

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

Stockton Borough Council &
Darlington Borough Council's
Shared Internal Audit Service

Final Report

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Stockton Borough Council & Darlington Borough Council's Shared Internal Audit Service

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1. Introduction

- 1.1 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 (revised 2016 and 2017). All 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 (EQA), 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. The Service's last EQA was undertaken in May 2018 where the Service was deemed to be conforming to the standards.

2. Background

- 2.1 The Shared Internal Audit Service provide the internal audit services to Stockton Borough Council and Darlington Borough Council and are based at either the Civic Centre in Stockton or the one in Darlington, although the team are all mainly working remotely. The Chief Audit Executive for both Councils is the Audit and Risk Manager.
- 2.2 The Service is made up of eight posts in the Internal Audit team. They are a well-qualified and experienced Shared Service with all the team members either holding or working towards obtaining relevant professional or academic qualifications.
- 2.3 From an operational perspective, the Shared Service reports directly to the Corporate Leadership Teams at the respective Councils and the Audit Committees at both Authorities. These two bodies fulfil the roles of 'senior management' and 'the board' for each authority, as defined by the Public Sector Internal Audit Standards. Regular reports on the respective audit plans, progress on delivering the plans and the annual opinions and outturns, are made to the Corporate Leadership Teams and the Audit Committees for the respective Councils.
- 2.4 The Shared Internal Audit Service has been operating under PSIAS since its launch in 2013, and this is the second external quality assessment that they have commissioned, the previous one being in 2018.
- 2.5 Internal Audit has an audit manual that provides the auditors with a comprehensive guide to all aspects of performing an internal audit or consultancy assignment. Standard templates are used for all engagement working papers and testing schedules. All these documents are held in the Service's audit management application, MK Insight (MKI).
- 2.6 Supervision of the engagements takes place at every stage of the process and is recorded in MK Insight.
- 2.7 There is a quality assurance process in place that includes internal and external quality assessments of the Service, reviews of live engagements and secondary reviews of a sample of completed engagements, etc., and these all feed into the Shared Service's Quality Assurance and Improvement Programme (QAIP).

3. Validation Process

- 3.1 This validation of the Service's self-assessment comprised a combination of a review of the evidence provided by the Shared Service; a review of a sample of completed internal audits for both Councils, chosen by the assessor; a survey that was sent to and completed by a range of stakeholders; and interviews with key stakeholders at both Councils, using MS Teams. The interviews focussed on determining the strengths and weaknesses of Internal Audit and assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

- 3.2 The Shared Service provided a comprehensive range of documents that they 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;
 - quality assurance and improvement plan (QAIP);
 - evidence file to support the self-assessment;
 - the audit charters;
 - the annual reports and opinions;
 - the audit plans and strategies;
 - audit procedures manual;
 - a range of documents and records relating to the team members;
 - progress and other reports to the Audit Committees.

All the above documents were examined during this EQA.

- 3.3 The main phase of the validation process was carried out during the week commencing the 12th of December 2022 and involved a review of a sample of audit files for both Stockton and Darlington Borough Councils, and interviews with key stakeholders from the Councils. Overall, the feedback from the interviewees was positive with clients valuing the professional and objective way the Shared Internal Audit Service delivered their services.
- 3.4 A survey was sent to a range of other key stakeholders and the results analysed during the review. Details of the survey findings have been provided to the Audit and Risk Manager and a brief summary has been included in this report.
- 3.5 The assessor reviewed examples of completed audits, to confirm his understanding of the audit process used at the Councils and how Internal Audit has applied the PSIAS and LGAN in practice.

4. Opinion

It is our opinion that the self-assessment for the Shared Internal Audit Service for Stockton Borough Council and Darlington Borough Council is accurate and as such we conclude that the Shared Internal Audit Service **GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.**

- 4.1 The table below shows the Shared Internal Audit Service for Stockton Borough Council and Darlington Borough Council's level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	Generally Conforms
Core principles	Generally Conforms

Standard / Area Assessed	Level of Conformance
Code of ethics	Generally Conforms
Attribute standard 1000 – Purpose, Authority and Responsibility	Generally Conforms
Attribute standard 1100 – Independence and Objectivity	Generally Conforms
Attribute standard 1200 – Proficiency and Due Professional Care	Generally Conforms
Attribute standard 1300 – Quality Assurance and Improvement Programmes	Generally Conforms
Performance standard 2000 – Managing the Internal Audit Activity	Generally Conforms
Performance standard 2100 – Nature of Work	Generally Conforms
Performance standard 2200 – Engagement Planning	Generally Conforms
Performance standard 2300 – Performing the Engagement	Generally Conforms
Performance standard 2400 – Communicating Results	Generally Conforms
Performance standard 2500 – Monitoring Progress	Generally Conforms
Performance standard 2600 – Communicating the Acceptance of Risk	Generally Conforms

5. Areas of full conformance with the Public Sector Internal Audit Standards

5.1 Mission Statement and Definition of Internal Audit

The mission statement and definition of internal audit from the PSIAS are included in the audit charter.

5.2 Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate an internal audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance standards of the PSIAS.

The clear indication from this EQA is that the Core Principles are embedded in the Shared Services procedures and working methodologies and that they are a very

competent, experienced, and professional service that conforms to all ten elements of the Core Principles.

5.3 **Code of Ethics**

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.

The clear indication from this EQA is that the Shared Internal Audit Service conforms to the Code of Ethics, and this is embedded in their procedures and audit methodologies. The code of ethics is part of their overarching culture and underpins the way the Service operates.

5.4 **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, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The internal audit charter must be reviewed regularly and presented to senior management and the audit panel for approval.

There are audit charters in place for both Stockton and Darlington Borough Councils and these are reviewed on an annual basis. We reviewed these documents and found them to be comprehensive and well written documents. As our assessment confirms that the Shared Service is conforming to the PSIAS and the LGAN, it is recognised as good practice to include a statement to this effect in the respective annual reports. Apart from the advisory point referred to above, we are satisfied that the Shared Internal Audit Service conforms to attribute standard 1000 and the LGAN.

5.5 **Attribute Standard 1100 – Independence and Objectivity**

Standard 1100 states that the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is an integral part of the Service's culture. The Service reports in its own name at both Authorities and directly to senior management and the Audit Committees at the respective authorities. All employees sign a declaration of interest each year and declare any potential impairment to independence or objectivity for each audit they undertake. There is scope however to strengthen this process by adding the Seven Principals of Public Life as one of the categories to the declaration form that the staff sign.

We have reviewed the Shared Service's audit manual, procedures, and their standard documentation; their quality assurance and improvement plan; and a sample of completed audit files for both Authorities. We have also reviewed the Shared Service's reporting lines and their positioning within the two organisations. The Audit and Risk Manager has other roles and responsibilities to Internal Audit at Stockton Borough Council that may be subjected to periodic internal audit. These are referred to in the audit charter and the annual report, and there are methodologies in place to avoid any potential conflicts of interest. Whilst there are mechanisms in place to avoid any potential impairments to the independence and objectivity of the Shared Service, it is recognised as good practice to include a statement confirming that there have not been

any impairments during the year just ended in the respective annual reports. Notwithstanding the two advisory points referred to above, we are satisfied that the Shared Internal Audit Service conforms with attribute standard 1100 and the LGAN.

5.6 Attribute Standard 1200 – Proficiency and Due Professional Care

Attribute standard 1200 requires the Shared Service's engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

It is evident from this EQA that the Shared Internal Audit Service has a professional and experienced workforce with all members of the team either holding or working towards relevant professional and academic qualifications.

The Shared Service is fortunate in having a qualified specialist IT auditor amongst the team, although all members of the Shared Service can perform basic, high-level IT audits. The Service also places reliance on the work of other sources of assurance for both Council's IT systems and their governance, such as the annual PSN accreditations and routine penetration testing organised by the respective IT Services. The Shared Service uses IDEA, Excel, and Power BI, for data analytics, and makes use of the data analytics tools embedded in the respective Council's IT systems.

It is evident from this review that the Shared Service's employees are experienced and well qualified and perform their duties with due professional care. However, we have noted that some of the Shared Audit team have been in internal audit for many years and are approaching an age where they could consider taking early retirement. If this was to happen in the foreseeable future, it may have a detrimental impact on the effectiveness of the Shared Service as finding suitably experienced and qualified replacements in the current economic climate will be very difficult. We therefore suggest that the Audit and Risk Manager looks at all the options available to him and puts together a succession planning strategy for the Shared Service. Apart from the advisory suggestion above, we are satisfied that the Shared Internal Audit Service complies with attribute standard 1200 and the LGAN.

5.7 Attribute Standard 1300 – Quality Assurance and Improvement Programmes

This standard requires the head of audit to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

The Shared Internal Audit Service has developed an effective quality assurance process that ensures engagements are performed to a high standard and feeds into their quality assurance and improvement programme. Supervision of audit engagements is carried out during the audit and prior to release of the findings to the audit dashboard. Evidence of the supervision process is recorded in their MKI audit management application. We have examined the supporting evidence provided by the Shared Service during this EQA and are satisfied that they conform to attribute standard 1300 and the LGAN.

5.8 Performance Standard 2000 – Managing the Internal Audit Activity

The remit of this standard is wide and requires the Audit and Risk Manager to manage the internal audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when internal audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Audit and Risk Manager must produce an audit plan and communicate this and the Service's resource requirements, including the impact of resource limitations, to senior management and the Audit and Risk Committee for their review and approval. The Audit and Risk Manager must ensure that Internal Audit's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Audit and Risk Manager to establish policies and procedures to guide the internal audit activity, and to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Last, but by no means least, the standard requires the Audit and Risk Manager to report periodically to senior management and the Audit and Risk Committee on internal audits activities, purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the audit panels.

The Shared Internal Audit Service has a range of procedures in place, including an audit manual, procedure notes, and supervision processes that meet the requirements of the PSIAS.

The Service have developed comprehensive planning processes that take into consideration the known risks and objectives and the deliverables set out in the respective Council corporate plans; their risk management and governance frameworks; any relevant and reliable sources of assurance that are available; key issues identified by the various service managers at each Authority; the Service's own risk and audit needs assessments; and any emerging risks identified through horizon scanning and networking with other organisations. This information feeds into the audit universe of key controls for each Authority. The Service produces a risk-based audit plan for each Authority that aims to test the design and effectiveness of these key controls, and objectively provide them with relevant assurance on their governance (including ethics related controls), risk management and control frameworks. The audit plans are reviewed and approved by senior management and the Audit Committees of the respective Authorities.

Details of the completed control reviews are quickly reported to senior management via a digital dashboard (using MS Power BI) that all Directors and senior managers have access to. The dashboard provides brief details of the risk and control issues found, and the actions required to mitigate any control weaknesses. Managers are then required to update the dashboard with details of the progress being made to address the issues raised by Internal Audit. The director's dashboard also shows the planned reviews for their operational areas, and the performance of the Shared Internal Audit Service in delivering the audit plan. This method of reporting Internal Audit's activity works well for the two Authorities and is well liked by management. It is a cost-effective way of quickly communicating the results of audits. Regular updates on the progress being made on delivering the audit plans and the performance of the Shared Internal Audit Service, are reported to the respective senior management teams and Audit Committees at each Authority. Annual reports and opinions are also issued at the end of the year and presented to the respective Audit Committees.

The clear indication from this EQA is that the Shared Internal Audit Service is effectively managed and conforms to standard 2000 and the LGAN.

5.9 Performance Standard 2100 – Nature of Work

Standard 2100 covers the way the internal audit activity evaluates and contributes to the improvement of the organisation's risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

This is the approach adopted by the Shared Internal Audit Service and is embedded in their working methodologies and their MKI audit management system. During this EQA, we reviewed a sample of control audits and examined them to see if they conformed to

standard 2100, the LGAN and the Shared Service's own methodologies. We found that all the evidence that we examined complied with all three elements.

The clear indication from this EQA is that the Shared Internal Audit Service conforms to performance standard 2100 and the LGAN.

5.10 **Performance Standard 2200 – Engagement Planning**

Performance standard 2200 requires internal auditors to 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.

As mentioned above, the Shared Internal Audit Service has an audit manual and procedure notes, supervision, and quality assurance processes in place that cover engagement planning and meets the requirements of the PSIAS. We found that all the evidence that we examined during this EQA conformed to standard 2200, the LGAN, and the Service's own audit procedures, and therefore we conclude that the Shared Internal Audit Service conforms to performance standard 2200 and the LGAN.

5.11 **Performance Standard 2300 – Performing the Engagement**

Performance standard 2300 seeks to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

As mentioned above, the Shared Internal Audit Service has an audit manual and procedure notes, supervision and quality assurance processes in place that meet the requirements of the standards. During this EQA, we reviewed the evidence provided in support of the Service's self-assessment to see if they conformed to the standards, and the Shared Service's own working methodologies. We found that all the evidence conformed to the standards and, overall, the Shared Service's own procedures and audit methodologies. We therefore conclude that the Shared Internal Audit Service conforms to performance standard 2300 and the LGAN.

5.12 **Performance Standard 2400 – Communicating Results**

This standard requires internal auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the expectations of their senior management, the audit panels and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".

The audit manual, procedure notes, supervision and quality assurance processes cover the communication of results and meet the requirements of the PSIAS. Details of the completed control reviews are quickly reported to senior management via a digital dashboard that they all have access to. The dashboard provides brief details of the risk and control issues found, and the actions required to mitigate any control weaknesses. This method of reporting Internal Audit's activity works well for the two Authorities and is well liked by management. It is a cost-effective way of quickly communicating the results of audits. During the EQA we reviewed the evidence provided in support of the Shared Service's self-assessment and the dashboard reports for a small sample of control audits to see if they conformed to the standards. We found that all the evidence conformed to the standards and Shared Service's own procedures and methodologies.

We also reviewed the progress and annual reports to the respective Audit Committees and found that overall, these also conformed to the standards and the Shared Internal Audit Services own internal procedures.

We therefore conclude that the Shared Internal Audit Service conforms to performance standard 2400 and the LGAN.

5.13 **Performance Standard 2500 – Monitoring Progress**

There is a comprehensive follow-up process in place at both Authorities, the objective of which is to monitor the client's progress towards the implementation of agreed actions. The results of the follow-up reviews are reported to the respective Audit Committees. From this EQA, it is evident that the Shared Internal Audit Service conforms to performance standard 2500 and the LGAN.

5.14 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the Audit and Risk Manager has concluded that management at either Authority has accepted a level of risk that may be unacceptable to the organisation. Situations of this kind are expected to be rare, consequently, we did not see any examples during the review. From this EQA, it is evident that the Shared Internal Audit Service conforms to performance standard 2600 and the LGAN.

6. **Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note**

6.1 There are no areas of partial conformance with the Public Sector Internal Audit Standards or the CIPFA Local Government Application Note.

7. **Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note**

7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards or the CIPFA Local Government Application Note.

8. **Survey results**

8.1 Overall, the results of the survey of key stakeholders from the Shared Internal Audit Services clients were positive with respondents valuing the services provided by them. The overall number of negative responses were very low with most respondents either agreeing or partially agreeing with the survey statement. The detailed findings from the survey have been shared with the Audit and Risk Manager to enable him to explore some of the responses in more depth, if he wishes, to understand if there are any underlying issues that may need to be addressed. A brief summary of the survey results is included in this report at page 13.

9. Issues for management action

Issues for management action	Priority
As our assessment confirms that the Shared Service is conforming to the PSIAS and the LGAN, it is recognised as good practice to include a statement to this effect in the respective annual reports.	Advisory
Consider adding the Seven Principals of Public Life as one of the categories to the declaration form that the Internal Audit team members sign.	Advisory
It is recognised as good practice to include a statement in the respective annual reports confirming that there have not been any impairments to the independence or objectivity to the Shared Service during the year just ended.	Advisory
Some of the Shared Audit team have been working in Internal Audit for many years and are approaching an age where they could consider taking early retirement. If this was to happen, it may have a detrimental impact on the effectiveness of the Shared Service, as finding suitably experienced and qualified replacements in the current economic climate will be very difficult. We therefore suggest that the Audit and Risk Manager looks at all of the options available to him to maintain the effectiveness of the Shared Service and puts together a succession planning strategy for the Shared Service.	Advisory

10. Definitions

Level of Conformity	Description
Generally Conforms	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.
Partially Conforms	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.
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. 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.

Action Priorities	Criteria
High priority	The internal audit service needs to rectify a significant issue of non-conformance with the standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The internal audit service needs to rectify a moderate issue of conformance with the standards. Remedial action to resolve the issue should be taken, ideally within six months.
Low priority	The internal audit service should consider rectifying a minor issue of conformance with the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	These are issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

The co-operation of the Audit and Risk Manager, and the Shared Service Team in providing the information requested for the EQA, is greatly appreciated. Our thanks also go to the chairs of the Audit Committees and the key stakeholders from both Council that made themselves available for interview during the EQAs and/or completed questionnaires.

Ray Gard, CPFA, FCCA, FCIIA, DMS

31st January 2023

11. Disclaimer

This report has been prepared by CIPFA at the request of the Shared Internal Audit Service for Stockton Borough Council and Darlington Borough Council, the terms for the preparation and scope of the report have been agreed with them. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues that exist with their conformance to the Public Sector Internal Audit Standards that exist, or of all the improvements that may be required.

The report was prepared solely for the use and benefit of the Shared Internal Audit Service for Stockton Borough Council and Darlington Borough Council, including the senior management and boards of both Council's, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any other third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Survey Results



