the narrative to distinguish if areas a almost substantial or almost Limited	Chief Internal Auditor/ Head of Governance	31/3/17

No	Suggestion	Response	Responsible officer	Action date
S9	Give greater acknowledgement to satisfactory performance	We always strive to add in some positive comments but the focus has been to reduce the size of reports and to focus on the key messages. As the reports are primarily exception based this does limit how much we talk about good performance unless it is something meriting positive comment.	Chief Internal Auditor	ongoing
S10	Expand the executive summary to include key risks, findings and recommendations	We aim to provide the key messages in the executive summary and accept that this is sometimes done better than others. We will continue to strive to improve the quality of the key messages included in the Executive Summary.	Chief Internal Auditor	ongoing
S11	Include the process for agreeing reports in the assignment brief	I feel that this may add unnecessary standard text to the brief. We have considered for a time drafting an Auditee information leaflet which may be a better place to put standard information for the Auditee which can be issued at the start of an audit and with the Brief/Planning Document. (See also R2)	Chief Internal Auditor	1/4/17
S12	Include details about the follow up process in the report	We will look at how this can be addressed but the Auditee Leaflet option may be a good solution (See also R2/S11)	Chief Internal Auditor	30/6/17
S13	Invite auditees to audit committees when discussing unsatisfactory reports or progress	We already have the ability to call auditees to the committee. Will consider calling Auditees when necessary – focus will be on receipt of Limited Reports and Follow-ups where the assurance level remains Partial or Limited.	Chief Internal Auditor/ Head of Governance/ Head of Law & Administration	1/4/17
S14	Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	Further work will be carried out to integrate the new Core Principles and other future changes to the PSIAS/LGAN into the work of the section and to include evidence of compliance of the principles in the Annual Report for 2015-16.	Chief Internal Auditor	30/6/17

## Appendix 2: interviewees

<b>Person</b>	<b>Position</b>	<b>Organisation</b>
Judith Aupers	Head of Governance	Shared service
Stephen Baddeley	Chief Internal Auditor	Shared audit service
Julie Burgess	Principal Auditor	Shared audit service
James Cook	Director	Grant Thornton
Peter Gregory	Auditor	Shared audit service
June Hall	Risk and Resilience Manager	Shared service
Mark Hartwell	Site Manager	Stafford Borough Council
Lisa Heaton	Tourism and Heritage Manager	Stafford Borough Council
Laura Hinsley	Manager	Grant Thornton
Cllr Justin Johnson	Audit Committee member	Cannock Chase District Council
Bob Kean	Head of Finance	Shared finance service
Cllr Jack Kemp	Audit Committee member	Stafford Borough Council
Peter Kendrick	Head of Technology	Shared service
Rob Lamond	Policy and Performance Manager	Cannock Chase District Council
Cllr Angela Loughran	Audit Committee Chair	Stafford Borough Council
Tony McGovern	Managing Director	Cannock Chase District Council
Dave Molloy	Senior Auditor	Shared audit service
Ian Moore	Senior Auditor	Shared audit service
Neville Raby	Head of HR	Shared service
Martin Scholey	Auditor	Shared audit service
Karen Tanner	Project Manager/Helpdesk Manager	Stafford Borough Council
Alistair Welch	Monitoring Officer	Shared service
Bryony Willis	Senior Auditor	Shared audit service
Rob Wolfe	Local Taxation and Benefits Manager	Shared service