



GA.31 16/17

Governance and Audit
Committee

8 November 2016

Eii

Subject: Internal Audit External Quality Assessment

Report by:

Lucy Pledge (Head of Audit – Assurance
Lincolnshire – Lincolnshire County Council)

Contact Officer:

Ian Knowles, Director of Resources
ian.knowles@west-lindsey.gov.uk

Purpose / Summary:

Internal Audit within the Public Sector in the UK is governed by the Public Sector Internal Audit Standards (PSIAS) - which have been in place since April 2013 (updated April 2016).

The Standards require an external quality assessment at least once every 5 years as part of Internal Audit's Quality Assurance and Improvement Programme – this report provides the Committee with information on the result of the external quality assessment.

The outcome demonstrates that Assurance Lincolnshire 'generally conforms' with the Mission Statement for Internal Audit, Standards and Code of Ethics laid down in the PSIAS and the associated CIPFA advisory note.

RECOMMENDATION(S):

That the Committee:

- 1 note the External Quality Assessment of Assurance Lincolnshire as attached and what it tells the Committee about the quality of the Internal Audit Service, and;

2 are assured over the quality and effectiveness of the Council's Internal Audit Service provider – Assurance Lincolnshire.

IMPLICATIONS

Legal:

None arising from this report

Financial :

None arising from this report

Staffing :

None arising from this report

Equality and Diversity including Human Rights :

None arising from this report

Risk Assessment :

- Non compliance with legislation / mandatory professional standards
- Failure to deliver an effective Internal Audit Service will prevent an independent, objective assurance opinion being provided to those charged with governance and the Senior Management Team.

Climate Related Risks and Opportunities :

None arising from this report

Title and Location of any Background Papers used in the preparation of this report:

None arising from this report

1 Introduction

- 1.1 The Council's Internal Audit function is delivered by the County Council through Assurance Lincolnshire – a collaborative partnership consisting of Lincolnshire County Council, City of Lincoln and East Lindsey District Council.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) – which have been in place since April 2013 (updated April 2016) consist of the following elements:
 - Mission Statement
 - Definition of Internal Auditing
 - Code of Ethics, and
 - Attribute and performance Standards for the Professional Practice of Internal Auditing
- 1.3 The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit assurance.
- 1.4 In local government the PSIAS are mandatory as required by the Accounts and Audit Regulations 2015. We must also comply with the CIPFA Advisory Note associated with the Standards.
- 1.5 The Standards require an external assessment at least once every 5 years as part of the Internal Audit Functions Quality Assurance Framework and Improvement Plan. They must be conducted by a qualified, independent assessor or assessment team from outside the organisation. Assurance Lincolnshire's Assessment was conducted by CIPFA.
- 1.6 CIPFA is ideally placed to carry out the review. They are one of the professional bodies who set internal audit standards for public bodies and provide professional guidance on the standards as well as other aspects of internal audit. CIPFA is therefore very familiar with internal audit standards in policy and in practice. They have undertaken a number of External Quality Assessments.
- 1.7 The assessment was undertaken in September 2016 and included:
 - Discussion with 34 people across our client base, including West Lindsey. This involved Audit Committee Chair's, Chief Executives, Section 151 Officers and auditees.
 - Review of a wide range of documentary evidence and audit files, including the Internal Audit Charter.
 - Comparison with other Internal Audit Functions

Assurance Lincolnshire practice was assessed against 56 fundamental principles and over 150 points of recommended practice.

2 Overall Conclusion

2.1 There were no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

2.2 In response to the best practice question the Assessor stated:-

"As part of my review I was asked to compare the Assurance Lincolnshire Partnership against other authorities for whom CIPFA has undertaken PSIAS reviews. There is little that I can add to the excellent work that you are already doing and I have already requested examples of some of your core documents to share with others".

2.3 Assurance Lincolnshire is really pleased with the outcome of the External Quality Assessment. We pride ourselves on being an experienced, competent and innovative provider which strives to maintain and develop its service by embedding quality in all elements of internal audit activity. This helps ensure that we meet West Lindsey's assurance needs.

2.4 A copy of the External Quality Assessment report is attached in **Appendix 1**.

3 Quality Improvement Plan

3.1 The Assessor did identify some recommendations for further development and improvement. Actions have been agreed and included in our Quality Improvement Plan. Two recommendations were made:

R1 Include details of resources in the strategy/audit plan.

More information on the team and level of staff resources deployed to deliver the plan.

R2 Ensure that the planned ethical audit is undertaken.

Assurance Lincolnshire plan and undertake work to contribute to the development of clients governance arrangements. Updated good practice guidance on governance, including ethics, was published in April 2016. Assurance Lincolnshire work plans for 2016 and 2017 include assurance over conformance with this guidance and whether clients governance arrangements are working effectively. We propose to include this work for West Lindsey in the 2016/17 plan.

3.2 A copy of Assurance Lincolnshire's Quality Assurance and Improvement Plan is attached in **Appendix 2**.

Final Report for the external assessment of the internal audit function

Assurance Lincolnshire Partnership

Lead Associate: Elizabeth Humphrey, CPFA

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

21st October 2016

Review of Assurance Lincolnshire Partnership's Internal Audit service (September/October 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 the Assurance Lincolnshire Partnership 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. This report summarises the findings from reviews across the Partnership and focuses on those areas that are common to the whole Partnership. It should be read in conjunction with the three reports for City of Lincoln Council, East Lindsey District Council and Lincolnshire County Council.

The review was carried out through a process of interview and document review. I should like to thank all those who took the time to talk to me for their help. I reviewed fifteen audits carried out during the 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to audit committees.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, and only one area of partial non-compliance in relation to the lack of audit of ethics and values at each Council. I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards without requiring significant extra work. The Partnership will need to take action to implement them and an action plan is included as appendix 1.

Best Practices

As part of my review I was asked to compare the Assurance Lincolnshire Partnership against other authorities for whom CIPFA has undertaken PSIAS reviews. There is little that I can add to the excellent work that you are already doing and I have already requested examples of some of your core documents to share with others. I have, however, indicated some areas where you could develop your practices further through the suggestions made below. Two further areas for possible development are:

- Working with audit committees to aid their challenge and support of your work, in particular their understanding of the implications of what they are being told and also their engagement in the audit process. One idea is to hold working groups outside the formal committee structure to examine issues arising from audits in greater detail.
- Making the audit principles live rather than simply referring to them in the Charter and audit report, perhaps linking them to your performance measures.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Attribute standards				
1000 Purpose, authority and responsibility	Full	Standard 1000.A1 The nature of assurance work is defined in the Charter, although it would be improved by making the link to the annual audit opinion	Make the link between assurance and the annual audit opinion in the Charter	S1
1100 Independence and objectivity	Full	Standard 1110 Independence and objectivity are well managed. 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	S2
1200 Proficiency and due professional care	Full	It was clear from the audit files that audit work is carried out with proficiency and care and in accordance with the Partnership's Practice Notes		
1300 Quality assurance and improvement programme	Full	Quality and improvement is given priority and developments are shared across the Partnership		
Performance standards				
2000 Managing the internal audit activity	Full	Standard 2010 The same audit opinions are used across the Partnership for audits but not for the annual audit opinion	Consider using the same opinion for audit reports and for the annual audit opinion	S3
		Standard 2050 A detailed assurance mapping process underpins each year's audit plan and sources of assurance are included on the map but not in the annual plan	Make reference to the assurance mapping process and sources of assurance in the annual audit plan	S4
		LGAN 7.1.2 The audit strategy used by CLC and ELDC does not include references as to how audit service will be provided nor the resources needed to deliver the strategy	Include details of resources in the strategy/audit plan	R1
2100 Nature of work	Partial	Standard 2110.A1 Little ethics work has been undertaken in the past although some is now planned at each council	Ensure that the planned ethical audit is undertaken	R2

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
2200 Engagement planning	Full	Standards 2120.A1, 2130.A1 and 2210.A3 Engagement planning is thorough and follows the requirements of the audit manual. The introduction of the Planning Engagement Document (PED) has been particularly helpful. However, terms of reference do not cover anything that has been ruled out of the audit (value for money and fraud risks for example) and refer to risks only in high-level terms	Consider including more detail regarding risks on terms of reference Consider indicating which areas have been deemed not applicable on terms of reference And/or consider sharing the PED with auditees	S5 S6 S7
2300 Performing the engagement	Full	My review showed that audits are well-performed and well-documented		
2400 Communicating the results	Full	Reports are clear and reflect the work undertaken. The new reporting template was particularly welcomed by clients		
2500 Monitoring progress	Full	The tracker mechanisms used at each Council push responsibility for monitoring implementation of recommendations onto auditees with audit taking a pragmatic, risk-based approach to obtaining evidence		
2600 Communicating the acceptance of risks	Full	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 LGAN 10.2.7 Other than at ELDC and LCC (but not its clients), there are no arrangements to ensure that risks identified in audits are included on risk registers where appropriate	Introduce mechanisms to highlight risks arising from audits that should be included on risk registers, especially at clients	S8
Code of Ethics	Full	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity		
Mission	Full	The Charter includes the newly developed internal audit mission		
Core principles	Full	No problems were identified	Work to integrate the	S9

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
of internal audit		with following the new core principles, with the detailed assurance mapping exercise being particularly key. Further work will be needed to demonstrate compliance in the annual report for 2016/17	core principles into audit's work and consider how best to demonstrate this in the annual report in future	

Each member of the Partnership has details of the findings, standard by standard.

Elizabeth Humphrey CPFA

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include details of resources in the strategy/audit plan	Agreed – we will ensure a suitable statement on the adequacy of internal audit resources for all our clients.	Senior Management Group	31 st March 2016
R2	Ensure that the planned ethical audit is undertaken	Agreed - work is planned to provide assurance over how well our clients governance arrangement work in practice. This includes will include ethics.	Senior Management Group	31 st March 2016

Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Make the link between assurance and the annual audit opinion in the Charter	Agreed – updated Charter	Lucy Pledge	Done
S2	Include a statement to confirm that independence has not been impaired in the past year in the annual report	Agreed - for 2016/17 annual report	Lucy Pledge	May 2017
S3	Consider using the same opinion for audit reports and for the annual audit opinion	We are comfortable with our current approach.	-	-
S4	Make reference to the assurance mapping process and sources of assurance in the annual audit plan	Agreed	Lucy Pledge	February / March 2017
S5	Consider including more detail regarding risks on terms of reference	We will ensure that risk descriptions are consistent across all documents – providing appropriate detail.	John Sketchley	Done
S6	Consider indicating which areas have been deemed not applicable on terms of reference	Our guidance to auditors within the terms of reference template includes 'to provide information on areas we are not reviewing'. We will remind staff for the need to be more explicit over the risks and areas not being covered in the terms of reference document.	John Sketchley	Done
S7	Consider sharing the PED with auditees	Not agreed – we use this as an internal planning document. The		

No	Suggestion	Response	Responsible officer	Action date
		key elements and information is already included in the Terms of Reference.		
S8	Introduce mechanisms to highlight risks arising from audits that should be included on risk registers, especially at clients	Agreed - We will include this element in our reports.	Rachel Abbott	31 st October 2016
S9	Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	<p>We will explore this further with our partners to consider if further action is required within our audit work.</p> <p>We will continue to promote the standards and core principles through our practice and team meetings.</p> <p>We will include commentary around the core principles in our annual report</p>	Senior Management	31 st December 2016

Opportunities for Improvement		Actions	Timescale for tasks to be achieved	Person Responsible	Status
Governance					
1.	Benchmarking	<p>Analyse and feedback on CIPFA Benchmarking data and report to management team on key messages</p> <p>Feedback to Team meeting</p> <p>Review applicability and relevancy of benchmarking data sources – some information received through network and CIPFA</p> <p>No longer part of benchmarking club – information doesn't provide insight or good comparison given varied client base and differences in delivery models.</p>	<p>September 2015 -</p> <p>September 2015</p> <p>September 2016</p>	<p>John Sketchley</p> <p>Management Team</p> <p>John Sketchley</p>	<p>Not complete</p> <p>Not complete</p> <p>Not due</p>
2.	Purpose, Authority & Responsibility	Update Audit Charter to Reflect the updated PSIAS (Addition of Core Principles & Mission Statement)	August 2016 (November 2016 Audit Committee)	Lucy Pledge	Complete
3.	Audit Committee Effectiveness – LCC only	<p>Support publication of Audit Committee Annual Report:</p> <ul style="list-style-type: none"> • Self assessment of effectiveness • Draft annual report 	May 2016 June 2016	Lucy Pledge & Cllr S Rawlins	Complete. Draft shared with informal executive – will be published for Dec Council

Opportunities for Improvement	Actions		Timescale for tasks to be achieved	Person Responsible	Status
Governance					
4.	Ethical Audits	Recommendation arising from External Quality Assessment Complete the ethical audit at LCC	Phase 1 – September 2016 Phase 2 – March 2016	Lucy Pledge	Phase 1 completed Phase 2 – draft terms of reference to CMB November 2016
		Plan and undertake governance audit at each client and discuss value and timing of an ethical audit ie are the governance arrangements working?	March 2016 2016/17 audit plan	Lucy Pledge John Sketchley Dianne Downs Emma Bee John Scott	Will discuss as part of liaison meetings
5.	PSIAS	Regular practice discussions at team meetings – including: <ul style="list-style-type: none"> • Code of ethics • Audit process • Communicating results • Hot topic 	Ongoing	Management Team	Included as part of Service and Team Meetings
6.	Internal Audit Strategy / Plan	Include more information on resources in the internal audit strategy / plan eg structure chart	March 2017	Lucy Pledge Emma Bee John Scott	Not due
7.	Progress and Delivery Reporting	Improve in year reporting on the outcome of internal audit work and performance (as necessary)	Immediate	Lucy Pledge John Scott Emma Bee	Progress reports will be shared with Management Teams

	Opportunities for Improvement	Actions	Timescale for tasks to be achieved	Person Responsible	Status
8.	Annual Report	Review Annual report template to provide information on resources and how to illustrate conformance with the PSIAS mission statement and core principles	March 2016	Lucy Pledge John Scott Emma Bee	Not due
Practice					
9.	Quality Assurance and performance - Practice Manual	Full Manual review – conducted with the team	October 2015 May 2016	Steph O'Donnell	Complete. Practice workshop held in July and August 2016
10.	Quality Assurance - External Assessment	Co-ordinate external assessment and implement any suggested improvements: <ul style="list-style-type: none"> • Develop project plan • Conduct self assessment and pull together evidence pack for external assessor • Engagement planning • Assessment • Outcome report 	June 2016 June - July 2016 August 2016 September 2016 November 2016	Lucy Pledge & John Sketchley	Complete – Assessment undertaken in September 2016.
11.	Quality Assurance – feedback from key stakeholders	Bi- annual survey on effectiveness of Internal Audit Service	Postponed – will be picked up as part of External Assessment	-	-

	Opportunities for Improvement	Actions	Timescale for tasks to be achieved	Person Responsible	Status
12.	Quality Assurance – post audit feedback	Improve post audit questionnaire return rate	September 2016	Amanda Hunt	Complete – followed up as part of liaison meeting
13.	Implementation of recommendations	Working with management to ensure that agreed actions are implemented – setting realistic timescales and taking ownership for implementation	September 2016	Al Simson	Completed –
Practice					
14.	Performance – External Audit Protocol	Update External Audit protocols to ensure best use of combined audit resources for client	July 2016 – Revised to December 2016	Lucy Pledge	Not due
15.	Practice notes	Health Check and VfM practice note – review and sign off	December 2016	Lucy Pledge	Not due
16.	Performance – Combined Assurance	Review and update process (improve integration of risk management and other sources of assurances)	September 2016	Lucy Pledge & John Sketchley	Complete. Workshop held and practice note updated.
17.	Performance – ICT Strategy	Update ICT strategy and approach following developments within the collaboration partnership and LCC delivery through SERCO	June 2016	John Sketchley	Complete – strategy updated.
Communication					
18.	Quality Assurance outcomes	Improve outcome reporting - Key theme report Developing training and support to improve as required	July 2016	Rachel Abbott and Team Leaders	Complete

	Opportunities for Improvement	Actions	Timescale for tasks to be achieved	Person Responsible	Status
Communication					
19.	Contemporary reporting	Improve timescales for delivery of audit and investigations from time fieldwork commences to issue of draft and final reports	Monitored through progress reports	Dianne Downs Audit and Counter Fraud Teams	On going
20.	LCC only Managing client relationship	Take the opportunity given by the Senior Management restructure to rebuild relationship with IT service manager.	November 2016	Lucy Pledge & John Sketchley	On-going
21.	Email	Review and extend as necessary GCSX email accounts	November 2016	John Scott	Not due

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
1.	IT Audit Awareness / Training General	<p>Provide general awareness training for the team of key IT risks that they should be aware of in performing audits</p> <p>Provide information on Audit Lincolnshire approach to IT Audits</p>	October & November 2016	General Awareness training provided – IT Audit considerations programme developed and will be shared at Team Meeting and included as part of audit planning

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
		Greater understanding of Computer Aided Auditing Techniques – benefits and use in determining testing strategies / analysing data		Further guidance on CAAT's required
2.	Update on UK Public Sector Internal Audit Standards <ul style="list-style-type: none"> • April 2016 additions • Key areas 	Provide a refresher on the PSIAS and make clear links between these and our procedures and practice	July 2016	Complete
3.	Workshop on Planning and Engagement and developing the engagement terms of reference	Improve understanding and techniques to get the most out of the planning and engagement process – ensuring that the audit / or consultancy engagement focusses on what matters	July 2016	Complete
4.	Building on the E-learning on risk management process New module being launched at LCC	Ensure that all team is aware of the risk management processes of their clients and how this can help inform the audit process..	By September 2016	Complete
5.	Pentana	Equip staff to use the new audit software to its full potential and maximise compliance with the PSIAS	Dependent on Pentana installation – date still pending Explore external hosting options	Order placed
6.	Appraisal training	Attend corporate training for the new Principals and new	Working with Dave Simpson to get a face to	Complete

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
		team leader so that they are better equipped to complete appraisals	face event scheduled as there are not currently any planned June or July 2016	
7.	LCC Managers Essentials	Enrol new Principals on this training course to support skills development for new role	Enrol by June 2016 Completion date tbc	Complete
8.	Fraud Awareness Session	Refresher information on Fraud Risks and Indicators including Fighting Fraud Locally, Bribery Act and money laundering	June / July 2016 – CoL leading	Complete
9.	CIPFA / SOLACE Good Governance Session	Refresher information on Good Governance and key changes / messages in the new guidance	September 2016	Pilot completed – update planned at next CARM meeting 1 st November 2016
10.	Update our workforce development plan (business strategy) with areas arising from appraisals, new recruits and our training and development plan.	Update CPD information Ensure appropriate resources and support given to enhance team skills.	June 2016 July 2016	