

**FINAL**  
**Validation of the self-assessment of the  
Internal Audit Service**

**Essex County Council**

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## Validation of the self-assessment of the Internal Audit Service at Essex County Council (February 2018)

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, were revised on 1 April 2016 and have been further revised on 1 April 2017. The standards require periodic self-assessments and an assessment or validation of a self-assessment by an external person every five years. Essex County Council's Internal Audit Service has recently undertaken the required self-assessment and commissioned this validation. The self-assessment also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The validation 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 two audits carried out during the 2017/18 financial year and, as part of the self-assessment, a further five audits were checked. I examined key documents, including the Charter and reports to the Audit, Governance and Standards Committee (AGSC).

The service is highly regarded within the Council and provides useful assurance on its underlying systems and processes. I identified some minor areas of non-compliance with the standards, but nothing that would compromise the effectiveness of the service.

I have made some practical and pragmatic recommendations (R) and suggestions (S) to improve compliance with the standards. The Head of Internal Audit (HIA) and the Head of Assurance will need to take action to implement them and an action plan is included as appendix 1.

### Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>Mission</b>	Non-compliant	The Charter does not include the mandatory internal audit mission statement although it makes reference to aspects of it	Include the mandatory mission statement in the Charter	R1
<b>Core principles of internal audit</b>	Full	The core principles have been integrated into the work of internal audit and I was provided with many examples of this. One area for development is around formalising the quality assurance	See R5	

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		and improvement process		
<b>Code of Ethics</b>	Full	All interviewees stressed the emphasis placed on integrity by the audit team and their independence and objectivity		
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	Partial	<p>The Charter contains almost all the required details and is discussed with senior management and the AGSC</p> <p><b>Standard 1000.A1</b> The self-evaluation identified that the Charter does not refer to the assurance work provided for ECL. An amendment is planned for the 2018 iteration of the Charter</p> <p><b>Standard 1000.C1</b> The Charter does not include a definition of the nature of consulting services, nor does it rule out such activity</p> <p><b>Standard 1010</b> The Charter does not refer to the mandatory Principles. It refers to the Code of Ethics in outline only</p>	<p>Include a definition of consultancy work in the Charter and/or rule out such work</p> <p>Include details of the Core Principles in the Charter, ideally specifying how they will be met</p> <p>Give more information about what is included in the Code of Ethics</p>	<p>R2</p> <p>R3</p> <p>S1</p>
<b>1100</b> Independence and objectivity	Full	<p><b>Standard 1110</b> The independence and objectivity of the audit section was emphasised by all interviewees. However, the Annual Report contained no formal confirmation of this</p> <p><b>Standard 1130.A1</b> All of the audit team, except the trainee,</p>	<p>Include a positive confirmation of audit's continuing organisational independence in the Annual Report</p> <p>Include a section in the manual regarding</p>	<p>R4</p> <p>S2</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		are long-term auditors and there are no problems with them auditing areas where they have previously worked. This is not, however, explicitly ruled out in the manual as required by the IIA	staff transferring from other areas in the Council being blocked from auditing that area for at least one year	
<b>1200</b> Proficiency and due professional care	Full	The working papers showed that audits are well planned and undertaken with care		
<b>1300</b> Quality assurance and improvement programme	Partial	<p><b>Standard 1310 and LGAN p12</b> Many of the expected QAIP activities are undertaken but these are not brought together in an overarching plan</p> <p><b>Standard 1311</b> Internal quality assessments are undertaken but could involve others from within the Council to obtain a broader perspective</p> <p><b>LGAN p13</b> Although the audit team works to targets these are not reported to the AGSC in the Annual Report. In addition, these targets could be developed to give a fuller picture of audit activity</p> <p><b>LGAN p13 and Standards 2240.A1 and 2340</b> Audits are comprehensively supervised and reviewed but evidence for this is kept in a variety of places outside the TeamMate system. The audit record is, therefore, incomplete</p>	<p>Draw up an overarching QAIP plan to show the different quality checking activities over the five-year cycle</p> <p>Involve informed internal peers (officers and members) in quality reviews periodically</p> <p>Develop a suite of performance targets and report achievement against them over time in the Annual Report</p> <p>Include review notes on TeamMate</p>	<p>R5</p> <p>S3</p> <p>R6</p> <p>S4</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>Performance standards</b>				
<b>2000</b> Managing the internal audit activity	Full	<p><b>Standard 2010</b> The Council's objectives are considered as part of the planning process but there is no reference to them in the Annual Plan presented to the AGSC</p> <p><b>Standards 2020 and 2060</b> Senior managers are kept informed of audit's plans and progress against those plans at individual FLT meetings but the SBB is only formally involved at the planning stage</p> <p><b>LGAN p17</b> The audit manual does not give formal guidance on informing management about emerging serious issues. This gap was identified in the self-evaluation</p>	<p>Refer to audit's contribution to achievement of the Council's objectives in the Annual Plan</p> <p>Present the Annual Report to SBB as a minimum</p>	<p>R7</p> <p>S5</p>
<b>2100</b> Nature of work	Full	<p><b>Standard 2120.A2</b> Audit work undertaken covers all the expected areas. However, more explicit emphasis could be given to fraud risks where these are relevant to an audit</p>	Make more overt reference to fraud risks in audit planning and the terms of reference	S6
<b>2200</b> Engagement planning	Full	<p>Planning, both at strategic and at assignment level is thorough and well-evidenced</p> <p><b>Standard 2201</b> Although auditors seek to add value and consider value for money, this is not explicitly mentioned</p>	Include a more explicit statement about seeking to add value/identify improvements in the terms of reference	S7

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		in the terms of reference		
<b>2300</b> Performing the engagement	Full	Audit working papers are clear and easy to follow. They deliver the objectives of the terms of reference		
<b>2400</b> Communicating the results	Partial	<p>Audit reports are clear and the summary page is a useful and innovative approach</p> <p><b>Standard 2440</b> Audits reports are not issued in the name of the HIA, which is a requirement of the Standards. With the changing role and job title of the HIA, it is particularly important that this responsibility remains clear</p> <p><b>Standard 2450</b> The overall (annual) opinion given by the HIA is clear and simple but could be more explicit about the different aspects of the opinion</p>	<p>Include the Head of Assurance's name on all audit reports</p> <p>Consider providing separate opinions for internal controls, risk management and governance arrangements</p>	<p>R8</p> <p>S8</p>
<b>2500</b> Monitoring progress	Full	The follow-up process is robust and meets the requirements of the standards		
<b>2600</b> Communicating the acceptance of risks	Full	There have been no occasions where unmitigated risks have had to be raised with senior management or the AGSC, showing the priority given to audit findings and recommendations across the Council		

The Head of Internal Audit and the Head of Assurance have details of the findings, standard by standard.

Elizabeth Humphrey CPFA

## Appendix 1: action plan

### Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include the mandatory mission statement in the Charter	Agreed	Greg Mortimer Paula Clowes	30 April 2018 to include the statement in the Charter. Charter to go to June 2018 Audit Governance and Standards Committee.
R2	Include a definition of consultancy work in the Charter and/or rule out such work	Agreed to include a definition – will not rule out such work.	Greg Mortimer Paula Clowes	30 April 2018 to include the statement in the Charter. Charter to go to June 2018 Audit Governance and Standards Committee.
R3	Include details of the Core Principles in the Charter, ideally specifying how they will be met	Agreed	Greg Mortimer Paula Clowes	30 April 2018 to include the statement in the Charter. Charter to go to June 2018 Audit Governance and Standards Committee.
R4	Include a positive confirmation of audit's continuing organisational independence in the Annual Report	Agreed	Paula Clowes	By 30 May 2018 with Annual Report going to June 2018 AG&S Committee.
R5	Draw up an overarching QAIP plan to show the different quality checking activities over the five-year cycle	Agreed and will include in Annual Report	Paula Clowes	By 30 May 2018 with Annual Report going to June 2018 AG&S Committee.
R6	Develop a suite of performance targets and report achievement against them over time in the Annual Report	Agreed	Paula Clowes	Report to AG&S Committee in September 2018 and thereafter.
R7	Refer to audit's contribution to achievement of the Council's objectives in the Annual Plan	Agreed – will include for 2019/20 Plan	Paula Clowes	February 2019

No	Recommendation	Response	Responsible officer	Action date
R8	Include the Head of Assurance's name on all audit reports	Agreed. We will amend the reporting template on TeamMate.	Sarah Harris/Anita Goold	With immediate effect.



## Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Give more information about what is included in the Code of Ethics	Core Principles will be added to the Charter as per R3 and our Charter clearly references the Code of Ethics. Its is not felt necessary to add further detail	n/a	n/a
S2	Include a section in the manual regarding staff transferring from other areas in the Council being blocked from auditing that area for at least one year	Yes	Greg Mortimer	30 April 2018
S3	Involve informed internal peers (officers and members) in quality reviews periodically	Yes – include reference to this in the Quality Plan (R5).	Paula Clowes	30 May 2018
S4	Include review notes on TeamMate	Evidence of testing schedule review to be included on TeamMate. Evidence of draft report review and testing schedule review to be saved on L Drive for that particular audit. Include in Quality Checks to ensure it is being done.	Sarah Harris to communicate this to the Team via email. Paula Clowes	30 April 2018 30 May 2018
S5	Present the Annual Report to SBB as a minimum	This is already done.	n/a	n/a
S6	Make more overt reference to fraud risks in audit planning and the terms of reference	This already happens where fraud risk is significant. It is also included in the Audit Manual but we will remind staff.	Sarah Harris	30 April 2018
S7	Include a more explicit statement about seeking to add value/identify improvements in the terms of reference	We already do this, it is implicit, but prefer not to include in terms of reference as it will distract from the rest of its content.	n/a	n/a
S8	Consider providing separate opinions for internal controls, risk management and governance arrangements	The Chief Audit Executive provides an annual 'overall opinion' in line with standard 2450. This suggestion has been considered but we feel to provide separate opinions in the way suggested would lead to a cumbersome report which would lose its impact and effectiveness	n/a	n/a

## Appendix 2: interviewees

Person	Position
Denise Abel	Risk Manager
Karen Bellamy	Counter Fraud Manager
Tione Bowazi	Senior Auditor
Paula Clowes	Head of Assurance
Sarah Collins	Senior Auditor
Cllr Terry Cutmore	Chair, Audit, Governance and Standards Committee
Fran Driver	Head of Quality and Governance (ECL)
Karen Gooch	Insurance and Risk Manager
Anita Goold	Senior Auditor
Sarah Harris	Senior Audit Manager
Gavin Jones	Chief Executive
Wendy Lancaster	Senior Auditor
Charlotte Lang	IS Senior Analyst
Margaret Lee	Executive Director for Corporate and Customer
Simon Martin	Senior Auditor
Greg Mortimer	Audit Manager
Mark Parirenyatwa	Senior Auditor
Jo Russell	Senior Auditor
Oli Taffs	Cipfa Trainee
Peter Tanton	Head of Internal Audit and Counter Fraud
Wendy Thomas	Director of Quality and Governance (ECL)
Paul Turner	Director for Legal and Assurance
Steve Willett	Audit Manager
Ian Witham	Management Information Delivery Specialist