

# External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

**Staffordshire County Council**

**Draft Report**

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**Internal QA: Policy & Technical Section, CIPFA**

**14 February 2018**

# **Review of Staffordshire County Council's Internal Audit Service – 21<sup>st</sup> to 25<sup>th</sup> January 2018**

## **1. 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 1<sup>st</sup> April 2013 (revised 2016 and 2017). The standards require periodic self-assessments and an assessment by an external person at least every five years.

## **2. Background**

Staffordshire County Council's (SSC) Internal Audit Service is based at Staffordshire Place and provides internal audit services to the County Council, Staffordshire County Pension Fund, Staffordshire Fire and Rescue Service, Staffordshire Police Force, South Staffordshire District Council, and a number of educational academies. .

The current structure of the Internal Audit Service comprises 14.5 full time equivalent (FTE) posts. These are made up of a Chief Internal Auditor; four Audit Managers; two Senior Auditors, five Auditors; two Audit Assistants; and a Senior Accounting Technician (0.5 FTE). However, a recent restructure has seen the Chief Internal Auditor promoted to the Interim Head of Financial Services (but retaining the Chief Audit Executive role for the duration of this review), and one of the Audit Managers promoted into the Interim Chief Internal Auditor role. Some of the posts in the current structure are vacant and being covered by resources bought in through a framework contract. The Service uses external specialists, such as computer auditors, to supplement the in-house team as and when needed.

The Service has carried out self-assessments on an annual basis to see how they compare to the requirements of both the PSIAS and the CIPFA local government application note (LAGN), and used the outcome of these reviews to inform the quality assurance and improvement plan. Notwithstanding these, the Chief Internal Auditor felt that the time was right to have a full external quality assessment of the Internal Audit Service and commissioned CIPFA to undertake this review.

## **3. Review Process**

The review was carried out between the 21<sup>st</sup> and 25<sup>th</sup> January 2018 through a process of interviews and document review. Interviews were carried out with the members of the Internal Audit Service, key stakeholders including members of the Council's Corporate Management Team and two external clients, and the Chair of the Audit and Standards Committee.

The document review phase of the process involved a detailed review of the documents used and produced by the Internal Audit Service. The Service provided a comprehensive range of documents that were available for examination prior to and during this review. These included the audit manual; the Service's self-assessment against the PSIAS; individual audit files and working papers held in the Audit Management System; and a range of reports and communications that demonstrated the flow of information between the Service, senior managers and the Audit and Standards Committee. Whilst all of the documents contributed to the external quality assessment, the following are regarded as fundamental and a major contributor to the review process:

- the audit charter, covering reports and the Audit and Standards Committee terms of reference;
- progress reports to the Council's Audit and Standards Committee and senior management;
- the Internal Chief Internal Auditor's annual report and opinion to the Audit and Standards Committee;

- audit plans and covering reports to the Audit and Standards Committee;
- the audit manual, the audit management system and the audit working papers application;
- individual audit reports and working papers;
- staff declarations of interest and objectivity; and
- staff training and development records.

#### 4. Conclusion and Opinion

From the evidence reviewed as part of the external quality assessment, it is apparent that the Council's Internal Audit Service is a competent, professional, well-qualified, and respected Service that is continually looking for ways to improve its overall efficiency and effectiveness. The Service follows best practice wherever it can, and is willing to adapt to the changing needs of their clients. They are providing an objective risk based internal audit service to the Council and their other clients, but nonetheless there are opportunities to enhance and develop their operations that they should embrace if they are to maintain their status with their clients and enhance their conformity to the PSIAS and the LGAN.

During this review, no areas of non-compliance or partial compliance with the standards were identified. We have however identified some minor observations that should be addressed.

**On this basis, it is our opinion that Staffordshire County Council's Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note.**

The minor observations identified during the review are set out in section five of the report, together with some recommendations (R) and suggestions (S) to address these issues. These recommendations and suggestions are included in the action plans at section seven of this report.

The process also identified some opportunities (O) for the Service to enhance its operations although these do not have an effect on the Service's compliance with the PSIAS or the LGAN. These opportunities have been included for information in section six of the report.

An internal audit service's conformance with the PSIAS and the LGAN falls into one of the three categories below. Further details on each of these categories can be found in section nine of this report.

<b>Generally Conforms</b>	<b>Partially Conforms</b>	<b>Does Not Conform</b>
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A list of the individuals interviewed during the review is included as section eight of this report.

The Chief Internal Auditor has been provided with details of the areas where there is scope to enhance conformity with the PSIAS and the LGAN and incorporate further good practice into Internal Audit's operations.

The co-operation of the Internal Audit Service in providing the information requested during this review, as well as those stakeholders that made themselves available for interview, was much appreciated and has made it possible to obtain a thorough view of Internal Audit's business and the contribution it makes to its client's organisational objectives.

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## 5. Summary of observations, recommendations and suggestions

Standard	Compliance	Observations	Recommendations & Suggestions	No.
<b>Mission</b>	<b>Generally Conforms</b>	The audit charter includes the mission statement as required by the revised (2016) PSIAS		
<b>Core principles of internal audit</b>	<b>Generally Conforms</b>	Overall, the Internal Audit Service generally conforms to the core principles of internal audit. This is stated in the audit charter and is embedded in the audit management system that underpins the way the Service operates.		
<b>Code of Ethics</b>	<b>Generally Conforms</b>	Overall, the Internal Audit Service generally conforms to the Code of Ethics for Internal Auditors and the Seven Principles of Public Life. This is stated in the audit charter and is embedded in the audit management system that underpins the way the Service operates.		

Standard	Compliance	Observations	Recommendations & Suggestions	No.
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There is one minor observation, which is set out below.</p> <p>The minor observation relates to the definitions for the 'Board and Senior Management', where the PSIAS requires both definitions to be set out in the audit charter. The term 'Board' is clearly defined as the Council's Audit and Standards Committee. Section 9 of the audit charter sets out the role of the Council's Senior Leadership Team (SLT), and although it is apparent that this body is fulfilling the role of 'Senior Management', the term is not actually attributed to SLT.</p>	<p>It is suggested that a sentence is added to section nine of the audit charter clearly attributing the term 'Senior Management' to the Council's Senior Leadership Team. An example of such a sentence could be 'For the purposes of the UK Public Sector Internal Audit Standards, the Council's Senior Leadership Team performs the role of the 'senior management'.</p>	S1
<b>1100</b> Independence and objectivity	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to all elements of this standard. The Service has robust and comprehensive processes and procedures in place that ensure the individual members of the Internal Audit Service maintain their independence and objectivity.</p>		
<b>1200</b> Proficiency and due professional care	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. The well qualified and experienced staff deliver professional internal audit services and are highly regarded by their internal and external clients.</p> <p>The Service is currently carrying some vacant posts but is managing the delivery of the audit plan by obtaining resources from external providers, through the internal audit framework</p>		

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		contracts that operate in the Midlands, to ensure that this does not have an adverse effect on the Service's ability to deliver the audit plan.		
<b>1300</b> Quality assurance and improvement programme	<b>Generally Conforms</b>	The Internal Audit Service generally conforms to this standard. There is a robust quality assurance process embedded in the audit management system, and the Service undertakes annual self-assessments of their conformity to the public sector internal audit standards and the local government application note, and reports the outcome of these reviews to the Audit and Standards Committee.		
<b>Performance standards</b>				
<b>2000</b> Managing the internal audit activity	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There are two minor observations, which are set out below.</p> <p>The first minor observations relates to the Service coordinating its audits with the work of the external auditor, primarily to avoid clients being audited by two different auditors in a relatively short space of time, and to avoid duplication of effort where possible. As the external auditor no longer places reliance on the testing carried out by the Service they could move their audits of the key financial systems to a period in the year when the external auditors are not at the Council auditing these systems.</p> <p>The second minor observation relates to the</p>	<p>It is suggested the Internal Audit liaises with external audit over the timing of the audits of the key financial systems for the Council and the external clients to ensure clients are not audited by both teams in a relatively short space of time, usually in the last quarter of the financial year.</p> <p>Alternatively, the Service should consider shifting their audits of the key financial systems away from quarter to four to an earlier part of the financial year, say quarter two or three.</p> <p>The Chief Internal Auditor should</p>	<p>S2</p> <p>R1</p>

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		<p>reporting of Internal Audit's progress on delivering the annual audit plan. The Chief Internal Auditor meets regularly with the Section 151 Officer and the Monitoring Officer to discuss progress on delivering the audit plan, and reporting to the Audit and Standards Committee is good. However, the Chief Internal Auditor does not currently update the Senior Management Team or the Chief Executive on the progress being made on delivering the audit plan.</p>	<p>update the Senior Management Team and the Chief Executive on a regular basis on Internal Audit's progress on delivering the annual audit plan</p>	
<p><b>2100</b> Nature of work</p>	<p><b>Generally Conforms</b></p>	<p>The Internal Audit Service generally conforms to all elements of this standard. The Service operates an effective audit management system and an audit working papers application that are designed to enable internal auditors to conform to all elements of this standard. There is a comprehensive audit manual in place to guide the auditors through the audit process. Conformance with this standard was confirmed through a review of a sample of completed audits.</p>		
<p><b>2200</b> Engagement planning</p>	<p><b>Generally Conforms</b></p>	<p>The Internal Audit Service generally conforms to all elements of this standard. Engagement planning is a fundamental part of the audit management system and audit working papers application and is effective. The process is set out clearly in the audit manual. Conformance with this standard was confirmed through a review of a sample of completed audits.</p>		



Standard	Compliance	Observations	Recommendations & Suggestions	No.
<b>2300</b> Performing the engagement	<b>Generally Conforms</b>	The Internal Audit Service generally conforms to all elements of this standard. The methodologies for performing engagements is set out clearly in the audit manual, with all working papers and management reviews being carried out within the audit management system and the audit working papers application. Conformance with this standard was confirmed through a review of a sample of completed audits.		
<b>2400</b> Communicating the results	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard with one minor observation that is set out below.</p> <p>The audit reports are informative, easy to read and laid out well. The Service carries out its audits in conformance with the PSIAS but this is not mentioned in the individual audit reports.</p> <p>Standard 2430 allows internal audit services to include such a statement in their audit reports, or alternatively standard 2431 suggests using a statement of non-conformance where this is more appropriate, together with the reasons that resulted in the non-conformance. Either statement could be added to the audit report template embedded in the audit working papers application, perhaps on the last page where the disclaimer statement is placed.</p>	Consider adding a statement to the individual audit reports stating that the audit has been conducted in accordance with the public sector internal audit standards. Where this is not the case, an alternative statement of non-conformance should be used instead.	S3
<b>2500</b> Monitoring progress	<b>Generally Conforms</b>	The Internal Audit Service generally conforms to this standard. Management's progress on implementing agreed actions from internal audit reviews is monitored by Internal Audit.		

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		Should managers fail to implement agreed actions within the timescales that they have set without a valid reason, there is an effective escalation process in place. This is to the Section 151 Officer in the first instance and then if necessary on to the Audit and Standards Committee where managers are required to attend and explain their lack of progress.		
<b>2600</b> Communicating the acceptance of risks	<b>Generally Conforms</b>	The Internal Audit Service generally conforms to this standard. There is a robust process in place to report significant issues regarding the acceptance of risks that exceed the Council's risk appetite should the need arise.		

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## 6. Opportunities to Enhance Services

Senior Management within the Internal Audit Service at Staffordshire County Council are keen to develop the way the Service operates and to enhance the quality and range of services that they provide to their existing and potential clients. With this in mind, the following opportunities have been identified, together with some suggested actions for consideration.

No.	Observation	Suggested Action
O1	<p>Although the Service delivers an effective internal audit service, there is scope to enhance the range of services provided to clients by supplementing the knowledge of the in-house team with professionals from a non-audit background.</p> <p>For example, the overall effectiveness of an audit of the looked after children's process could be enhanced if a social care professional was added to the team for the review. This would enable the Service to give an opinion on the adequacy and quality of the decision making process and the care package that was put in place, as well as the governance, risk management and control environment for the client. A similar approach could be used for other specialist areas, such as pensions, insurance, property development, and engineering to name but a few.</p>	<p>This can be achieved in a number of ways, for example by seconding Council employees to the team for specific reviews, such as social care experts.</p> <p>Alternatively, for one off reviews such as a review of the pensions or treasury management investment strategy, or the insurance strategy, resources could be obtained from external sources, such as pensions, investments, or insurance brokers.</p> <p>For larger or longer term assignments, such as construction or engineering projects, consideration should be given to obtaining temporary staff, such as engineers, clerks of works etc, from specialist employment agencies.</p>
O2	<p>As the Council moves further towards digitalising the services it delivers, there will be an increased need for auditors with a sound understanding of digital systems and how these can be audited. At present, the Service has an able experienced and qualified ICT Audit Manager within the team who undertakes many of the ICT audits. The Service is supplementing the Audit Manager's work by using an external provider to deliver some additional ICT audits. However, whilst this arrangement is effective and the Service currently has the budget available to buy</p>	<p>The Service should consider developing and training other members of the existing team in ICT audit skills to a level where they can undertake more in depth and complex ICT audits.</p>

	<p>in the additional resources it needs, this may not always be the case, and limits the opportunities to develop and expand the ICT audit services that could be sold to other clients to generate income for the Service.</p>	
O3	<p>The Service currently has a number of vacancies, which it is filling through the use of experienced and skilled auditors that are seconded into the Service from external providers. Although this is proving to be an effective way of covering vacant posts, it comes at a cost to the Service. There are alternative solutions that could be considered, for example establishing a pool of 'associate' auditors that can be called upon when needed, or for a longer-term solution, employing apprentices or trainees and developing these to the point where they are able to fill the vacant posts.</p>	<p>The Service should consider the viability of establishing a small pool of associates that it can call on for specific audit reviews or when demand for audit resources is high, such as in quarter four when there may be a backlog of audits to be completed.</p> <p>The strategic solution to consider is to employ a number of audit apprentices or trainees and develop them through the new IIA apprenticeship scheme. The long-term objective here is to move these trainees into permanent positions within the Service as and when the opportunities arise. Consideration should be given to employing a number of apprentices or trainees and bring them into the organisation in a phased way over a period of time, say six to twelve months apart. This will reduce pressure on the staff charged with managing and developing the trainees, but would also mean that the Service should have a steady flow of newly qualified auditors that could be used to fill vacant posts in managed way.</p>
O4	<p>The Service is already using computer assisted audit techniques (CAATs) however they acknowledges that there is probably scope to expand this area of activity. The team currently has an IDEA V8 licence but to make best use of the application needs to upgrade to IDEA V10, and supplement this with the SmartAnalyser add on application. Together these two applications will enable the Service to increase the level of assurance provided to service managers and the Section 151 officer by carrying out the continuous audit of the Council's key systems, such as the core financial and HR systems, where all of the transactions in the applications can be audited on a regular basis. The use of CAATS may also free up auditor days that could be used to audit other areas of the organisation that cannot be audited by electronic means.</p>	<p>Internal Audit should consider obtaining the latest version of IDEA and supplement this with the SmartAnalyser add on application, to enable them to undertake regularly audit the key financial and HR systems of the Council and their other clients.</p>

## 7. Action Plan

### Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	The Chief Internal Auditor should update the Senior Management Team and the Chief Executive on a regular basis on Internal Audit's progress on delivering the annual audit plan	The Interim Chief Internal Auditor will present the Outturn Report for 2017/18 and the 2018/19 Draft Internal Audit Plan to SLT prior to submission to the June Audit & Standards Committee	Debbie Harris – Interim Chief Internal Auditor	By 31 <sup>st</sup> May 2018

### Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	It is suggested that a sentence is added to section nine of the audit charter clearly attributing the term 'Senior Management' to the Council's Senior Leadership Team. An example of such a sentence could be 'For the purposes of the UK Public Sector Internal Audit Standards, the Council's Senior Leadership Team performs the role of the 'senior management'.	The details will be incorporated into the Audit Charter at its next update scheduled for June 2018.	Debbie Harris – Interim Chief Internal Auditor	2 <sup>nd</sup> June 2018
S2	It is suggested the Internal Audit liaises with external audit over the timing of the audits of the key financial systems for the Council and the external clients to ensure clients are not audited by both teams in a relatively short space of time, usually in the last quarter of the financial year. Alternatively, the Service should consider shifting	Ongoing discussions will be held with External Audit to ensure that the timings of key financial audits are co-ordinated moving forwards.	Debbie Harris – Interim Chief Internal Auditor	30 <sup>th</sup> June 2018

No	Suggestion	Response	Responsible Person	Action date
	their audits of the key financial systems away from quarter to four to an earlier part of the financial year, say quarter two or three.			
S3	Consider adding a statement to the individual audit reports stating that the audit has been conducted in accordance with the public sector internal audit standards. Where this is not the case, an alternative statement of non-conformance should be used instead.	This information will be added into the proforma template.	Alex Cannon – ICT Audit Manager	31 <sup>st</sup> May 2018

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## 8. Interviewees

Person	Position	Organisation
Lisa Andrews	Interim Head of Financial Services (previous Chief Internal Auditor)	Staffordshire County Council
Debbie Harris	Interim Chief Internal Auditor (previous Audit Manager)	Staffordshire County Council
Lynn Buxton	Audit Manager	Staffordshire County Council
David Fletcher	Audit Manager – Counter Fraud	Staffordshire County Council
Alex Cannon	Audit Manager - ICT	Staffordshire County Council
Susan Bluck	Auditor	Staffordshire County Council
Sharon Longson	Auditor	Staffordshire County Council
Leanne Teece	Auditor	Staffordshire County Council
Heather Wooley	Auditor	Staffordshire County Council
Susan Bachelor	Audit Assistant	Staffordshire County Council
Sophie Mammarella	Auditor	PWC seconded to Staffordshire County Council
David GreenSmith	Director of Finance and Section 151 Officer (Telephone Interview)	Staffordshire Fire and Rescue Service
John Henderson	Chief Executive	Staffordshire County Council
Andy Burns	Director of Finance and Section 151 Officer	Staffordshire County Council
Melanie Stokes	Head of Pensions and Treasury Management	Staffordshire County Council
Bev Jocelyn	Lead Commissioner – Adult’s Health and Care	Staffordshire County Council
Vonni Gordon	Lead Commissioner – Safeguarding – Families and Communities	Staffordshire County Council
John Tradewell	Monitoring Officer	Staffordshire County Council
Rob Salmon	Deputy Director of Finance (Telephone interview)	Staffordshire County Council
Martyn Tittley	Chair of the Audit and Standards Committee	Staffordshire County Council
Steve Broughton	Practice Manager – Legal and Democratic Services	Staffordshire County Council
Jason Burgess	Engagement Manager (Telephone interview)	Ernst & Young (External Auditors)

## 9. Definitions of Conformance with the Standards

<b>Generally Conforms</b>	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
<b>Partially Conforms</b>	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
<b>Does Not Conform</b>	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. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Ray Gard, CPFA, FCCA, FCIIA, DMS