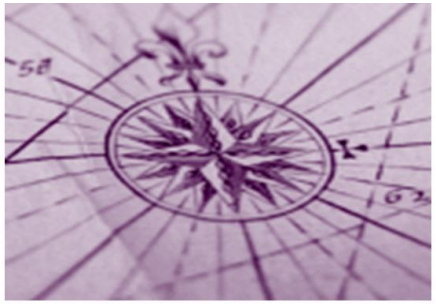
BUSINESS RISK SOLUTIONS

central midlands audit partnership

External Quality Assessment

Internal Audit Services

Executive report – October 2022



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Opinion: The Central Midlands Audit Partnership is delivering to a standard that **generally conforms** with the Public Sector Internal Audit Standards.

Key matters arising from the review:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of each client particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Developing a clear alignment through the working papers for each assignment to focus on agreed management objectives and the associated significant risks and relevant key controls will assist in the provision of a transparent assurance opinion in the final audit report.
- Consideration should be given to the revision of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by each client within its Risk Management Policy rather than rely on those of a generic nature.

Good Practice identified during the review

- An Internal Audit Charter setting out the role and responsibilities of Internal Audit guides delivery and establishes the basis upon which the Head of Internal Audit's Annual Opinion will be based.
- **T**he service has developed a documented internal audit methodology and supporting templates that delivers a consistent service.
- Consistent supervisory processes ensure that a standard approach delivers a robust assurance report.
- Routine reporting informs clients and the Audit Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations.
- Self-assessment identifies areas in which future development will be beneficial and is based upon the development of job descriptions, performance appraisals, the establishment of a training matrix and client feedback.

Executive summary

Internal Audit services are delivered by Central Midlands Audit Partnership (CMAP) and supported by external contract arrangement for support for both IT and general audit work on an as required basis, to deliver planned assurance and advisory services. Current clients are Derby City Council, Derby Homes, Derbyshire Fire and Rescue Services and the District Councils of Amber Valley, Ashfield, South Derbyshire.

CMAP services are overseen by an Operational Group to which Richard Boneham as Head of the Audit Partnership (HoAP) reports. The HoAP is supported by two Audit Managers with all three assuming a role as CAE with the various clients.

The service has responded to the change of focus in professional standards by developing a risk based approach with regard to planning and the completion of assignment work; the Internal Audit Manual has been updated in December 2021 to reflect the requirements of the Public Sector Internal Audit Standards (PSIAS) as defined within the International Professional Practices Framework (IPPF) maintained by the Institute of Internal Auditors (IIA) and as a result better align its methodology.

From an internal audit perspective, considerable advantage is to be gained from recognition of the clients' Risk Management processes and the effectiveness with which they operate. The degree to which those key controls which management feel reduce significant risk to an acceptable level (risk appetite) and arising from which the assurance sources that exist to demonstrate application are identified, represents a platform against which internal audit can provide an assurance opinion in relation to risk, governance and control. Client risk management processes vary, particularly with regarding to the depth to which they are embedded at an operational level. Increasing alignment will enable internal audit plans and assignments to focus on the value of 'Control Risk' and thereby increasingly focus attention on significant risk and key controls, as well as identify and consider reliance on those assurances available to demonstrate mitigation of risk. Continuing to develop this thread will enhance both the efficiency and effectiveness of internal audit as well as its benefit to each client.

Consequently, with a constantly changing risk environment, particularly as the service responds to the changing needs of clients post COVID-19; there is opportunity for the internal audit service to continue to enhance delivery through acting as a catalyst to ensure that robust risk management systems are operational, increasing its awareness of the assessment of risk and as a consequence informing its own approach. This will help ensure that internal audit focuses on the most appropriate areas and can demonstrate that it continues to provide a service that effectively contributes towards the achievement of the clients' stated objectives, through the provision of independent assurance.

Current services are assessed to **'generally conform'** with the PSIAS standards and compare favourably with peer groups in both local government and the private sector.. A series of specific recommendations are made in the report that follows to reflect building on the existing strengths in relation to resources, competency and delivery in order to enhance future services.

Overall assessment

1	**RESOURCES**		**Excelling** – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
2	**COMPETENCY**		**Established** – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.
3	**DELIVERY**		**Established** – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit Committee (AC).	The combination of the Charter and the Internal Audit Manual provides comprehensive understanding of the role and responsibilities of internal audit 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.
1311	The service has conducted internal assessment exercises regarding its performance.	Performance review is embedded within quality control procedures and supported by a staff development processes which identify and support performance development needs.
2020	Active engagement at Member and management level	Establishment of a good understanding of key issues through routine interaction with client management including Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other sources.	This represents a firm basis for the successful delivery of the internal audit plan and the use of support, if required.
2040	A detailed internal audit manual is in place which aligns with the PSIAS.	Provides for a consistent methodology, within the service which is delivered through a series of templates.
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely requested.	Demonstration of a consistent approach to communication which is well received by management and the AC – effective follow-up 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.

Part one

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Compliance with the Public Sector Internal Audit Standards

Resources

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

	Issue identified	Recommended action
1.	**Training needs** Current training needs are assessed and structured on an individual and team wide basis as part of the Performance and Development (PDR) Process, A skills matrix is in place. With internal audit planning being focused on a rolling programme of activity it should be possible to consider what assurances may be required by clients on a medium or longer term horizon and build these into the future training plans.	Consider formally identifying the long term assurance needs of clients within the various sectors which CMAP operates and prepare for assignments by arranging appropriate training in advance. Include development needs within the QAIP process **PSIAS 1210**
2	**QAIP policy** The Partnership currently updates the self-assessment exercise on an annual basis and uses this to support declaration that a QAIP has been completed. An undated document 'Quality Assurance & Improvement Programme' details those measures deployed by CMAP to identify any development needs. The above document does not include the process through which analysis of the various components are combined to support the QAIP declaration..	It would be good practice to formally approve the QAIP process as a Policy and specifies how each component contributes to the overall assessment of the need for development which is then included in each Head of Internal Audit's Annual report. Consider whether all existing quality assurance review processes are included in the QAIP document. **PSIAS 1310/1320**

Competency

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

	Issue identified	Recommended action
1.	**Assurance relating to Risk Management and Governance** Internal Audit plans include various engagements which together comprise a basis for providing an opinion in relation to these areas as is required with the PSIAS.	Consider formalising a standard approach to supporting the opinion in both areas, for example: a) Risk Management – this may be based upon a cyclical review of the implementation of an appropriate Risk Management Policy supported annually by assessment within each assignment as to whether risk management is embedded. b) Governance – this may be based upon review of the key areas/pillars of governance established within each clients Code of Governance in compliance with CIPFA/SOLACE or other Codes of Governance. **PSIAS 2010/2020**
2.	**Audit Universe** The current planning model reflects use of a “standard audit universe’ to which are applied a number of factors which may represent a judgement of risk from an internal audit perspective. Further development of this approach based upon each clients risk appetite (as stated within its risk management policy) would enhance internal audits’ ability to demonstrate a commitment to helping the client achieve its objectives. It is recognised that client risk management systems comprise various formats and reflect different levels of maturity. This significantly influences the degree to which internal audit can fully adopt a risk based approach which is consistent with each clients’ risk appetite.	Continue to develop the approach to formulating internal audit plans by reflecting the significant risks that are recorded with each clients risk management system, as this represents an essential feature of both strategic and operational planning as it acts as a basis for both ensuring attention on the most significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance. It would be beneficial therefore to increasingly align development of the internal audit planning system with each clients risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the client is or may become exposed at an inherent level. Discussions regarding the formation of each strategic plan should be formally documented. **PSIAS 2000/2010**

Competency continued

	Issue identified	Recommended action
3.	**Audit objective** Audit engagement plans are included within a Job Control Sheet and contain statements which reflects the scope and objective of the audit, these mostly reflect the purpose to provide assurance regarding the area of review. PSIAS 2201 gives guidance regarding planning considerations and states that "In planning the engagement, internal auditors must consider the objectives of the activity being reviewed and the means by which the activity controls its performance".	It would be beneficial to revise the terminology used to focus on the Management Objective for the area under review as this would provide direction for identification of the significant risks which may impact upon achievement of established management objectives. Such an approach would then provide a direct alignment with the Controls Evaluation Sheet where the 'Expected Controls' could be related directly to each identified significant risk. **PSIAS 2201**
4.	**Internal Audit Planning** Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends upon discussions with the management in pre-audit meetings and the maturity of the current risk management processes. This informs a judgement by the CAE regarding risk and priorities for audit review. The degree to which the internal audit methodology then allows a focus on significance, as opposed to covering 'all risks' is guided by how risks are expressed within a generic risk impact matrix which is applied to all clients. The ability of the internal audit team to target areas of greatest potential risk exposure may be better informed through recognition of Management's Objective (above) and the control environment established to move risk from an inherent to residual (current) level. This may be assessed in terms of 'Control Risk' where this can be identified within the clients risk management system.	Engagements should be increasingly constructed to reflect assessment of 'Control Risk' in relation to the achievement of Management Objectives in order to focus reviews upon: • 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 control objectives 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 2010**

Competency continued

	Issue identified	Recommended action
5.	**Risk appetite** The risk impact matrix above contains four 'categories' of risk which are restricted to matters of Governance, IT, Finance and Fraud. The risk environment within each client is therefore not reflected within this generic matrix.	Consider extending the risk matrix used at each client to reflect the unique aspects of the clients activity (risk categories) to reflect issues of an operational nature and particular high profile risks such as health & safety and safeguarding. **PSIAS 2010/2410**
6.	**Grading of recommendations** Recommendations are currently assessed using a generic risk impact and likelihood matrix relating to four levels of impact – catastrophic, critical. marginal and negligible for which examples are shown reflecting different types of risk (referred to above). **This is a more advanced model than most provision within the sector.** The Internal Audit Team then classifies 'the level of each recommendation by reference to a matrix grid which guides assessment at five levels relating to the risk as Critical, Significant, Moderate, Low or Minor A significant feature of the PSIAS is a focus on significant risk and therefore aligning internal audit terminology with each client's 'speak' may improve communication regarding planning, findings, recommendations and opinions. We believe the profession is generally moving towards use of a three tier recommendation structure.	It would be beneficial to align future terminology and grading of recommendations with those impact definitions used within the risk management process at each client, where this is possible. A potential structure maybe: Recommendation rating / Risk Impact Category Critical / Catastrophic Significant / Critical Moderate/Low / Marginal/Negligible This could be flexibly applied to suit the circumstances of each client with regard to their approach to grading risk impact. 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 and in providing an opinion within assurance reports. Consider also: a) Reducing grading levels to three b) Not including 'Minor' recommendations in reports (or grading as 'low') c) Including appropriate explanation in reports regarding the basis upon which recommendations and opinions are assessed. **PSIAS 2300/2410**

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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

	Issue identified	Recommended action
1.	**Recommendations graded 'Critical risk'** CMAP currently use a weighted risk grading system to support the overall opinion used within an engagement report. This provides a consistent approach to the provision of the assurance opinion and reflects best practice.	Consider the underlying assumptions used within the methodology to assess the 'Control Assurance' opinion to ensure that: a) Where a critical risk rating is allocated to a risk this results in a 'Limited Assurance' opinion. b) Where multiple significant or moderate recommendations are identified the cumulative effect is appropriate to distinguish between a Substantial, Reasonable or Limited Opinion (currently set at 10, 45 and 80%). **PSIAS 2450**
2.	**Follow up of recommendations** A comprehensive follow up process exists regarding action being taken on recommendations made by internal audit, in which tracking currently provides review of outstanding. CMAP processes include an automated email reminder process although reporting would benefit from achieving greater reliance or buy-in from client management regarding receipt of timely responses regarding recommended actions which have been agreed.	The adoption of internal audit grading which is aligned with the client's risk appetite in terms of the use of risk impact definitions may help embed the follow-up process within routine management and therefore make best use of the limited internal audit resource. In the longer term, the introduction of automated software that tracks and reminds managers by email of their commitment, allows local update of actions undertaken, whilst also producing executive reports of outstanding actions for SMT and Audit Committee may help fully embed timely action by managers. **PSIAS 2500**

Delivery continued

	Issue identified	Recommended action
3.	**Release of draft and final reports** Reports are currently issued to clients following approval by the CAE. Whilst this is provided for within the PSIAS, it is suggested that greater clarity should introduced regarding the approval process by amending the front page to the report template to indicate that the nominated CAE has authorised release, rather than include within a 'Distribution and Communication' section in the body of the engagement report.	Clearly show on the report cover the CAE responsible for each client report and record other contacts in relation to CMAP management separately. **PSIAS 2420**
4.	**Annual Opinion** Current Head of Internal Audit opinions state that the opinion is *"Based on the work undertaken during the year",* we do not believe this is the case as internal audit planning is based upon a rolling plan of activity which all provides evidence along with wider knowledge of both the control environment and the significant risks that each client faces. This represents the correct basis upon which an opinion should be expressed,	It is recommended that: a) Each CAE amends the wording used when expressing an Annual Opinion to reflect the wiser knowledge of significant risk and assurances available, including from the client risk management system where this can be relied upon, and b) The Head of Internal Audit's Annual Report should include wider reference to the significant risks being faced and the assurances that are available. **PSIAS 2450**

Delivery continued

	Issue identified	Recommended action
5	**Client feedback** Response to the client survey supported evidence from feedback gathered by CMAP through feedback at the conclusion of each report. Although not raised as a consistent response some observations were made regarding the benefits that could be gained from focus on significance and the provision of advice regarding best practice.	This may support some of the findings of this review and be resolved through identification of Management Objectives and alignment with client risk appetite but equally may require attention within team training, engagement planning and the approach to exit meetings. **PSIAS 2220/2450**

Part two

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Suggested enhancements for consideration

Suggested Enhancements for consideration

	Issue identified	Recommended action
1.	**Audit Charter** The current Audit Charter majors on compliance with the standards of the Institute of Internal Auditors, with references to the PSIAS interpretation as a footnote. The Internal Audit Manual majors more upon compliance with the PSIAS.	Consider standardising the approach to focus on the PSIAS. **PSIAS 1000**
2.	**KPMG** Arrangements for support have been agreed with KPMG who provided a detailed appendix indicating how the firm feels it complies with the PSIAS. Where such arrangements exist elsewhere, it is normal practice to require a copy of the actual external assessment as evidence of compliance with PSIAS.	Request confirmation from KPMG that their internal audit provision has been subjected to an external quality assessment. **PSIAS 1312**
3.	**Fraud Survey** The Internal Audit Team participates in the CIPFA Fraud Survey which reflects good practice regarding the consideration of fraud risk within the PSIAS.	When completed it would be beneficial to align outcomes with the significance of fraud risk in relation to achievement of the management objectives agreed within each engagement. **PSIAS 2120**
4.	**Confidentiality** There is an occasional need to share an internal audit report outside of the organisation and in which case the legal implications should be considered.	The Internal Audit Team should consider the need to include appropriate confidentiality and limitation of liability clauses in reports which are shared with third parties directly or in published Audit Committee papers. **PSIAS 2440**

Part three

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Benchmarking

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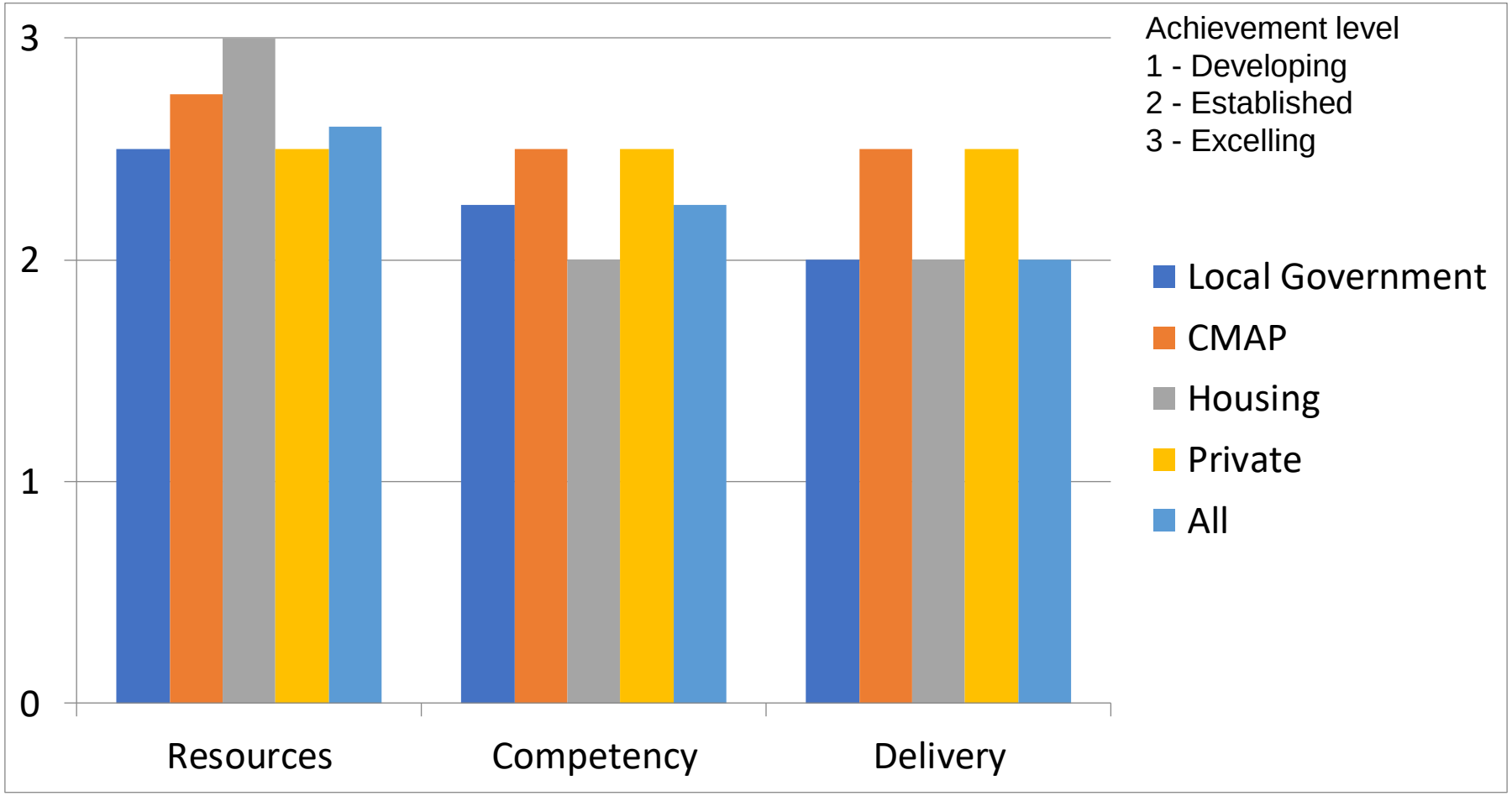
Benchmarking - Sector analysis



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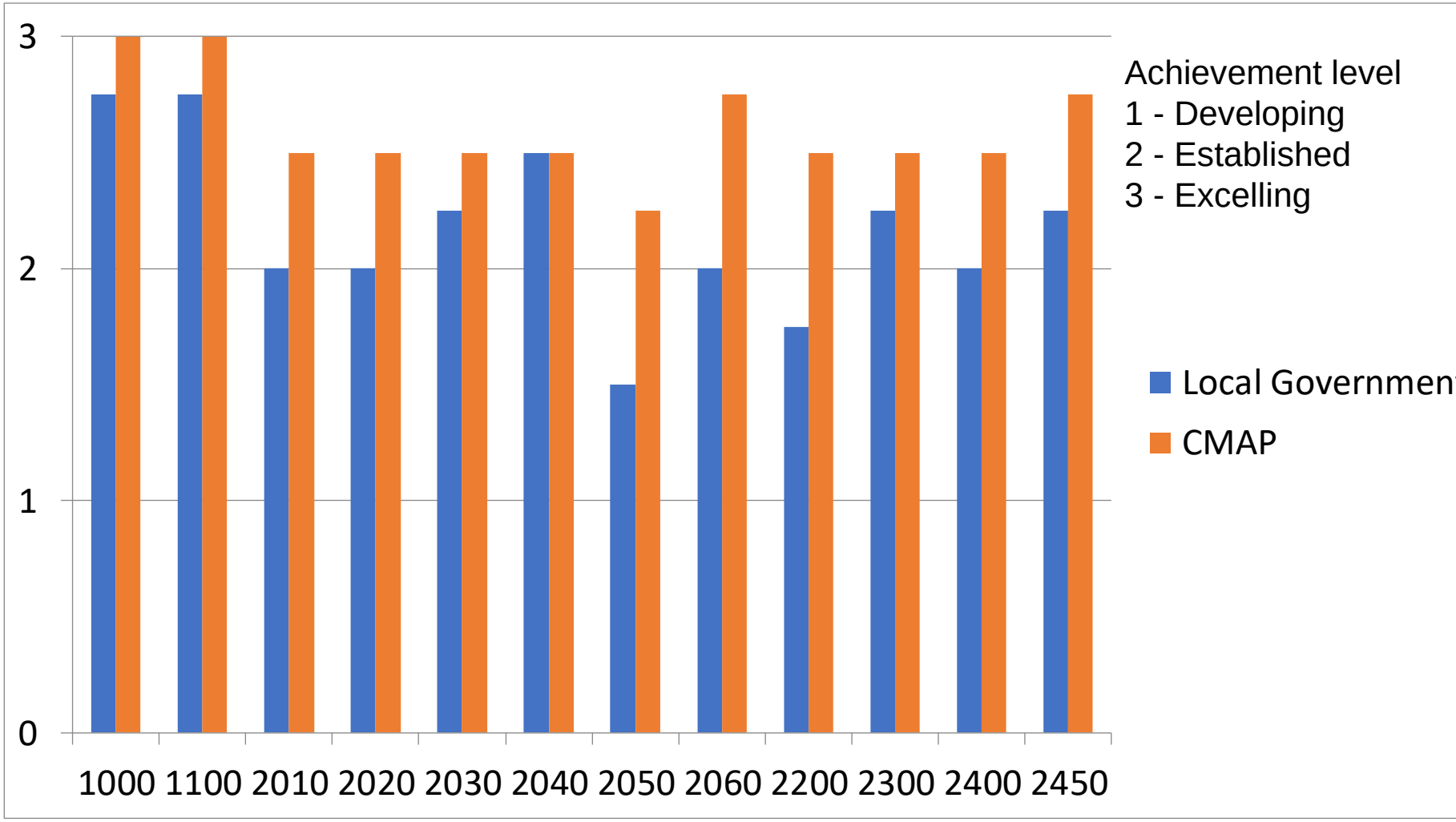
Benchmarking - Industry analysis



Appendix

1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations

Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
I have regular contact with internal audit management.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve. Auditors consider the viewpoint of the organisation when planning and undertaking reviews and aim to provide a good balance between assurance and opportunities for improvement.	100	
Internal audit has a presence throughout the organisation which is based on significant risk, is visible and approachable.	93	7
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.	85	15
Average	**97**	**3**

Conclusion:
Feedback from stakeholders confirms that the Central Midlands Audit Partnership is considered to provide a high quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded.

Feedback

Other relevant observations
The service has evolved for Derby Homes into a more consultancy led offer, rather than regulatory. This has meant that the topics covered can be targeted at topical / high risk areas. As a result the relevance of the audits is a big improvement from a few years ago.
Whilst the process for informing Managers of timescales for recommendations and updates for committee has improved it can still be a little cumbersome and confusing.
I have never had the good practice from other organisations/Councils shared other than reference to ACAS, that would help the process if other sources are provided as reference and considerations.
We would welcome the opportunity to call on wider skills and capabilities around assurance mapping and best practice from elsewhere.

Issued	18	Returned	13	Response rate	72%

Client representative	No’
Audit Committee	3
Main Client contact	5
Client Manager	5

Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
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 Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Basis for EQA

Compliance with IPPF/PSIAS

- **Resources**

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

- **Competency**

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

- **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

Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
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.
Review	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
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

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.