External Quality Assessment

Internal Audit Services

Summary Report – November 2023

Overview

> Opinion: The Essex County Council internal audit service (ECIAS) is delivering to a standard that **generally conforms*** with the Public Sector Internal Audit Standards (PSIAS).

* *'Generally Conforms'* **is the highest rating that can be offered per the Institute of Internal Auditors definitions.**

The evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects.

12 recommended actions have been raised across the areas of Resources, Competency and Delivery, as follows:

Grading	Explanation	Number of Actions Raised
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.	**0**
Review	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.	**7**
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services	**5**

In addition, **5** optional enhancements for consideration have been suggested *(these are not graded)*.

Summary of Good Practice Identified

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit Governance and Standards Committee (AGSC).	The combination of the Charter and the Internal Audit Manual is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A process is in place regarding the identification and management of potential conflicts and/or declarations of interest. As the remit of the Head of Assurance covers other functional responsibilities care will be needed to ensure this remains appropriate under the Global Internal Audit Standards (GIAS).
1311	The service has conducted internal assessment exercises regarding its performance.	Performance review is embedded within quality control procedures and supported by a staff appraisals process which identifies and supports performance development needs.
2020	Active engagement at Member and management level	Represents the establishment of a good understanding of key issues through routine interaction with management at all levels and Members.
2030	The need for appropriate internal audit resources has been recognised.	The concept of continuing to develop an in-house team supported by an external firm provides for both sufficient resources and those of a technical or specialist nature.
2060	Reports are produced using a standard format which is consistently applied. Customer feedback is routinely requested.	Demonstration of a consistent approach to communication which is well received by management and the AGSC – effective follow-up using automated software ensures issues are not lost.
2300	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Effective supervision and review of progress ensures a consistent approach and delivery of the approved methodology.
2400	Internal auditors must communicate results of engagements.	The internal audit team routinely conducts exit meetings with regard to the findings emerging from engagements.

Agreed Actions

Resources

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

Opinion: Excelling

	Recommended Action	Rating	Management Comment and Implementation Target
1.	**Internal Audit Charter (IAC)** Consider the value of including a statement to align the continuous development of internal audit plans with the provision of an annual opinion reflecting the changing risk environment in which the Council operates and where independent assurance from internal audit is designed to support the Governance Statement. **PSIAS 1000**	Consider	**Comment:** Will be incorporated into 2024/25 version of the Charter (approved each March). **Timescale:** March 2024
2.	**Quality Assurance Improvement Program (QAIP)** Consider introducing a more detailed statement in the Head of Internal Audit Annual Report in which: 1. Confirms that all measures contained in the process have been completed, and 2. How any significant deviations or development needs will be resolved. **PSIAS 1300**	Consider	**Comment:** Will be incorporated into 2023/24 Annual Report (on agenda for June 2024 AGS Committee) **Timescale:** June 2024
3.	**Key Performance Indicators (KPIs)** Consider introducing a limited set of formal KPIs based on quantitative and qualitative data to support the QAIP process referred to above. This may include details of: 1. Training days completed 2. High level recommendations identified, accepted and implemented on a timely basis. Such detail will then provide further evidence regarding conformity with the PSIAS. **PSIAS 1321**	Consider	**Comment:** IA currently working on amendments to the existing KPIs within the Organisational Health Report to strengthen value added. **Timescale:** April 2024

Competency

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

Opinion: Established

	Recommended action	Rating	Management Comment and Implementation Target
4.	**Audit Universe** It would be beneficial to increasingly align development of the internal audit planning system with the Council's risk management processes in order to ensure that resources were consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level. Global Internal Audit Standards are anticipated to increasingly call for alignment of risk registers with the internal audit universe. **PSIAS 2000/2010**	Review	**Comment:** Planning for the Draft 2024/25 IA Plan is already underway. We will ensure there is focus on risks in the plan. **Timescale:** March 2024
5.	**Governance** In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to further map internal audit activity to the content of the Code within the Internal Audit Planning process in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report. Consider extending the explanation regarding the internal auditor's responsibility regarding assurance on Governance processes in the introduction of the IAC to define how the opinion is derived in practice. **PSIAS 2110**	Review	**Comment:** We will review wording in both the IA Charter and Plan for 2024/25, to better reflect the mapping of IA activity. **Timescale:** March 2024

	Recommended action	Rating	Management Comment and Implementation Target
6.	**Assurance Mapping** Consider developing the internal audit methodology by formally documenting the sources of assurance available to internal audit within each engagement as part of routine processes. Assurances maybe both internal and external. Use the accumulated knowledge gained to support the Annual Assurance opinion in the Head of Internal Audit's Annual Report as is likely to be required by the new GIAS. **PSIAS 2050**	Review	**Comment:** IA does already look to avoid duplication by relying on other sources of assurance where appropriate. We will make efforts to more formally capture these arrangements in readiness for the new GIAS. **Timescale:** June 2024
7.	**Management Objectives** Review the terminology used within the Terms of Reference to reflect Management's objectives within the area for review. Consequently, base identification and discussion of risks in relating to the achievement of the agreed objectives. Consider introducing a 'Heat Map' process to then determine which are significant risks (as defined within the Councils Risk Impact and Likelihood gradings) to agree those which will become the scope of the review. **PSIAS 2201**	Review	**Comment:** We will review the ToR template ready for rollout in the 2024/25 FY. **Timescale:** March 2024

	Recommended action	Rating	Management Comment and Implementation Target
8.	**Engagement Planning – Control Risk** Engagements should be increasingly constructed to reflect significant risks and aligned to Risk Impact definitions within the Risk Management Strategy. This will ensure standard recognition of terminology throughout the Council. Assessment of 'Control Risk' in relation to the achievement of Management Objectives would focus reviews on: • Those risks where the assessment is that the combined impact/likelihood score has decreased most and where if assumptions are incorrect critical business risk exposure may exist, • Risks where the value of 'Control Risk' is limited or zero and as a result suggesting the controls may be insufficient or ineffective, and • Key Controls (rather than a wider view of all controls which may have little impact on risk reduction or the achievement of business objectives). By focusing on Management Objectives, significant risks and key controls there may be efficiencies to be gained within assignments through targeting resources to issues of greatest importance or concern. **PSIAS 2201**	Review	**Comment:** This will be implemented through the ToR review mentioned above. **Timescale:** March 2024
9.	**Grading of Recommendations** It would be beneficial to align future grading of recommendations with those impact definitions used within the Councils risk management process. This would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of findings at the exit meeting, grading recommendations and in providing an opinion within assurance reports. **PSIAS 2300/2410**	Review	**Comment:** Ready for the 2024/25 FY, we will review the grading wording for IA actions. We will reflect on the alignment of these with ECC's wider Risk Management processes and make changes where/if appropriate. **Timescale:** March 2024

Delivery

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

Opinion: Excelling

|	Recommended Action	Rating	Management Comment and Implementation Target
10.	**Release of Draft and Final Reports** Consideration should be given to documenting the process for approval of a draft/final report in the Internal Audit Manual where significant risk or negative assurance opinions are to be reported, or otherwise in the absence of the CAE. **PSIAS 2420**	Consider	**Comment:** The Audit Manual is scheduled for review in 2024 (in line with three-year cycle). Additional wording will be added as part of that review. **Timescale:** June 2024
11.	**Risk Management Opinion** It would be beneficial to support the opinion by adding further clarification in the either the IAC or the Annual Report as to how in practice this is achieved, thereby also demonstrating the independence of the CAE. **PSIAS 2120**	Consider	**Comment:** We will consider adding specific wording as part of the reviews mentioned. **Timescale:** March 2024
12.	**HoIA Annual Report** In practice the opinion is based upon a much broader knowledge of the client, gained through previous years programmes and that gained within and provided for within the internal planning cycle, including discussions with management and reference to risk management processes. It would be good practice to support the comprehensive assurance opinion in relation to risk management, governance and control with broader reference to significant risks and other sources of assurance that are available, including reference to those within the risk management process and any future assurance mapping objectives. In this form, the opinion would also better align with the required content of the Governance Statement. Planning for continuous assurance over a defined period rather than on the basis of a single years' plan was reflected in R1. **PSIAS 2060/2450**	Review	**Comment:** IA has taken a variety of approaches in 2023/24, including process/system-based reviews; Health Checks; and 'Critical Friends' pieces. We will provide details of the outcomes for these, along with any other relevant knowledge, as part of the 2023/24 Annual Report. **Timescale:** June 2024

Agreed Optional Enhancements for Consideration

	Issue identified	Recommended Action
1.	**Client Surveys** Progress has been made in obtaining verbal feedback from clients following each audit engagement, although formal feedback using a questionnaire has been variable. This experience is consistent with other sector experience. The survey conducted within the EQA achieved a 66% response rate which is in accordance the sector norm of 60-70%,	Internal Audit may find it useful to implement an approach now being used by other teams which provides for: 1. Issue of the digital form to the relevant client manager following and engagement within the draft report, and 2. Support the feedback gained with an annual survey to Senior Client Managers. In this way feedback may be directed toward different aspects of the provision of internal audit service as well as seen as more relevant, as a result encouraging increased participation which can be included in the QAIP process. **PSIAS 2000**
2.	**Exit Meetings** Current practice for completion of an engagement relates to the nature of the findings; where the formality will be decided upon the complexity of the review and significance of the findings. Communication frequently takes place using the draft report as a basis for discussions.	A formal exit meeting at the conclusion of an engagement represents an opportunity to build relationships with management. The proposed GIAS states that the CAE "should encourage internal auditors to acknowledge satisfactory and positive performance in engagement communications". It is common practice to base such a discussion on an 'Exit Meeting Template' rather than the draft report as this may provide a more open discussion regarding the conduct of the engagement and outcomes. It may be beneficial therefore to reconsider the ECIAS approach to closure of engagements in order to further develop relationships. **PSIAS 2400**

	Issue identified	Recommended Action
3.	**Confidentiality** Internal audit reports are currently distributed without a clause restricting access and ensuring that if viewed outside of the organisation no 'legal responsibility' is provided to those who may seek to rely upon the content.	The Internal Audit Team should consider the need to include appropriate confidentiality and limitation of liability clauses in all reports which are or may be shared with clients, Audit Committees and third parties directly or indirectly. **PSIAS 2440**
4.	**Fraud** The team is responsible for provision of Counter Fraud Services, compiling a fraud risk analysis. Clients also participate in the National Fraud Initiative (NFI). which contributes to the good practice identified within the PSIAS regarding recognition of fraud risk.	It would be beneficial to align the significance of fraud risk in relation to achievement of the management objectives agreed within each engagement. The proposed Global Internal Audit Standards feature a requirement to identify significant fraud risk within the scope of the engagement, consequently it would be beneficial to consider how this might best be achieved. **PSIAS 2120**
5.	**Stakeholders** Whilst the PSIAS does make reference to considering the expectations of senior management, the board and **other stakeholders** for internal audit opinions and other conclusions (2010.A2). ECIAS recognises this within its Internal Audit Charter. The emphasis in the proposed new Global Internal Audit Standards is much stronger.	Consider how future internal audit activity may demonstrate appropriate consideration of other stakeholder expectations: 1. In devising internal audit plans 2. When identifying Management Objectives in future audits. **PSIAS 2010**
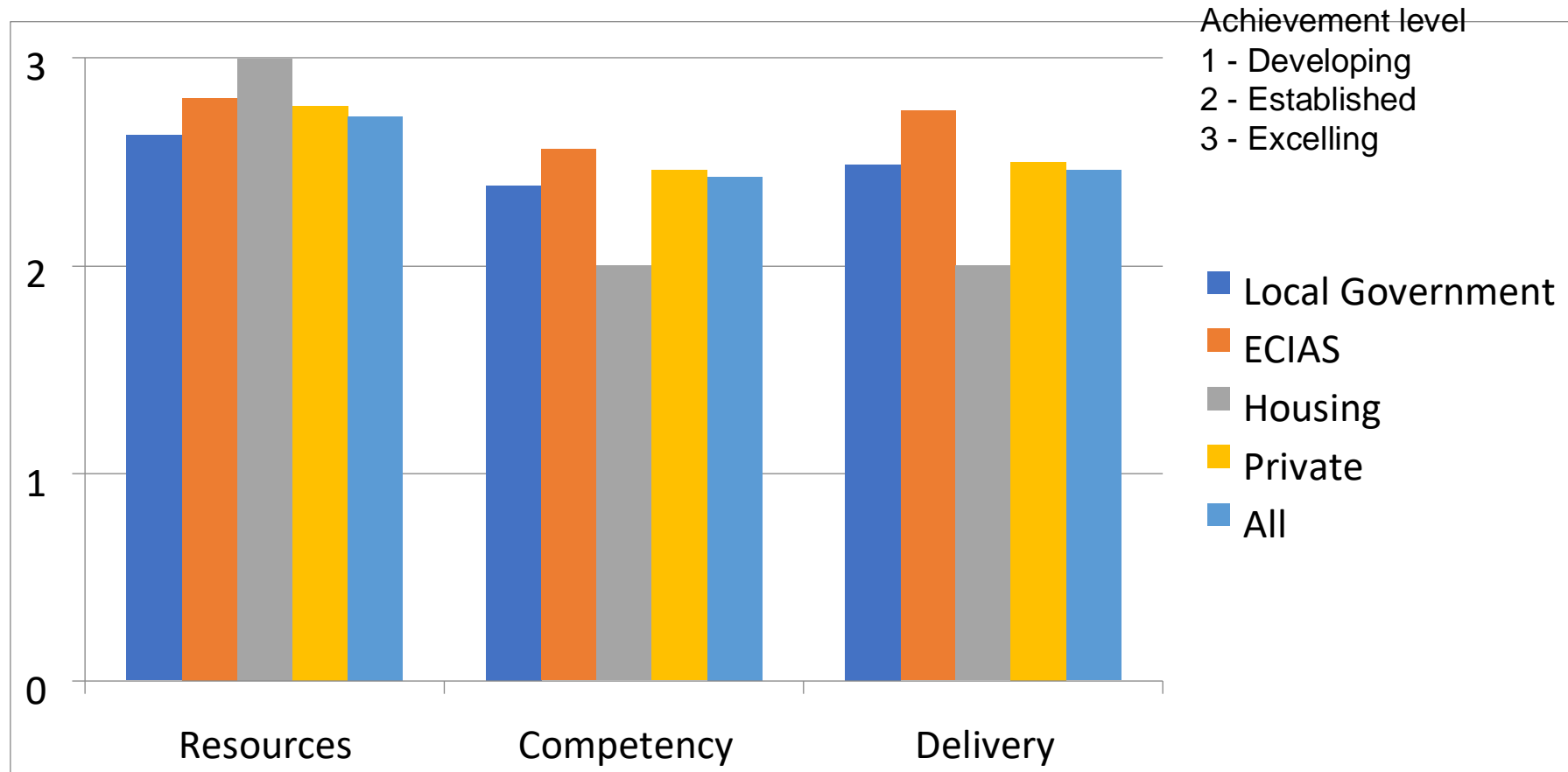
Benchmarking - Industry Analysis

Achievement level
1 - Developing
2 - Established
3 - Excelling

Local Government

ECIAS
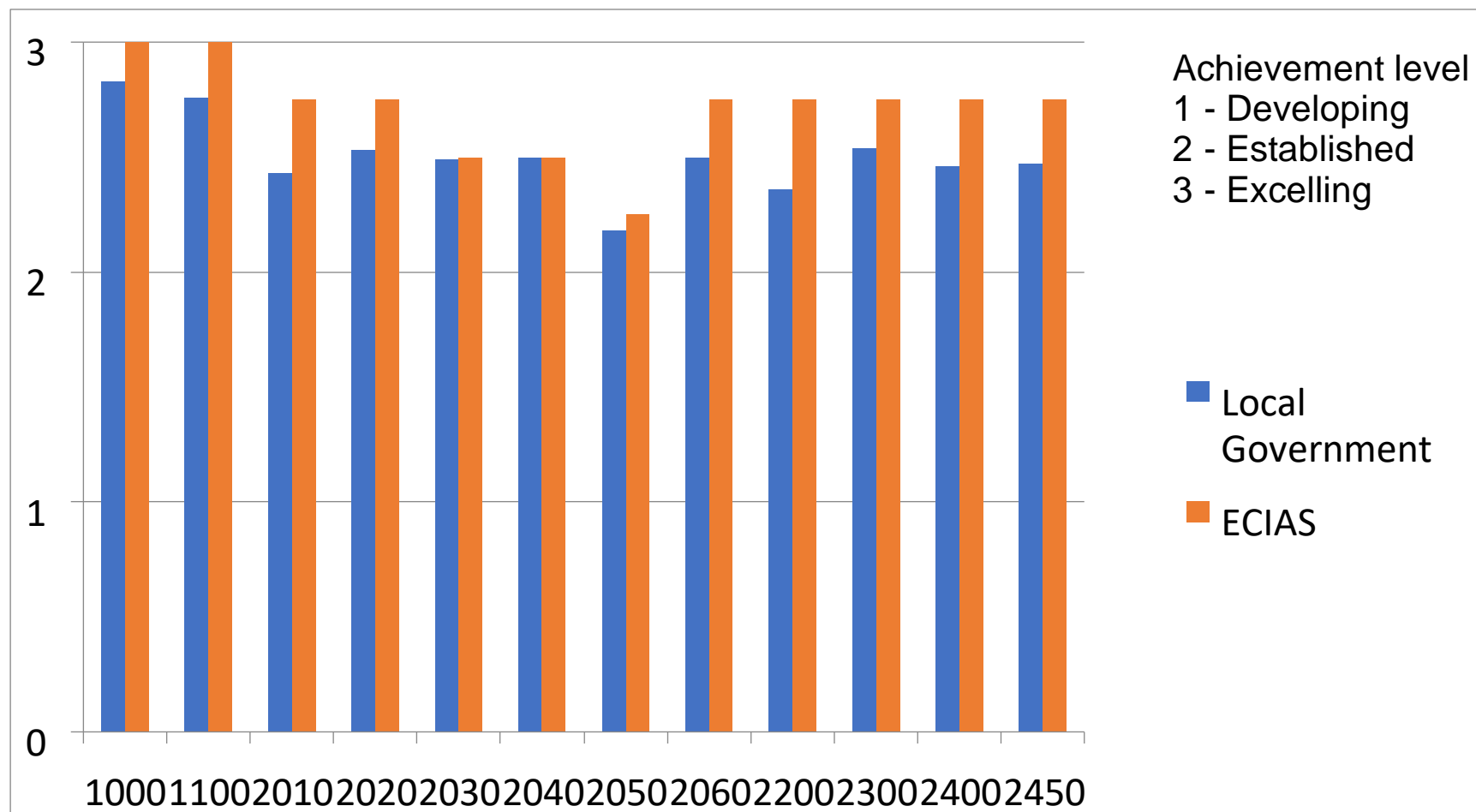
Summary Stakeholder Feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	100	
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	100	
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	100	
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	80	20
Average	**97.5%**	**2.5%**

Conclusion:

Feedback from stakeholders confirms that clients consider that they receive a good quality internal audit service whose brief is

clearly understood and the assurance and advice that is provided is well regarded. Observations were made regarding enhanced communication with functional management regarding 'major' issues and the value of increasing emphasis on sharing best practice from within the sector.

Other relevant observations

Positive interaction and strong engagement with the team. Advance notice of what is needed and why.

I have been offered and taken up training and support to develop this understanding

We have built a great relationship and have a good process in place to plan a programme of audits that will be of real benefit to the organisation.

More proactive engagement with the functional leadership team, with a clear and proactive discussion of major issues, open actions and areas of concern.

I think there is more opportunity to actively bring the conversation to the leadership whereas at present it is more procedurally bound within the services

I have regular meetings with the Audit Manager.

Regular discussions with the Audit team

Regular contact with the team, and have found their advice and guidance really helpful

Sharing of best practice would be valuable

Issued	15	Returned	10	Response rate	66%	Average