

# **External Quality Assessment - Validation of Client's Self-Assessment of Conformance to the Public Sector Internal Audit Standards**

**West Berkshire Council**

## **Final Report**

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**26 June 2018**

## **Self-Assessment Validation for the West Berkshire Council's Internal Audit Service – 14<sup>th</sup> and 15<sup>th</sup> May 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). Public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period.

### **2. Background**

The Internal Audit Service primarily provides internal audit services to West Berkshire Council and are based in the main Council Offices in Newbury. At the time of the review, the Service was made up of four qualified posts, being a full time Audit Manager (CMIIA & CISA qualified), two Senior Auditors (one is CPFA qualified and the other is AAT & CISA qualified), and one Auditor (ACA & ACCA qualified).

The previous Head of Internal Audit retired at the end of the 2017/18 financial year and the Chief Audit Executive role passed to the Audit Manager who reports directly to the Head of Finance and Property. The Service carried out a self-assessment to see how well the Service conformed to the requirements of both the PSIAS and the CIPFA local government application note (LAGN), and then commissioned CIPFA to undertake the mandatory external quality assessment (EQA) by validating this self-assessment.

### **3. Validation Process**

The self-assessment validation comprises a combination of desktop and on-site review and cannot reasonably consider all elements of the PSIAS and LGAN self-assessment in the time available. The desktop period of the review focussed on determining the strengths and weaknesses of the Internal Audit Service, and formed the key lines of enquiry used during the on-site stage, in order that the validation review is timely and adds real value to the organisation. The key lines of enquiry assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

The Audit Manager provided a comprehensive range of documents that the Service used as evidence to support their self-assessment and these were available for examination prior to and during this validation review. These documents included the:-

- self-assessment against the standards and the LGAN;
- audit charter;
- Audit Manager's draft annual report and opinion;
- audit plan and strategy;
- audit manual; and
- progress and other reports to the Governance and Ethics Committee.

The on-site stage of the validation process involved face-to-face interviews with the Audit Manager and members of the Internal Audit Team. Interviews were also carried out with the Chief Executive Officer, the Interim Head of Legal Services (Monitoring Officer), the Acting Corporate Director – Adult Social Care, and the chair of the Governance and Ethics Committee. A telephone interview was carried out with the Head of Finance and Property (S151 Officer). A questionnaire was sent to other key stakeholders not interviewed in

advance of the on-site visit and the results analysed during the review. A sample of audit reports and working papers were also examined during the on-site stage of the review.

#### 4. Conclusion and Opinion

From the evidence reviewed as part of the external validation process, it is apparent that the Service is small but well qualified, competent and respected by its clients, although they would benefit from additional resources, perhaps in the form of a trainee or apprentice auditor. The Service is however providing an objective risk based internal audit service to the Council.

The validation process has not revealed any areas of non-compliance with the standards, nor any significant areas of partial compliance, that the Audit Manager has not already identified during the self-assessment and included in their quality assurance and improvement plan (QAIP).

Nonetheless, we have made some observations that will enable the Service to enhance and develop its operations and enhance its conformity to the PSIAS and the LGAN. The observations that have been identified and are set out in section five of the report, together with some recommendations (R) and suggestions (S) to address these issues. The recommendations and suggestions are included in the action plans at section six of this report.

The external quality assurance process also identified some opportunities (O) for the Service to enhance its operations although these do not have a bearing on their compliance with the standards. These have been discussed with the Audit Manager and are included for information in section seven of the report.

**From the work that we have carried out during this external validation process, it is our opinion that the self-assessment is a good reflection of the practices of West Berkshire Council's Internal Audit Service, and the contribution they make to the organisation. Furthermore, it is our opinion that the Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.**

Conformity with the PSIAS fall into one of the three categories below. Further details on these categories are set out in section nine of this report.

Generally Conforms	Partially Conforms	Does Not Conform
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The co-operation of the Audit Manager in providing all of the information asked for during the review, the Internal Audit Team, and those stakeholders listed in section eight of the report that made themselves available for interview and completed questionnaires, is much appreciated.

## 5. Summary of observations, recommendations, and suggestions

Standard	Compliance	Observations	Recommendations and Suggestions	No
<b>Mission of Internal Audit</b>	<b>Generally Conforms</b>	The Internal Audit Service generally conforms to this element of the standards.		
<b>Core principles of internal audit</b>	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to the core principles of internal audit that are a fundamental component of the services offered by Internal Audit.</p> <p>The observation and recommendation under standard 2000 below relate to the core principles of internal audit.</p>		
<b>Code of Ethics</b>	<b>Generally Conforms</b>	The Service generally conforms to the code of ethics for internal auditors, and the <i>Seven Principles of Public Life</i> .		
<b>Attribute Standards</b>				
<b>1000</b> Purpose, authority and responsibility	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to Standard 1000 and the Local Government Application Note, although there are some minor observations for this standard and these are set out below.</p> <p>The first observation relates to elements of the PSIAS that are not in the current version of the audit charter but should be added. These are:-</p> <ul style="list-style-type: none"> <li>a definition for consulting services;</li> <li>reference to the core principles, the code of ethics and other relevant regulations that underpin the operating framework for</li> </ul>	<p>The following should be added to the audit charter at its next revision:-</p> <ul style="list-style-type: none"> <li>a definition for consulting services;</li> <li>reference to the core principles of internal audit; the code of ethics for internal auditors; the seven principles of Public life; and the Accounts and Audit Regulations (England) 2015;</li> <li>the role of Internal Audit in dealing with the Council's fraud</li> </ul>	R1

Standard	Compliance	Observations	Recommendations and Suggestions	No
		<p>the Internal Audit Service;</p> <ul style="list-style-type: none"> <li>the role of Internal Audit in dealing with the Council's fraud risks; and</li> <li>a statement on Internal Audit's resources and whether these are sufficient to deliver an effective internal audit service.</li> </ul> <p>In addition, the audit charter also needs to reflect the current reporting lines for the Audit Manager as they have changed since the document was published. The Audit Manager is aware of this issue.</p> <p>The second observation relates to the remit and effectiveness of the Governance and Ethics Committee. The CIPFA's guidance for audit committees recommends that a review of the remit and effectiveness of the body that perform the role of the audit committee should be undertaken regularly to ensure they have the right level and mix of skills necessary to be an effective committees. Such a review has not been carried out for some time.</p>	<p>risks;</p> <ul style="list-style-type: none"> <li>a statement on Internal Audit's resources and whether these are sufficient to deliver an effective internal audit service; and</li> <li>the Audit Manager's current reporting lines.</li> </ul> <p>Consider undertaking a review of the remit and effectiveness of the Governance and Ethics committee using the checklist from the CIPFA guidance for audit committees.</p>	S1
<b>1100</b> Independence and objectivity	<b>Generally Conforms</b>	<p>The Service generally conforms to Standard 1100 and the Local Government Application Note.</p> <p>The observation and recommendation R1 above also relates to this standard.</p>	Recommendation R1 also relates to this standard	R1
<b>1200</b> Proficiency and due professional care	<b>Generally Conforms</b>	<p>The Service generally conforms to Standard 1200 and the Local Government Application Note.</p>		

Standard	Compliance	Observations	Recommendations and Suggestions	No
<b>1300</b> Quality assurance and improvement programme	<b>Generally Conforms</b>	<p>The Service generally conforms to Standard 1300 and the Local Government Application Note. There is one observation relating to this standard.</p> <p>Since taking over as the Chief Audit Executive, the Audit Manager has carried out a self-assessment, however the Service does not have a formal quality assurance and improvement plan.</p>	Following the outcome of the external quality assessment, produce a quality assurance and improvement plan for the Service and report this to the Governance and Ethics Committee	R2
<b>Performance Standards</b>				
<b>2000</b> Managing the internal audit activity	<b>Generally Conforms</b>	<p>The Service generally conforms to Standard 2000 and the Local Government Application Note. There are some observations that are set out below.</p> <p>The first relates to the audit plan. The Audit Manager takes into consideration the Council's strategic and operational risks, and the Council's objectives when forming the audit plan for the year, however to demonstrate this and to provide greater transparency, the individual audits in the audit plan could be mapped to the specific strategic risks and Council objectives that they relate to.</p> <p>The second relates to the size of the Internal Audit Service, which is currently four employees. For a unitary authority, this is probably on the low side and the Service would benefit from additional resources. If funds are available, this could be a post at Auditor or Senior Auditor level. However, there are many advantages in strengthening the team by the</p>	<p>To provide greater transparency on the objectives of the annual audit plan, it is suggested that the individual audits are mapped or cross-referenced to the relevant strategic risks and Council objectives that they are addressing.</p> <p>Strengthen the Service by the introduction of an additional post to the team. Whilst this could be a post at auditor or senior auditor level if the funds are available, the advantages of employing an apprentice should not be overlooked.</p> <p>As the team is relatively small, the Audit Manager should introduce alternative ways of obtaining assurance, such as data analytics, control and risk self-assessments, and third party assurances.</p>	<p>S2</p> <p>R3</p> <p>R4</p>

Standard	Compliance	Observations	Recommendations and Suggestions	No
		<p>addition of an Internal Audit Apprentice post.</p> <p>The final observation relates to alternative ways of obtaining assurance that will help inform the annual opinion. There are a number of techniques that can be used by internal audit services, for example:-</p> <ul style="list-style-type: none"> <li>• the use of data analytics and computer assisted audit techniques (CAAT);</li> <li>• using control and risk self-assessments (CRSA);</li> <li>• placing reliance on alternative sources of assurance, such as reviews by other inspection agencies; and</li> <li>• focussing on key controls and using themed audits (mainly for schools).</li> </ul>		
<b>2100</b> Nature of work	<b>Generally Conforms</b>	The Service generally conforms to Standard 2100 and the Local Government Application Note.		
<b>2200</b> Engagement planning	<b>Generally Conforms</b>	The Service generally conforms to Standard 2200 and the Local Government Application Note.		
<b>2300</b> Performing the engagement	<b>Generally Conforms</b>	<p>The Service generally conforms to Standard 2300 and the Local Government Application Note.</p> <p>There is one minor observation for this standard relating to the supervision of engagements. The Audit Manager supervises and reviews all engagements, with the exception of the few school audits that are</p>	Consider delegating more of the audit supervision and review functions to the Senior Auditors to perform. This could include introducing a peer review process where the Senior Auditors undertake the initial review of each other's work.	S3





Standard	Compliance	Observations	Recommendations and Suggestions	No
		individual audit reports. The Audit Manager's annual report confirms that the Service's work has been carried out in accordance with the requirements of the PSIAS. However, it is also good practice to acknowledge this in the reports for the individual audit assignments. For any assignments where the requirements of the PSIAS have not been applied, a statement should be included in the report explaining why this is the case.		
<b>2500</b> Monitoring progress	<b>Generally Conforms</b>	The Service generally conforms to Standard 2500 and the Local Government Application Note.		
<b>2600</b> Communicating the acceptance of risks	<b>Generally Conforms</b>	The Service generally conforms to Standard 2600 and the Local Government Application Note.		

## 6. Action Plans

### Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	<p>The following should be added to the audit charter at its next revision:-</p> <ul style="list-style-type: none"> <li>a definition for consulting services;</li> <li>reference to the core principles of internal audit; the code of ethics for internal auditors; the seven principles of Public life; and the Accounts and Audit Regulations (England) 2015;</li> <li>the role of Internal Audit in dealing with the Council's fraud risks;</li> <li>a statement on Internal Audit's resources and whether these are sufficient to deliver an effective internal audit service; and</li> <li>the Audit Manager's current reporting lines.</li> </ul>	<p>Agreed.</p> <p>This will be actioned at the next review of the charter which will be as part of preparing next year's audit plan.</p>	Audit Manager	February 2019
R2	<p>Following the outcome of the external quality assessment, produce a quality assurance and improvement plan for the Service and report this to the Governance and Ethics Committee.</p>	<p>Agreed.</p> <p>This will be compiled and included in the report item covering the external assessment outcome.</p>	Audit Manager	July 2018
R3	<p>Strengthen the Service by the introduction of an additional post to the team. Whilst this could be a post at auditor or senior auditor level if the funds are available, the advantages of employing an apprentice should not be overlooked.</p>	<p>Agreed.</p> <p>As part of next year's budget setting process the Audit Manager will submit a Budget Pressure Bid to request additional resource for the team for consideration by senior officers and members.</p>	Audit Manager	As part of the budget setting process for 2019/2020

No	Recommendation	Response	Responsible Person	Action date
R4	As the team is relatively small, the Audit Manager should introduce alternative ways of obtaining assurance, such as data analytics, control and risk self-assessments, and third party assurances.	Agreed.	Audit Manager	By the end of the current financial year.

## Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	Consider undertaking a review of the remit and effectiveness of the Governance and Ethics committee using the checklist from the CIPFA guidance for audit committees.	Agreed. An item will be put on the agenda for the Governance and Ethics Committee to discuss and agree a timeframe for this.	Audit Manager	By the end of the current financial year.
S2	To provide greater transparency on the objectives of the annual audit plan, it is suggested that the individual audits are mapped or cross-referenced to the relevant strategic risks and Council objectives that they are addressing.	Agreed. This will be undertaken as part of the compilation of next year's audit plan.	Audit Manager	February 2019
S3	Consider delegating more of the audit supervision and review functions to the Senior Auditors to perform. This could include introducing a peer review process where the Senior Auditors undertake the initial review of each other's work.	Agreed. As one of the senior posts will be vacant in a week's time, being able to action this point will be dependent on when we can recruit a replacement. We anticipate this will take six months after the recruitment of a replacement senior auditor (allowing time for them to settle in to our processes).	Audit Manager	See response column

No	Suggestion	Response	Responsible Person	Action date
S4	It is suggested that a statement setting out the limitations on distribution and use of the contents of the audit reports is added to the standard report template used by the Service.	Agreed.	Audit Manager	Immediate effect.
S5	It is further suggested that a statement is added to each individual audit report confirming that the audit has been carried out in accordance with the requirements of the PSIAS. Where this is not the case, a statement should be included to explain why this is the case.	Agreed.	Audit Manager	Immediate effect.

## 7. Opportunities to Enhance Services

The Audit Manager is 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	Action
O1	<p>Although the team members have a good understanding of the key financial and HR systems used by the Council, and can run reports to extract data from them, the Service does not currently use computer assisted audit techniques (CAATs) to undertake any of its audits.</p> <p>Using CAATs will enable auditors to test all of the transactions within the systems they are auditing, rather than a small sample, thus providing greater assurance on the effectiveness of controls and the quality of the data within those systems. The use of CAATs can also enable the Audit Manager to target resources more effectively, as</p>	<p>The Service should consider carrying out a cost benefit exercise on the CAATs applications currently available. This exercise should consider the following factors:-</p> <ul style="list-style-type: none"> <li>• The capital cost of the application;</li> <li>• the on-going revenue costs;</li> <li>• the hardware specification requirements to run the application effectively;</li> <li>• the application's ease of use and the level of skills required to make effective use of the product;</li> </ul>

	<p>auditing systems by electronic means can free up auditor time to focus on audits that cannot be performed by computer applications.</p> <p>The Service should therefore consider obtaining a suitable CAATs application. There are a number of CAATs applications on the market, such as ACL or IDEA (and there may be others available), although the latter is probably the more widely used application in the local government sector. There is also a suite of pre-written test scripts to supplement IDEA for many of the key financial and HR systems found in most organisations, called SmartAnalyser, thus alleviating the need to write the test scripts from scratch.</p>	<ul style="list-style-type: none"> <li>• availability of training courses for users of the application;</li> <li>• the extent of support available to users through user groups and/or other colleagues in the local government sector; and</li> <li>• the availability of pre-written test scripts for the application, either directly from the software provider or other users of the application.</li> </ul>
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## 8. : Interviewees and Questionnaires

Person	Position	Organisation
<b>Interviewees</b>		
Julie Gillhespey	Audit Manager	West Berkshire Council
Mark Hills	Senior Auditor	West Berkshire Council
Radka Pearman	Senior Auditor	West Berkshire Council
Paul James	Auditor	West Berkshire Council
Nick Carter	Chief Executive	West Berkshire Council
Tandra Forster	Acting Corporate Director - Adult Social Care	West Berkshire Council
Sarah Clarke	Acting Head of Legal Services (Monitoring Officer)	West Berkshire Council
Keith Chopping	Chair of Governance and Ethics Committee	West Berkshire Council
Andy Walker	Head of Finance and Property (S151 Officer) – telephone interview on 1 <sup>st</sup> June 2018	West Berkshire Council
<b>Questionnaires</b>		
Nick Carter	Chief Executive	West Berkshire Council
Tandra Forster	Acting Corporate Director - Adult Social Care	West Berkshire Council
Ian Pearson	Interim Director of Children's Services and Head of Education	West Berkshire Council
Robert O'Reilly	Head of Human Resources	West Berkshire Council
Kevin Griffin	Head of Customer Services and ICT	West Berkshire Council
Andy Day	Head of Strategic Support	West Berkshire Council
Mark Edwards	Head of Transport and Countryside	West Berkshire Council

## 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