

Agenda Item No:	5	
Committee:	Audit and Risk Management Committee	
Date:	20th March 2023	
Report Title:	External Quality Assessment Conformance to the Public Sector Internal Audit Standards	

1.1 Purpose / Summary

This report is intended to advise members of the Audit and Risk Management Committee of the outcome of the external review of internal audit's conformance to the Public Sector Internal Audit Standards.

1.2 Key issues

- The Chartered Institute of Public Finance and Accountancy (CIPFA), the body responsible for setting Standards for Internal Audit in Local Government have adopted a common set of Public Sector Internal Audit Standards (PSIAS).
- The Standards provide the basis for the evaluation of internal audit performance and improvement planning as well as provided a framework for providing internal audit services which aims to add value to organisational processes and operations.
- Public sector internal audit services are required to measure the extent to which they conform to the standards and an external assessment must be carried out at least once in every five-year period. A full External Quality Assessment has therefore been completed, the results of which form the substance of this Report.

1.3 Recommendations

That the Audit and Risk Management Committee is requested to note the full External Quality Assessment Report and the finding that Fenland District Council's Internal Audit Services generally conforms with the requirements of the Public Sector Internal Audit Standards.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden – Portfolio Holder for Finance
Report Originator(s)	Peter Catchpole – Corporate Director & s.151 Officer
Contact Officer(s)	Amy Brown – Assistant Director
Background Paper(s)	There are no background documents to this Report.

Report:

1.4 Full External Quality Assessment

1.4.1 In recognition of the requirement to undertake an assessment of Fenland District Council's Internal Audit Service's compliance with the PSIAS, Peter Harrison of TIAA was instructed to conduct a full External Quality Assessment in November 2022.

1.4.2 The assessment included a review of Fenland District Council's core documentation to include for example, the Internal Audit Charter, Internal Audit Manual, AMRC Terms of Reference, Risk Based Audit Plan and sample reports. The process also involved discussions with AMRC members and officer representatives. Data was also collected via a survey which enabled the identity of participants to remain confidential to enable the highest-level of robust feedback possible (the outcomes of which are at Appendix B of the Full External Audit Report).

1.4.3 The individual standards considered included Fenland District Council's Mission Statement, Core Principles, Code of Ethics together with the following Attribute and Performance Standards:

- **Attribute Standard 1000 - Purpose Authority and Responsibility:** The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval;
- **Attribute Standard 1100 – Independence and Objectivity:** The internal audit activity must be independent, and internal auditors must be objective in performing their work.
- **Attribute Standard 1200 – Proficiency and Due Professional Care -** Engagements must be performed with proficiency and due professional care.
- **Attribute Standard 1300 – Quality Assurance and Improvement Programme -** The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.
- **Performance Standard 2000 – Managing the Internal Audit Activity** - The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.
- **Performance Standard 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.

- **Performance Standard 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.
- **Performance Standard 2300 – Performing the Engagement** - Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
- **Performance Standard 2400 – Communicating Results** - Internal auditors must communicate the results of engagements.
- **Performance Standard 2500 – Monitoring Progress** - The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
- **Performance Standard 2600 – Communicating the Acceptance of Risk** - when the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

1.4.4 External reviews have one of three outcomes, finding that a service either:

Does not conform to the Standards - The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards.

Partially conforms to the Standards - the internal audit service falls short of achieving some elements of good practice but is aware of the areas for development.

Generally conforms to the Standards - The internal audit service complies with the standards with only minor deviations.

1.4.5 In respect of each of the areas identified at paragraph 4.3 above, Fenland Council was found to generally conform to the standards which is the highest achievement obtainable in this process.

1.5 Next Steps

A small number of observations and recommendations are set out in the Management Action Plan at Appendix A of the full External Quality Assessment Report and will be reviewed and an action plan will be formulated to address these.

1.6 Appendices

Appendix 1 – Full External Quality Assessment Report.



Internal Audit

DRAFT

Fenland District Council

External Quality Assessment
Conformance to the
Public Sector Internal Audit Standards

February 2023

Executive Summary

Introduction

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 1st April 2013 and subject to revision in 2016 and 2017. Public sector internal audit services are required to measure the extent to which they conform to the standards.

Whilst conformance can be demonstrated through an annual self-assessment, the standards require that an external assessment is carried out at least once in a five-year period. This can be through the validation of the service's own self-assessment, a full external quality assessment (EQA) or a combination of both.

Whilst Fenland District Council's latest self-assessment was considered as part of this review, a full external quality assessment has been undertaken.

Background

Internal Audit at Fenland District Council (FDC) is provided by an in-house team of three consisting of a CIPFA-qualified Internal Audit Manager, an Internal Auditor and an Apprentice Internal Auditor. The Internal Audit Manager was in post at the commencement of the review but was imminently due to take up a Head of Internal Audit post elsewhere; this assessment is based on the arrangements in place at the commencement of the review with the council considering the options to deliver the service going forward.

Assessment Process

This assessment considered a range of documents, including:

- Internal Audit Charter;
- Internal Audit Manual;
- Audit & Risk Management Committee (ARMC) Terms of Reference;
- Risk Based Audit Plan;
- Progress reports;
- Internal Audit Outturn and Quality Assurance Review;
- Self-assessment against the standards and CIPFA's Local Government Application Note (LGAN);
- Auditor declarations.

The validation process involved discussions with ARMC members, the Corporate Director and CFO (Section 151 Officer) and the Assistant Director, Deputy Monitoring Officer and Data Protection Officer. A survey was sent to other key stakeholders generally consisting of Directors, Assistant Directors and heads of service (or equivalent).

A sample of audit reports and working papers was also reviewed.

Conclusion and Opinion

It is our opinion that the Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the Local Government Application Note and the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).

The table below sets out Fenland District Council’s conformance to the individual standards considered as part of this external quality assessment.

Standard/Area Assessed	Level of Conformance
Mission Statement	Generally Conforms
Core principles	Generally Conforms
Code of ethics	Generally Conforms
Attribute standard 1000	Generally Conforms
Attribute standard 1100	Generally Conforms
Attribute standard 1200	Generally Conforms
Attribute standard 1300	Generally Conforms
Performance standard 2000	Generally Conforms
Performance standard 2100	Generally Conforms
Performance standard 2200	Generally Conforms
Performance standard 2300	Generally Conforms
Performance standard 2400	Generally Conforms
Performance standard 2500	Generally Conforms
Performance standard 2600	Generally Conforms

The Internal Audit service is a small but well-respected team that is effective and follows best practice. ‘Generally conforms’ is the highest rating that can be achieved using the IIA’s EQA assessment model.

The validation process has not revealed any areas of non-compliance or any significant areas of partial compliance with the standard. One minor area of partial compliance in relation to CAATS is addressed in the recommendations.

A small number of observations and recommendations, some of which the service had already recognised, are set out in the Management Action Plan at Appendix A.

A summary of the survey outcomes can be found in Appendix B.

Definitions

Opinion Definitions	Criteria
Generally Conforms	The internal audit service complies with the standards with only minor deviations.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards.

Acknowledgement

The co-operation of the Internal Audit team and those who took part in interviews and completed surveys is appreciated.

Assessor

Peter Harrison CMIIA – Corporate Director Risk and Assurance

Disclaimer

The matters raised in this report are only those that came to the attention of the assessor during the course of the review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Release of report

The table below sets out the history of this report.

Report issued	3 rd February 2023
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MANAGEMENT ACTION PLAN

Standard	Description	Finding	Recommendation
1110.A1	The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.	No evidence of interference was evident either through the review of documentation, interviews or survey returns. There isn't, however, an explicit statement to this effect in the annual report.	An explicit statement confirming the absence or otherwise of interference be included in the Internal Audit Outturn and Quality Assurance Review report each year.
1210.A3	Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.	Whilst the team is aware of key information technology risks, they don't have the skills and knowledge to undertake ICT audits. Whilst assurances in relation to ICT are obtained from elsewhere, there is no formal assessment as to whether the coverage or scope is adequate. The resources to undertake this work might need to be sourced externally.	A formal review of the assurances in relation to ICT and Cyber Security be incorporated into the planning cycle for the 2023/24 Risk Based Internal Audit Plan.
1210.A3	Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.	The team does not use Computer Assisted Audit Techniques (CAATs), although the need to implement this approach has been considered previously.	Options to introduce the use of CAATs be explored.
1300	The chief audit executive must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity.	A quality assurance review is undertaken annually and reported to ARMC, however, any improvements that are required are not explicitly recorded in a QAIP.	Recommendations for improvement, including those identified through self-assessment, be explicitly linked to the QAIP.
2040	The chief audit executive must establish policies and procedures to guide the internal audit activity.	The Internal Audit Manual generally contains what would be expected in such a document, however, it has not been updated since 2017.	The Internal Audit Manual be updated to ensure it remains relevant and fit-for-purpose.
2410.A3	When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.	Reports are generally not shared externally. The Audit Manager gives a summary of findings to ARMC which are reflected in the published minutes, therefore a request for a report could be made either directly or under FOIA. The current report format does not include a disclaimer.	Consideration be given to including a disclaimer on the distribution and reliance that can be placed on the report.

STAKEHOLDER SURVEY

The survey was sent to 25 stakeholders with 15 responses being received. The scores given were extremely positive, supporting the positive view of the service provided through interviews with other key stakeholders.

Question	Score					
	1	2	3	4	5	Av.
Internal Audit is seen as a critical friend that adds organisational value.	-	-	1	10	4	4.2
Internal Auditors have a good understanding of the organisation's strategic objectives in relation to your area/s of responsibility.	-	-	2	8	5	4.2
Internal Auditors give objective and unbiased advice and act independently from the system/operation being reviewed.	-	-	1	9	5	4.3
Internal Audit is independent of executive management.	-	-	3	7	5	4.1
Internal Auditors have the necessary knowledge, skills and experience to fulfil their role.	-	-	1	11	3	4.1
Internal Auditors have a good understanding of and provide advice on the way risks are reported and managed.	-	-	3	9	3	4.0
Internal Auditors demonstrate competence and due professional care in their work.	-	-	-	11	4	4.3
Internal Auditors ask challenging and probing questions that stimulate discussion and lead to changes/improvements in key risk areas.	-	-	5	7	3	3.9
Internal Auditors raise control issues at an appropriate level in the organisation based on severity/materiality.	-	-	1	9	5	4.3
Internal auditors communicate effectively throughout the course of their work during the planning and fieldwork stages and at the end of each assignment when discussing findings.	-	-	-	12	3	4.2
Internal Audit reports are clear, concise and based on evidence.	-	-	1	8	6	4.3
Internal audit recommendations are appropriate to the findings and are realistic and achievable.	-	-	1	10	4	4.2
Internal audit advice has a positive impact on governance, risk management and systems of control within the organisation.	-	-	-	9	6	4.4
Internal audit activity promotes ethics and values within the organisation.	-	-	2	8	5	4.2
	-	-	21	128	61	4.2

The statements were scored using the following key.

1	Strongly disagree
2	Disagree
3	Neither agree nor disagree
4	Agree
5	Strongly agree

Five stakeholders who completed the survey provided comments to support their views/scores. A selection of comments, both positive and challenging, are set out below.

“Internal audit is valued by the Council’s service leads. They give us assurance, advice and support good governance and help effect positive change”. (Score 5)

“Extremely professional team – knowledgeable, personable and very competent”. (Score 5)

“Internal audits are welcomed by service leads as this give the opportunity to check that the service is being provided in a competent manner, taking into account risks and with good governance”. (Score 5)

“Unsure if audits are linked to our strategic objectives or just completed as good practice audits”. (Score 3)

“This needs clarity as currently perceived as not independent”. (Score 3)

“The scope of audits currently is too defined and should allow for more challenging approach”. (Score 3)
