

## **PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

**External Quality Assessment: Cambridgeshire County Council Internal Audit Service**

**October 2022**

## INTRODUCTION

Internal Audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS). These have been in place since 1 April 2013 (and subsequently revised in 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, 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.

This review of Cambridgeshire County Council Internal Audit Service (CCC IAS) has been undertaken by Steve Crabtree, Chief Internal Auditor at Peterborough City Council during 2022 as part of a reciprocal arrangement between the two authorities.

The co-operation of the previous, and new Head of Internal Audit and Risk Management and staff at CCC IAS in providing the information requested for this External Quality Assessment is appreciated. Further support was provided by those Senior Officers and Members consulted through questionnaires and subsequent follow up interview with the Executive Director of Finance and Resources (s.151 Chief Financial Officer).

This report has been prepared to meet the requirements of the PSIAS five yearly assessment. All matters raised within the report are only those that came to my attention during the review. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, I have only been able to base findings on the information and documentation provided.

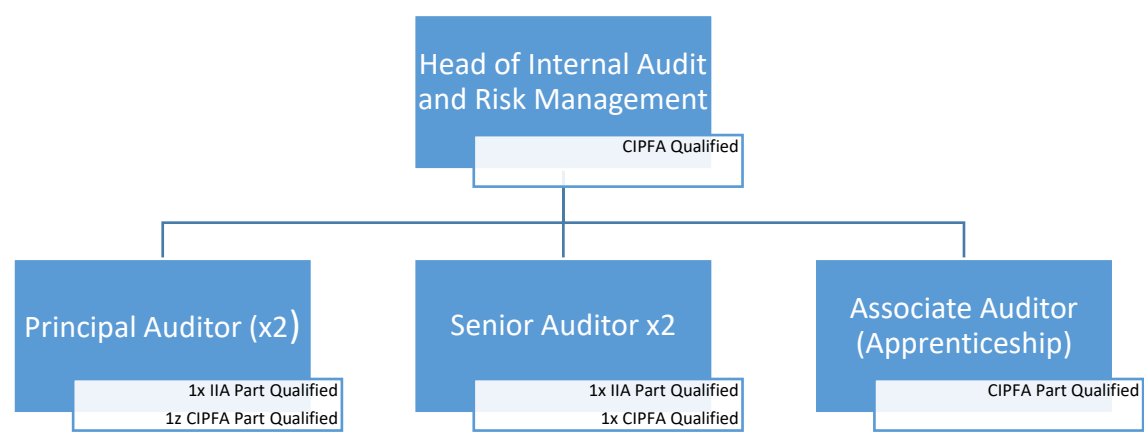
Finally, the report is solely for the use of CCC IAS, including the senior management and Members of the Audit and Accounts Committee (AAC).

Steve Crabtree, CPFA, MAAT

BACKGROUND

The Cambridgeshire County Internal Audit Service (CCC IAS) provides internal audit services to Cambridgeshire County Council. There is a separate contract in place to deliver audit services to Pathfinder Legal Services – a co-owned company between CCC and other local authorities. Previous arrangements for the delivery of audit services through the Local Government Shared Service (LGSS) have ceased although there are a number of shared reports produced for West Northamptonshire, North Northamptonshire and Milton Keynes in relation to the ongoing shared systems of debtors, creditors and debt recovery.

The CCC IAS is managed by the Head of Internal Audit and Risk Management (HoIA) and is made up of permanent CCC staff as well as various secondments from Finance. The additional resources from Finance are currently represented by x2 Financial Management Associates (Apprentices). The current structure and qualifications are detailed below.



The service also has a number of vacant posts which are subject to review / restructure.

The length of service / experience of team confirm several members of the team have extensive local government internal audit experience, and some are able to bring knowledge and experience to the team that they have gained from internal auditing elsewhere in specific disciplines.

From an operational perspective, CCC IAS reports directly to the Executive Director of Finance and Resources (s.151 Officer), although this will shortly change to the Executive Director of Strategy and Partnerships. With the existing arrangements, the s.151 Officer fulfils the role of “senior management” and the AAC the role of “the board” as defined by the Public Sector Internal Audit Standards. The HoIA also has direct access to the Council’s Chief Executive Officer, the Corporate Leadership Team as well as the Chair of the AAC.

Regular reports on the audit plan, progress on delivering the plan and the annual opinion and outturn is made on approximately a quarterly basis to the Leadership Team and AAC.

CCC IAS 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 2017. The previous assessment was as part of the service delivered in line with Milton Keynes Council and the LGSS.

CCC IAS has an audit manual that is comprehensive and regularly refreshed. It is clearly laid out and provides appropriate guidance for auditors, whether experienced or new to the service. Standard templates are used across the work cycle from Terms of Reference templates, working papers and testing schedules, through to the audit reports. Each assignment is managing to ensure that staff time is spent appropriately with effective supervision.

For effective checks on the service being provided, CCC IAS has a quality assurance process. The Quality Assurance and Improvement Programme (QAIP) is monitored and reported internally on a monthly basis as well as reported on to the AAC as part of the Annual Opinion.

## VALIDATION PROCESS

The self-assessment validation comprised a combination of:

- External review of the evidence provided by CCC IAS;
- Review of a sample of completed internal audits for CCC, chosen by the assessor;
- Questionnaires sent to and officers / members at CCC; and
- Follow up interview with the Chief Finance Officer

CCC IAS 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:

- Self-assessment against the standards;
- Evidence file to support the self-assessment;
- Audit Charter;
- AAC papers, including annual plans, progress reports and the annual audit opinion;
- Audit Manual;
- Selection of audit working papers for a series of completed audits.

(Where sensitive data was identified within audit files, it was confirmed that these would not be provided so as not to breach data protection rules). The following audit files were reviewed as part of the process:

Audit Files Selected (from the Audit Opinion report 2021 / 2022	
Key Financials (Treasury Management)	Annual Key Policies and Procedures Review
Schools: Schools Payroll 2020 / 2021	Procurement Compliance
Schools Audit: Little Paxton	Code of Corporate Governance
Declarations of Interest (Employees)	

The validation process was carried out by PCC Chief Internal Auditor. The initial focus has involved initial discussions with the HoIA a review of the documents provided and the issuing of the

questionnaire to self-identified officers and members. The full results for the questionnaires are set in the Appendices to this report (anonymised).

## OPINION

It is my opinion that CCC IAS's self-assessment is accurate and as such conclude that they **FULLY CONFORM** to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. The table below shows CCC IAS's level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance		
	Full	Partial	No
Mission Statement	X		
Core principles	X		
Code of ethics	X		
Attribute standard 1000	X		
Attribute standard 1100	X		
Attribute standard 1200	X		
Attribute standard 1300	X		
Performance standard 2000	X		
Performance standard 2100		X	
Performance standard 2200	X		
Performance standard 2300	X		
Performance standard 2400	X		
Performance standard 2500	X		
Performance standard 2600	X		

There is one standard – Standard 2100 – where it was identified that there is a element of partial conformance but this does not materially impact on the overall assessment.

## STATUS LEVELS OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

### Mission Statement and Definition of Internal Audit

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

### 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 the EQA is that the Core Principles are embedded in the Audit Manual. It should be concluded that from the evidence supplied and reviewed that CCC IAS is a competent and professional service that conforms to the Core Principles.
- There are a number of examples in place which sees for the promotion of the service across organisation. Evidence was provided which sets out its approach to following up reports to confirm that actions are being implemented. Further evidence has demonstrated proactive works as a result of the audit conclusions.

Proactive Works to Raise IA Profile / Value
This has included a communications campaign in the staff newsletter was run to raise awareness of the need to declare outside interests following an audit review of Employee Declarations of Interest.
A formal complaint was made to the professional institute of a temporary contractor following an audit investigation.
New debt KPIs and reporting were put in place following a review of Accounts Receivable and Debt Recovery.
A number of updates were made to the Council's Agency Workers & Interims Policy following an audit investigation.
Developing a Direct Payments Fraud & Misuse Policy after noticing a consistent pattern of alleged fraud/misuse of direct payments. This is being developed in conjunction with a number of teams across the Council, partly to call on expertise but also to get buy in.
Liaison with District Councils to implement data-matching to detect Council Tax fraud

### Code of Ethics

*The purpose of the IIA's 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 indication from the assessment that CCC IAS conforms to the Code of Ethics. It is enshrined within its Audit Manual.
- It is part of their overarching culture and underpins the way the Service operates.

#### **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.*

- CCC IAS has an Audit Charter which is embedded in its Audit Manual. Previously this was linked with LGSS / Milton Keynes but has now been identified separately and approved by AAC.
- Based on current analysis, the Audit Charter remains a full document which sets out the processes and arrangements to carefully deliver on the audit service and is in line with standards.

**I am therefore satisfied that they conform to attribute standard 1000 and the LGAN.**

#### **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 covered within the Audit Manual. All reports issued are within their own name.
- Corporate Leadership Team have sight of progress reports for information prior to their submission to AAC. This aids in obtaining overall executive ownership of the outputs from CC IAS.
- All employees sign a declaration of interest and confidentiality agreement (this is annually refreshed). These are provided to the HoIA who reviews declarations. Any issues are recorded against audits so as to avoid conflict. With the use of apprenticeships, they also complete these forms and are kept separate from any areas which they may have worked on in placements elsewhere. The declaration of interest for the HoIA is sent to the Executive Director for confirmation.
- HoIA also has risk management remit – albeit facilitation rather than a responsibility to manage risk. While this limits any level of impairment it would be appropriate that any audit reviews in this area are undertaken independently and oversee by others within the Team. It is noted at the time of the review and the subsequent appointment of the new HoIA that work is ongoing to review risk management responsibilities in order to reduce any impairment. **(Observation 1).**

- In reviewing the audit files selected, it was noted that there were no separate impairments identified.

**CCC IAS conforms with attribute standard 1100 and the LGAN.**

#### **Attribute Standard 1200 – Proficiency and Due Professional Care**

*Attribute standard 1200 requires CCC IAS'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.*

- In reviewing the EQA it is clear that there is a strong, professional and experienced service.
- Nevertheless, the service does suffer from recruitment and retention. There has been a high level of turnover in the last 18 months which has seen the loss of 2x Principal Auditors, 1x Senior Auditor and 2x Trainees). Furthermore there has been a change in the HoIA but there has been some business continuity with a successful internal appointment. While the majority of resignations resulted in promotions to other organisations it has also impacted on the service delivery. It may also have some merit in changes in the public sector post pandemic.
- With a strong trainee scheme in place across CCC, the impact on CCC IAS has to some extent been masked and mitigated as they have had the ability to call on those resources to provide cover. Previous attempts at permanent recruitment has not been so fruitful. At the time of the review, there are plans to take on additional trainees in Autumn 2022 to look to maintain appropriate succession planning.
- There is a strong qualification mix across the Team and the HoIA holds a CCAB qualification (CIPFA). Others have embarked on formal qualifications either through CIPFA or IIA. As part of regular reviews of the structure, the various job descriptions and person specifications are refreshed. Routine 1-2-1 meetings and performance appraisals also cover assessments of staff skills and knowledge so as to maintain appropriate and up to date information to deliver an ever-changing Council. Specialist areas, such as IT, may require additional resources which it is understood would be required in appropriate situations.
- While the service does not have a separate audit software package, it does make use of SharePoint to hold standard information which is available to all.
- It has been identified that the service – due to current resourcing levels – tends to be more reactive than proactive. The service, subject to resources, should look to develop in the area of data analytics. This would cover such areas as ongoing compliance / continuous auditing within systems. Similarly, the impact of these reviews to inform Managers / AAC could also be better presented by the use of Power BI to improve on its reporting and analysis and this is an area that CCC IAS could look to exploit. Reporting of findings to Senior Managers / Committee Members could be developed to improve the visualisation of outcomes (findings on a page). This could assist in management being able to focus clearly on the key points to action. The finer detail would still be available within the report. (**Observation 2**). (NB: The assessor provided a number of examples for consideration.)

**CCC IAS conforms with attribute standard 1200.**

### Attribute Standard 1300 – Quality Assurance and Improvement Programmes

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

- The HoIA undertakes a review of the QAIP and the annual assessment is referred to AAC for consideration, appropriate action if needed and finally approval. No such changes were required at the last referral to AAC.
- There is a robust and effective quality assurance process that ensures engagements are performed to a high standard within the available resources.
- As part of the review, analysis was undertaken in relation to the Key Performance Indicators. These have not been reviewed for some time and it is considered appropriate for these to be refreshed and agreed with AAC during 2022 (**Observation 3**).

**Conforms to attribute standard 1300 and the LGAN.**

### Performance Standard 2000 – Managing the Internal Audit Activity

*The remit of this standard is wide and requires the Head of Internal Audit 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 Head of Audit must produce an audit plan for each client, and communicate this and the Service's resource requirements, including the impact of resource limitations, to senior management and the Audit Committees at each client for their review and approval. The Head of Internal Audit must ensure that CCC IAS's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.*

*The standard also requires the Head of Internal Audit 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 Head of Internal Audit to report periodically to senior management and the Audit Committees 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.*

- CCC IAS has an Audit Manual which is regularly reviewed and updated to ensure that it remains fit for purpose.
- As part of each audit assignment, there is appropriate supervision in place of all auditors. Reviews of the audit files have identified that issues arising have been addressed and reflected in final reports. All have been suitably documented and addressed.
- In line with best practice, planning processes for the audit plan and the completion of audits have a clear focus on risks. Risks are identified based on the knowledge of staff as well as managers in the departments together with reference to the vision / objectives for the Council.

- CCC IAS use to have an assurance map however that has been moved away from following discussions at AAC. Nevertheless, the IA Plan does reflect on how the service will gain assurance from other areas of the Council and as a result influences the level of risk that can be placed on the area. Where there is limited assurance within the Council, those are seen as higher risk and attract the attention as to being included within the Audit Plan.
- Details of the completed audits and the risk and control issues found, together with the progress being made on delivering the audit plans and the performance of CCC IAS, is reported to AAC along with an annual opinion
- At the time of the review it was noted that plans are in hand to develop a rolling process whereby assurance on corporate risks, the risk register and associated controls are ascertained (**Observation 4**).

**Conforms to attribute standard 2000.**

### **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.*

- The approach adopted to oversee performance is set out in the Audit Manual. However, due to the disaggregation of LGSS no Customer Service Questionnaires have been issued in the last 12 months. Data from previous questionnaires are held on previous partners systems and are not accessible. This should be reintroduced as a matter of urgency to ensure that the opinions / views of clients are obtained (**Observation 5**). *NB: During the assessment, issues identified were raised with the HoIA in order to provide early insight into any areas for consideration / attention. This observation was acted upon and addressed prior to issue of the final report. This is reflected upon in the recommendations.*
- Based on survey conducted as part of this review, senior management value the work the Service does and often turn to them for advice and guidance when faced with emerging risks or are developing or changing systems.

**AREA TO IMPROVE.. Partial compliance**

### **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.*

- CCC IAS sets out its approach in the Audit Manual and overall supervision practices to ensure requirements are met. In reviewing the sample of audits requested, this was clearly laid out and delivered.

**Full compliance against standard 2200.**

### 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.*

- CCC IAS sets out its approach in the Audit Manual and overall supervision practices to ensure requirements are met. In reviewing the sample of audits requested, this was clearly laid out and delivered.

**Conforms to attribute standard 2300.**

### 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”.*

- CCC IAS sets out its approach in the Audit Manual and overall supervision practices to ensure requirements are met. In reviewing the sample of audits requested, this was clearly laid out and delivered.
- In addition, reviewing the reports submitted to AAC – Progress and Annual Opinion reports – established a consistent approach from the audit assignment outputs to that sent to AAC. Overall this conformed to the standards and CCC IAS’s own internal procedures.
- It was established that there is an onus on recommendations getting agreement in all cases. This can take time if there are contentious areas which are not fully accepted. Some cases may be referred to AAC for information. This should be spelt out in the Audit Manual. (Observation 6).

**Conforms to attribute standard 2400.**

### Performance Standard 2500 – Monitoring Progress

*Performance standard 2500 seeks to confirm that the Head of Internal Audit routinely monitors progress (follow ups) and reports appropriately across the business.*

- There is a comprehensive follow-up process with a focus on those issues seen as “essential” and “important” issues. Progress reports monitor the implementation of agreed actions which are recorded on spreadsheets (consideration to an overarching automated system).
- The results of the follow-up reviews are reported to AAC. AAC have noted areas which have been less than quick to respond and resolve areas of concern. It is noted that such an example

related to the an audit review relating to Capital Project Governance and a separate report on progress was requested and submitted to AAC in May 2022.

**Conforms to attribute standard 2500.**

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

*Standard 2600 considers the arrangements which should apply if the Head of Internal Audit has concluded that a client's management has accepted a level of risk that may be unacceptable to the organisation.*

- Situations of this kind are extremely rare. The process sets out that this would be reported through to Directors / AAC.
- From the Committee reports reviewed together with discussions with the HoIA, this has not occurred in the last three years so is unable to be evidenced but is clearly identified within the process.

**Conforms to attribute standard 2600.**

**AREAS OF PARTIAL CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND THE CIPFA LOCAL GOVERNMENT APPLICATION NOTE**

Unable to demonstrate that client views are received following completion of an audit assignment. Reintroduce customer service questionnaires. (Full details are set out within the Observations table overleaf)

**AREAS OF NON-CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND THE CIPFA LOCAL GOVERNMENT APPLICATION NOTE**

There are no areas of non-conformance with the Public Sector Internal Audit Standards.

## ISSUES FOR MANAGEMENT ACTION

Observation 1:	Review risk management responsibilities in order to reduce any impairment
Action:	Discussions are in train to look at the risk management arrangements to look to minimise the impact on the service
Timeline:	March 2023
Responsibility:	HoIA / Executive Director

Observation 2:	Consideration to be given to developing the use of Power BI to improve on the reporting of findings to Officers / Members. By reporting as a “single page” this should focus attention / enhance the awareness of the findings to be addressed.
Action:	A review of presenting reports (both to officers and Members) will look initially at the Annual Audit Opinion due in May 2023.
Timeline:	May 2023
Responsibility:	HoIA

Observation 3:	Review Key Performance Indicators
Action:	These will be re-evaluated, data collated and reported to AAC as part of the Annual Audit Opinion
Timeline:	May 2023
Responsibility:	HoIA

Observation 4:	Establish appropriate arrangements to provide continuous assurance to AAC
Action:	CCC IAS has now introduced a risk assurance report and the first one was issued in August 2022. This analysed individual risks to provide continuous assurance over risk management.

	This will continue to be developed as further risks are assessed – the next one to considered will be in Quarter 3.
Timeline:	September 2022 (and ongoing)
Responsibility:	HoIA

Observation 5:	Reintroduce customer service questionnaires
Agreed Action:	<p>It is acknowledged that due to issues within the service provision across a number of organisations and the subsequent break up of those arrangements that it was impractical to issue questionnaires.</p> <p>Following this issue being raised early within the assessment we have now reintroduced the customer feedback questionnaire process with a new online feedback form. This is issued with all final reports as well as to CLT at year end. Data produced is available to the HoIA.</p>
Timeline:	July 2022. <i>(Confirmation that this has already been implemented)</i>
Responsibility:	HoIA

Observation 6:	Document within the Audit Manual the approach in relation to non-agreed / implemented recommendations
Action:	As part of the regular review of the Audit Manual this will be evaluated.
Timeline:	December 2022
Responsibility:	HoIA

**SUMMARY OF SURVEY RESULTS**

As part of the EQA process, a questionnaire to obtain the views of key stakeholders – officers and members. Following discussion with the (previous) Head of Internal Audit the questionnaire was sent to a total of 12 stakeholders and 3 (25%) completed questionnaires were returned.

No.	Question	Percentage (%)			
		Agree	Partially Agree	Not Agree	N/A
1	The internal audit service is seen as a key strategic partner throughout the organisation.	2	1		
2	Senior managers understand and fully support the work of internal audit.	3			
3	Internal audit is valued throughout the organisation.	1	2		
4	The internal audit service is delivered with professionalism at all times.	1	1		1
5	The internal audit service responds quickly to changes within the organisation.	1	1		1
6	The internal audit service has the necessary resources and access to information to enable it to fulfil its mandate.	1		1	1
7	The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes		2		1
8	The internal audit service's recommendations consider the wider impact on the organisation	1	1		1
9	The internal audit service ensures that recommendations made are proportionate, commercial and practicable in relation to the risks identified.	1	1		1
10	There have not been any significant control breakdowns or surprises in areas that have been positively assured by the internal audit service	2			1
11	The internal audit service includes consideration of all risk areas in its work programme.		2		1
12	Internal audit advice has a positive impact on the governance, risk management, and the system of control of the organisation.	1	1		1
13	Internal audit activity has enhanced organisation-wide understanding of governance, risk management, and internal control.	1	1		1
14	The internal audit service asks challenging and incisive questions that stimulate debate and improvements in key risk areas.	1	1		1

<b>15</b>	The internal audit service raises significant control issues at an appropriate level and time in the organisation.	2			1
<b>16</b>	The organisation accepts and uses the business knowledge of internal auditors to help improve business processes and meet strategic objectives.	1	2		
<b>17</b>	Internal audit activity influences positive change and continuous improvement to business processes, bottom line results and accountability within the organisation	1	1		1
<b>18</b>	Internal audit activity promotes appropriate ethics and values within the organisation	2			1