

# **External Quality Assessment of Shropshire Council Audit Services against the Public Sector Internal Audit standards (2016)**

## **Final Report**

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**21<sup>st</sup> December 2016**

# **Review of Shropshire Council Audit Services (SCAS) - November 2016**

## **Introduction**

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1<sup>st</sup> April 2013 (revised April 2016). The standards require periodic self-assessments and an assessment by an external person every five years.

## **Background**

Shropshire Council Audit Services (SCAS) are based at Shirehall in Shrewsbury and provide internal audit services to Shropshire Council, Shropshire Fire and Rescue Service, Shropshire Towns and Rural Housing Ltd, West Mercia Energy, Shropshire Pension Fund, and Oswestry Town Council. SCAS has 9.4 full time equivalent staff and access to the Staffordshire framework contract for internal audit, which is used to supplement the in-house resources.

Now that SCAS has been operating under PSIAS for over three years, this was deemed a good time for their first external review and validation of their self-assessment against the standards and the local government application note (LAGN) produced by CIPFA.

## **Review Process**

The review was carried out between the 21<sup>st</sup> and 25<sup>th</sup> of November 2016 through a process of interviews with employees of SCAS, key officers and members within the Council, and the main external clients, and document review. With regard to the latter, SCAS provided a comprehensive range of documents that were available for examination during this review. This included SCAS's own robust self-assessment and quality assurance and improvement plan (QAIP); the audit manual and guidance for employees; individual audit reports; and a range of reports and communications that demonstrate the flow of information between SCAS and the audit committees for the Council and their main clients.

Whilst all of the above documents contributed to the review, certain documents are regarded as fundamental to the review process. These documents include:-

- the audit charter and audit committee terms of reference ;
- progress reports to the audit committee for the Council and the main external clients;
- Head of audit's annual report and opinion to the audit committee;
- audit plans and covering report to the audit committee;
- audit manual;
- staff declarations of interest; and
- staff training and development strategy.

## **Conclusion and Opinion**

From the evidence reviewed as part of the external quality assessment, no areas of non-compliance with the standards have been identified that would affect the

overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

**On this basis, it is our opinion that Shropshire Council Audit Services generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note.**

Two areas of partial compliance have been identified. The agreed action plan at appendix 1 sets out some practical and pragmatic recommendations (R) to address these issues and improve conformity with the standards.

In addition, SCAS are looking for opportunities to enhance operations and learn from current best practice with public sector internal audit. With this in mind some areas where there are opportunities for improvement and development have also been identified, some of which have already been identified by SCAS and included in their QAIP. These areas have not been included in the action plan as this is unlikely to add any further value to the quality assurance and improvement programme. Some practical and pragmatic suggestions (S) have been made for the other opportunities for improvement and development and these have also been included in the action plan at appendix 1 to this report.

A list of the individuals interviewed during the review is included as appendix 2.

The Head of Audit has been provided with a list of the areas where there is scope to enhance conformity with the standard.

Ray Gard, CPFA, FCCA, FCIIA, DMS

## Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and Suggestions	No
<b>Attribute standards</b>				
<p><b>1000</b> Purpose, authority and responsibility</p>	<p><b>Partially Conforms</b></p>	<p>The purpose, authority, and responsibility of SCAS internal audit activity is formally defined in the internal audit charter, and on the whole is consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.</p> <p>SCAS do not produce a separate strategic statement on internal audit setting out how the internal audit service will be delivered, but is instead partly covered by the audit charter.</p> <p>However, the audit charter does not provided details on how the internal audit service will be delivered, although this information can be found in the annual audit plan report to the audit committee.</p> <p>Nonetheless, PSIAS expects this information to appear in the audit charter (or a supporting strategic statement). As such, the section on internal audit planning (paragraphs 27 &amp; 28) should be expanded to provide more detail on how the internal audit service will be resourced and delivered, perhaps using some of the detail in paragraph 5.7 in the audit plan report.</p>	<p>Paragraphs 27 &amp; 28 in the audit charter should be expanded to provide more information on how the audit plan will be resourced and delivered.</p> <p>The definition for assurance in Annex A to the audit charter could be enhanced to provide greater clarity to the reader.</p>	<p>R1</p> <p>R2</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>PSIAS requires the audit charter to contain definitions for "assurance and consultancy" activities and these can be found in Annex A to the audit charter. The definition for consultancy activity is informative and clear, whereas the definition for assurance is less so and does not actually explain what is meant or covered by the term assurance. There is scope to enhance this section of Annex A to provide greater clarity to the reader, perhaps by following the model used to explain consultancy activity, and by incorporating some of the wording used else where in the audit charter, for example in paragraphs 9 and 12.</p>		
<p><b>1100</b> Independence and objectivity</p>	<p><b>Partially Conforms</b></p>	<p>Independence and objectivity are well managed by SCAS and this underpins their reputation. All interviewees emphasised the importance of these aspects of audit behaviour. Reporting lines are set out in the audit charter.</p> <p>They are free from interference and this is defined in the audit charter and the terms of reference for the audit committee.</p> <p>Whilst it is apparent from the qualified audit opinions during the past few years that the service has been able to maintain its independency and objectivity, the Head of Audit's annual report and opinion does</p>	<p>The Head of Audit includes a statement confirming that the services has been free from interference throughout the year in her annual report to the audit committee.</p> <p>A section is added to the audit charter stating that to ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended</p> <p>The section on consulting activity</p>	<p>R3</p> <p>R4</p> <p>R5</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>not contain a statement confirming this and that the service has been free from interference throughout the year.</p> <p>Whilst SCAS' working practices ensure that auditors do not audit activities that they have previously been responsible for (by using different in-house auditors or buying in resources) the approach that will be taken to avoid any potential conflicts is not set out in the audit charter. There is scope to expand paragraph 17 to cover this point</p> <p>PSIAS requires approval is sought from the audit committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The section on consulting activity in Annex A to the audit charter does not make reference to seeking approval from the audit committee. Whilst it is acknowledged that audit committees only meet around four times a year and this may not coincide with the urgency requirements of the consulting assignments, the audit charter should nonetheless be enhanced to include a paragraph regarding seeking approval.</p>	<p>in Annex A to the audit charter is strengthened to include seeking approval from the audit committee for additional significant consulting assignments that are not already included in the annual audit plan</p>	
<p><b>1200</b> Proficiency and due professional</p>	<p><b>Generally Conforms</b></p>	<p>It was clear from the evidence examined, and the quality assurances processes that audit work is carried out with proficiency and due professional care.</p>	<p>No recommendations or suggestions have been made for this standard</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
care		<p>Senior staff review and sign off all work at every stage of the audit process.</p> <p>SCAS's employees are well qualified and experienced, with good access to training and development.</p>		
<p><b>1300</b> Quality assurance and improvement programme</p>	<p><b>Generally Conforms</b></p>	<p>The Head of Audit carries out an annual self-assessment against PSIAS and develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP is reported annually to the audit committee.</p> <p>SCAS' compliance with the PSIAS is included in the annual QAIP report and the audit charter.</p> <p>The format for the external quality assessment (EQA) was agreed with the Director of Finance (S 151 Officer) and the audit committee. Once the EQA is completed, the final report will be shared with the Director of Finance and will form part of the annual QAIP report to the audit committee.</p>	<p>No recommendations or suggestions have been made for this standard</p>	
<b>Performance standards</b>				
<p><b>2000</b> Managing the internal audit activity</p>	<p><b>Generally Conforms</b></p>	<p>SCAS has a robust risk based planning process in place for all of its clients. Individual client audit plans are based on the risk registers, assurance frameworks, recommendations made from previous audit activity, and discussions with senior</p>	<p>See recommendation R1 above under standard 1000</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>managers</p> <p>The audit committee agrees the audit plan for the Council. The same applies to the external clients where the respective audit committees or management boards agree the audit plan. The audit plan is presented to the committee and accompanied by a comprehensive report that sets out how the plan was produced and will be delivered, and what will not be covered by the audit plan.</p> <p>PSIAS however requires public sector internal audit services to provide an explanation on how the audit service will be delivered in the audit charter, or to provide a strategic statement on internal audit to support the audit charter, neither of which are currently in place at SCAS. This point has been covered under standard 1000 and recommendation R1 above.</p> <p>SCAS use standard documentation and processes for all of their clients, the majority of which are automatically produced by the MK Insight audit application.</p> <p>Audit reports follow a uniform template and the same standard audit opinions and recommendation prioritisations are used for all of SCAS's clients.</p>		



Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>Reporting protocols are clearly defined for each client. Internal audit activities are reported to management and to each Audit Committee or management board during the year.</p> <p>All audit work is supervised and reviewed by a senior member of SCAS's team and no reports are sent to clients unless a Senior member of SCAS's team has signed them off.</p>		
<p><b>2100</b> Nature of work</p>	<p><b>Generally Conforms</b></p>	<p>The work carried out by SCAS is designed to enable the Head of Audit to come to an informed opinion on the adequacy of the control, risk, and governance arrangements, and contributes to the organisation's annual governance statement (AGS). This includes annual audits of the corporate governance and risk management processes.</p> <p>SCAS applies a systematic and disciplined approach to their audits, underpinned by robust procedures and methodologies, and performed by experienced and qualified auditors. The Head of Audit does not shy away from delivering unpalatable messages to management and has qualified her annual opinion for a number of consecutive years.</p>	<p>No recommendations or suggestions have been made for this standard</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
<b>2200</b> Engagement planning	<b>Generally Conforms</b>	Comprehensive engagement plans are completed for each audit assignment in the MK Insight audit management application and these conform to PSIAS. The engagement planning process includes a detailed risk assessment for each assignment. The same methodology is applied to the assignments for the external clients and to consulting assignments where these involve more than just providing advice.	No recommendations or suggestions have been made for this standard	
<b>2300</b> Performing the engagement	<b>Generally Conforms</b>	SCAS have robust processes and procedures in place, underpinned by an audit manual that cover this area in detail. All aspects of the audit processes are subject to management review and sign off within the MK Insight audit management application. Conclusions are based on the findings and supported by relevant evidence.	No recommendations or suggestions have been made for this standard	
<b>2400</b> Communicating the results	<b>Generally Conforms</b>	<p>Audit reports are on the exceptions basis and follow the standard format set up in MK Insight. They are clear and reflect the work undertaken, and include conclusions, recommendations, an action plan and an opinion on the governance, risk and control arrangements that have been reviewed.</p> <p>All reports are quality checked and signed off by a senior member of the team prior to issue. Reports are disseminated to</p>	<p>It is suggested that a paragraph is included in the standard audit report template regarding the limitations on distribution and the use of the results by external parties.</p> <p>It is suggested that the Head of Audit routinely includes greater detail on the audits with limited and no assurance opinions in the progress reports to the audit</p>	<p>S1</p> <p>S2</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>appropriate recipients.</p> <p>Internal audit reports do not however contain a statement regarding the limitations on distribution and the use of the results by external parties. It is suggested that such a statement is added to the standard audit report template</p> <p>Information on individual audits in the progress reports provided to the audit committee is quite limited and mainly focussed on the numbers and categories of recommendations that have been made. The lack of detail, particularly on those audits where a negative assurance opinion has been issued, is likely to be hindering the audit committee's ability to challenge officers effectively.</p> <p>Whilst it is appreciated that the audit committee does not routinely ask for more detailed information, nonetheless it would enhance their role and improve their effectiveness if they were provided with more detail on the audits with limited or no assurance opinions. The amount of information that should be provided is very much a local issue, but as the minimum should at least include a summary of the control, risk and governance issues identified during the audits, the risks and potential consequences of not rectifying the shortcomings, and the</p>	<p>committee.</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>recommendations that have been agreed with management.</p> <p>The audit committee will however ask for more information on very serious matters, such as the ongoing issues with the Council's ICT infrastructure, which have led to the Head of Audit issuing a qualified annual audit opinion for four consecutive years.</p>		
<p><b>2500</b> Monitoring progress</p>	<p><b>Generally Conforms</b></p>	<p>Follow up processes are in place and effective, although this is continually under development. All recommendations are recorded in the MK Insight audit management application and used to inform future audit plans. Where appropriate revised audit opinions are issued once all of the recommendations have been implemented.</p>	<p>No recommendations or suggestions have been made for this standard</p>	
<p><b>2600</b> Communicating the acceptance of risks</p>	<p><b>Generally Conforms</b></p>	<p>There are sound processes in place regarding the communication of the acceptance of risks and these generally conform to the requirements of PSIAS. Where a manager accepts a level of risk that is greater than the organisation's risk appetite the Head of Audit raises the matter with senior management and the audit committee and sets out the potential consequences of this course of action.</p>	<p>No recommendations or suggestions have been made for this standard</p>	

Standard	Compliance	Findings	Recommendations and Suggestions	No
Code of Ethics	Generally Conforms	<p>SCAS fully conforms with the integrity, confidentiality, and competency elements of the code of ethics, although staff are not currently required to sign an annual declaration that they have complied with the codes of ethics and the Committee on Standards of Public Life <i>Seven Principles of Public Life</i>.</p> <p>However, SCAS adopts a proactive approach to supporting management by participating in working groups and project boards for transformation programmes, system developments etc, where they provide advice and guidance on controls, risks, and governance matters. They firmly believe this adds value to the organisation and is more cost effective than raising issues once the programme or system has been implemented. The senior managers interviewed during this review supported this view.</p> <p>The Head of Audit is fully aware that there is a risk that SCAS's objectivity may be impaired by adopting this approach. She has put measures in place to protect their objectivity by ensuring different auditors provide assurance to those that provided the advice, or by buying in audit resources from the Staffordshire frame contract to provide the assurance.</p> <p>The Head of Audit has included this issue</p>	<p>It is suggested that the annual declaration of gifts, hospitality and interests forms completed by every member of SCAS' team is expanded to include sections relating to compliance with the relevant codes of ethics or Committee on Standards of Public Life <i>Seven Principles of Public Life</i></p>	S3

Standard	Compliance	Findings	Recommendations and Suggestions	No
		in SCAS QAIP. As such, any further recommendations on this matter are unlikely to add further value to SCAS operations.		
<b>Mission</b>	<b>Generally Conforms</b>	The audit charter includes the mission statement as required by PSIAS	No recommendations or suggestions have been made for this standard	
<b>Core principles of internal audit</b>	<b>Generally Conforms</b>	SCAS conforms to the core principles of internal audit and as such the Head of Audit could include this in her annual report and opinion to the audit committee.	No recommendations or suggestions have been made for this standard	

## Appendix 1: action plan

### Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Paragraphs 27 & 28 in the audit charter should be expanded to provide more information on how the audit plan will be resourced and delivered.	Accept The Charter will include a statement that <i>resources are from a mix of internal employees or contractors dependent on available budgets and resource needs.</i>	Ceri Pilawski	November 2017
R2	The definition for assurance in Annex A to the audit charter could be enhanced to provide greater clarity to the reader	Accept The Charter definition of Assurance will be updated to read:  Overall Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. <i>Opinions take into account the expectations of senior managers, the board and other stakeholders and are supported by sufficient, reliable, relevant and useful information.</i>  Audit assurance opinions for engagements are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in	Ceri Pilawski	November 2017

No	Recommendation	Response	Responsible Person	Action date
		place and <i>consideration of the engagement results and their significance.</i>		
R3	The Head of Audit includes a statement specifically confirming that the service has been free from interference throughout the year in her annual report to the audit committee.	Accept: This will be incorporated in the year-end report	Ceri Pilawski	June 2017
R4	A section is added to the audit charter stating that to ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended	Accept: This will be incorporated in the next planned review of the Audit Charter	Ceri Pilawski	November 2017
R5	The section on consulting activity in Annex A to the audit charter is strengthened to include seeking approval from the audit committee for additional significant consulting assignments that are not already included in the annual audit plan	Accept: The Charter section on consultancy will be updated to read 'Any auditor asked to provide consultancy services or undertake a consultancy-style activity should consult their manager or the Head of Internal Audit before agreeing to provide such services. <i>For any significant additional consulting services not already included in the plan, approval will be sought from the Audit Committee prior to accepting the engagement</i> '.  In practice any significant change to the plan would be covered in	Ceri Pilawski	November 2017



No	Recommendation	Response	Responsible Person	Action date
		<p>the quarterly reporting to Audit Committee and so would always be reported.</p> <p>Consultancy work by its very nature at times requires an instant response to an assurance request. To allow for this there are approved contingencies in place in the plan: unplanned, general advice, and counter fraud. In addition, to ensure transparency, codes are set up for jobs that require more time.</p>		

## Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	It is suggested that a paragraph is included in the standard audit report template regarding the limitations on distribution and the use of the results by external parties.	<p>Accept</p> <p>The next review of the standard report template will consider this.</p>	Ceri Pilawski	May 2017
S2	It is suggested that the Head of Audit routinely includes greater detail on the audits with limited and no assurance opinions in the progress reports to the audit committee.	<p>Accept</p> <p>Audit will consider a greater level of detail in an appendix to performance reports.</p>	Ceri Pilawski	February 2017

No	Suggestion	Response	Responsible Person	Action date
S3	It is suggested that the annual declaration of gifts, hospitality and interests forms completed by every member of SCAS' team is expanded to include sections relating to compliance with the relevant codes of ethics or Committee on Standards of Public Life <i>Seven Principles of Public Life</i>	Accept.  This will be adopted for 2017/18	Ceri Pilawski	May 2017

## Appendix 2: Interviewees

Person	Position	Organisation
Ceri Pilawski	Head of Audit	Shropshire Council Audit Services
Clive Wright	Chief Executive	Shropshire Council
Angela Beachy	Risk and Insurance Manager	Shropshire Council
Justin Bridges	Treasury and Pensions Manager	Shropshire Council
Cheryl Sedgely	Head of Finance (Deputy S151)	Shropshire Council
Rod Thompson	Director of Public Health	Shropshire Council
Chris Mathews	Commissioner for Education Improvement and Efficiency	Shropshire Council
Sarah Wilkins	Service Manager Early Help and commissioning	Shropshire Council
Michele Leith	Head of Human Resources and Development	Shropshire Council
Peter Voogt	Interim Head of ICT	Shropshire Council
George Chandler	Director of Place	Shropshire Council
Tim Smith	Head of Business Enterprise and Commercial Services	Shropshire Council
Chris Edwards	Head of Infrastructure and Communities	Shropshire Council
James Walton	Director of Finance – S151 Officer	Shropshire Council
Claire Porter	Monitoring Officer	Shropshire Council
Barry Hanson	Principal Auditor (IT)	Shropshire Council Audit Services
Joanne Wooley	Auditor (IT)	Shropshire Council Audit Services
Peter Chadderton	Principal Auditor	Shropshire Council Audit Services
Mark Seddon	Auditor	Shropshire Council Audit Services
Emily Swinnerton	Auditor	Shropshire Council Audit Services
Shelley Taylor	Auditor	Shropshire Council Audit Services
Tim Barker	Chair Audit Committee	Shropshire Council
Brian Williams	Past Chair of Audit Committee	Shropshire Council
John Cadwallader	Vice Chair of Audit Committee	Shropshire Council
Chris Mellings	Audit Committee Member	Shropshire Council
David Turner	Audit Committee Member	Shropshire Council
Emily Mayne	External Audit Manager	Grant Thornton
Nigel Evans	Director	West Mercia Energy
Joanne Coadey	Head of Finance	Shropshire Fire and Rescue Service
Steve Ogram	Finance Director	Shropshire Towns and Rural Housing Ltd (ALMO)