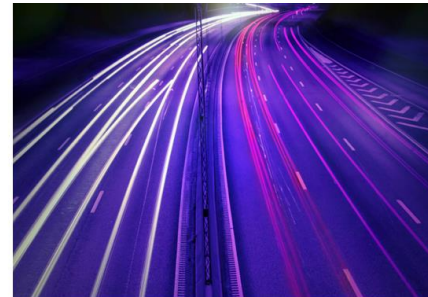
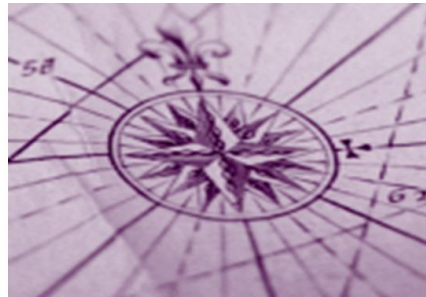
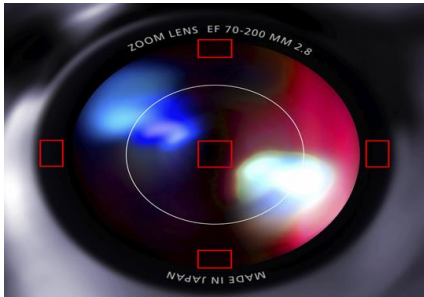




# External Quality Assessment

Internal Audit Services

Executive report – March 2024



# Contents

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Opinion	3	
Executive summary	4	
Summary of good practice	7	
Part one		
• Compliance with the Public Sector Internal Audit Standards - Findings and recommendations	8	356
Part two		
• Suggestions for enhancement of internal audit services	18	
Part three		
• Benchmarking	22	
Appendices	25	

# External Quality Assessment

Leicestershire County Council

BUSINESS  
RISK  
SOLUTIONS

Opinion: The Leicestershire County Council internal audit service 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 impact definitions of each client Council particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Enhance focus on identifying Managements Objectives within the scope of the engagement in order to identify the significant risks upon which an engagement should focus for assurance purposes.
- 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 clients within risk management policies.
- Review the narrative used within the Audit Charter and Annual Opinion in the Head of Internal Audit Annual Report to ensure consistency and reflect the use of continuous planning and knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.

## Good Practice identified during the review

- An Internal Audit Charter setting out the role and responsibilities of Internal Audit is supported by a detailed Internal Audit Manual which guides delivery and establishes the basis of Internal Audit recommendations and opinions.
- The service has developed a documented internal audit methodology and supporting templates that delivers and evidences a consistent service in line with client requirements.
- Robust communication protocols exist throughout internal audit delivery.
- 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.
- Routine reporting informs clients and the Corporate Governance Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations.
- The Internal Audit service receives favourable feedback from clients who are appreciative of the approachable, flexible and client focused support that is provided.

# Executive summary

Leicestershire County Council internal audit services (LCCIAS) is delivered by an in-house team comprising of 13 FTE staff, and support from contractors as appropriate. Services have also been provided to Leicester City Council, ESPO and the Leicestershire and Rutland Combine Fire Authority. The team now work in a hybrid manner, including visits to client locations on an as required basis.

Services are managed by Neil Jones, as Head of Internal Audit and Assurance, who assumes the role of Chief Audit Executive (CAE) for the purposes of this review. The CAE is supported by Audit Managers who assume initial responsibility for client engagements.

The service has responded to the changes of focus in professional standards by continuing to develop a risk-based approach with regard to planning and the completion of assignment work. This utilises client risk management frameworks where possible as a basis for categorising risks, within which the team identifies what it considers to be the significant risks and controls in consultation with management. The Internal Audit Charter is updated annually, and the Internal Audit Manual has been updated in 2024 to reflect the requirements of the Public Sector Internal Audit Standards (PSIAS), and current practices although further review will be required later in 2024 to reflect publication of the new Global Standards for Internal Audit (GIAS) by the Institute of Internal Auditors.

From an internal audit perspective, considerable advantage is to be gained from increasing recognition of each client's risk management processes and the effectiveness with which they operate. The degree to which risk registers identify and articulate significant risks and those key controls which management feel reduce risk to an acceptable level (risk appetite) appears variable, and consequently planning is heavily dependent on discussions with management throughout planning phases. Alignment of internal audit definitions relating to recommendations and opinions should be more closely aligned with the client's risk impact definitions.

It would be beneficial for LCCIAS to identify 'managements objectives' in each review area (rather than audit objectives) and arising from which recognise what constitutes 'significant risk' this will enable internal audit plans and assignments to focus on what matters most; the value of considering 'Control Risk' and thereby increasingly the most significant issues would enhance the assurance provided. Recognition of other sources of assurance represents good practice and should continue to be developed at a strategic and engagement level..

Current services are assessed to '**generally conform**' with the PSIAS standards, comparing favourably within the sector and wider provision. 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. A number of suggestions for service enhancement have also been made, these are based upon both sector and other professional experience as well as knowledge of anticipated impact of changes in the new Global Internal Audit Standards.

# Basis for overall opinion

**Generally Conforms** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

**Partially Conforms** means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

**Does Not Conform** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

Source: Institute of Internal Auditors (2016)

# Overall assessment

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

# 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 Corporate Governance Committee (CGC) and similar Committees within clients.	The combination of the Charter and the Internal Audit Manual is comprehensive 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. The Head of Internal Audit & Assurance has other functional responsibilities, regarding which independent assurance will need to be transparently managed under the new GIAS.
1311	The service has conducted internal assessment exercises regarding its performance.	Performance review is embedded within quality control procedures and supported by a staff appraisals process which identifies and supports performance development needs.
2020	Active engagement at Member and management level	Represents the establishment of a good understanding of key issues through routine interaction with clients at all levels.
2030	The need for appropriate internal audit resources has been recognised.	The concept of continuing to develop an in-house team supported by external support provides for both sufficient resources and those of a technical or specialist nature.
2060	Reports are produced using a standard format which is consistently applied. Customer feedback is routinely requested.	Demonstration of a consistent approach to communication which is well received by management and the CGC – effective follow-up using automated software 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 communicates regarding audit planning and outcomes from engagements in a manner which is consistent with the achievement of client objectives.

# Part one

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## Compliance with the Public Sector Internal Audit Standards



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.	<p><b>Internal Audit Charter (IAC)</b> The IAC and Annual Report include terminology relating to both ‘governance, risk and control’ as well as the ‘control environment’ aligned to the delivery of a robust basis for provision of the Annual Assurance Opinion in the Head of Internal Audit Annual report, which it is recognised as supporting the Annual Governance Statement</p>	<p>Consider the value of revising statements 5.3 and 5.4 in IAC to align with existing practice regarding the continuous development of internal audit plans with the provision of an annual opinion reflecting the effectiveness of governance, risk management and control within the changing risk environment in which each client operates and where independent assurance from internal audit is designed to support the Annual Governance Statement.</p> <p style="text-align: right;"><b>PSIAS 1000</b></p>	
2.	<p><b>Quality Assurance Improvement Program (QAIP)</b> LCIAS has developed a QAIP process which itemises development and supervisory processes that contribute towards maintaining and evidencing appropriate review of the delivery of a quality service to support item 4.3f in the Internal Audit Charter and including a series of key performance indicators (KPI’s)</p> <p>The standards require a summary of the completion of the process and development opportunities to be recorded in the Head of Internal Audit Annual Report.</p> <p>The 2022/23 Annual Internal Audit Report confirms that the QAIP self-assessment was paused until this review had been completed.</p> <p>Client feedback is sought following each engagement and through a bi-annual corporate review process.</p>	<p>Consider introducing specific QAIP policy which draws together all aspects of the quality assurance and development processes.</p> <p>Ensure a detailed statement is included in the Head of Internal Audit Annual Report which:</p> <ol style="list-style-type: none"> <li>1. Confirms that all measures contained in the process have been completed, and</li> <li>2. How any significant deviations or development needs will be resolved.</li> </ol> <p style="text-align: right;"><b>PSIAS 1300</b></p> <p>Consider introducing a limited set of formal KPI’s based on quantitative and qualitative data to support the QAIP process referred to above.</p> <p>Such detail will then provide further evidence regarding conformity with the PSIAS.</p> <p>An example policy has been provided.</p> <p style="text-align: right;"><b>PSIAS 1321</b></p>	

	Issue identified	Recommended action	
3.	<p><b>Self-Assessment</b> A self-assessment exercise was undertaken in June 2023 which identified nine areas where future development was required. This complies with PSIAS 1300 as good practice.</p> <p>Each action contains a 'due by' date during 2023/24.</p>	<p>It is understood that work pressures and waiting for the outcomes of the EQA process have led to not all actions being completed by the anticipated date.</p> <p>It would be beneficial to include an action plan within the Quarterly Progress Reports to CGC in future to confirm the position regarding outstanding actions.</p> <p style="text-align: right;"><b>PSIAS 1300</b></p>	
4.	<p><b>Job descriptions</b> Job descriptions provided as evidence within the EQA are dated September 2021..</p>	<p>Review all job descriptions in line with current roles and responsibilities and include appropriate reference to the PSIAS/GIAS.</p> <p style="text-align: right;"><b>PSIAS 1200</b></p>	

	Issue identified	Recommended action
1.	<p><b>Audit Universe</b></p> <p>A stated previously, the current internal audit planning model is based on a risk assessment which continues to be developed. This identifies links to key risks at Corporate and Departmental levels as well as identified Fraud Risks. The process also considers input from management and other key stakeholders</p> <p>Further development of this approach based upon the client's view of significant risk at both a corporate and operational level would enhance internal audits' ability to demonstrate a commitment to helping the Council achieve its objectives .</p>	<p>It would be beneficial to continue to increasingly align development of the internal audit planning system with each client's risk management processes in order to ensure that resources were 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 exposed at an inherent level.</p> <p>Global Internal Audit Standards are anticipated to increasingly call for alignment of risk registers with the internal audit universe.</p> <p style="text-align: right;"><b>PSIAS 2000/2010</b></p>
2.	<p><b>Governance</b></p> <p>The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements, which is recognised within the IAC.</p> <p>Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and review of Scrutiny reports.</p>	<p>In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to further map internal audit activity to the content of the Code within the Internal Audit Planning process in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report.</p> <p>Consider extending the explanation regarding the internal auditor's responsibility regarding assurance on Governance processes in the introduction of the IAC to define how the opinion is derived in practice and the assurances available through the annual self-assessment exercise.</p> <p style="text-align: right;"><b>PSIAS 2110</b></p>

# Competency continued

	Issue identified	Recommended action
3.	<p><b>Fraud</b> The team is responsible for provision of Counter Fraud Services, compiling a fraud risk analysis. Clients also participate in the National Fraud Initiative (NFI). which contributes to the good practice identified within the PSIAS regarding recognition of fraud risk.</p>	<p>It would be beneficial to more formally align the significance of fraud risk in relation to achievement of the management objectives agreed within each engagement.</p> <p>The proposed Global Internal Audit Standards feature a requirement to identify significant fraud risk within the scope of the engagement, consequently it would be beneficial to consider how this might best be achieved.</p> <p style="text-align: right;"><b>PSIAS 2120</b></p>
4.	<p><b>Significance</b> The PSIAS recognises on the need for internal audit to focus on significant risks to the achievement of objectives.</p> <p>LCC Annual Governance processes consider significant risks without identifying a definition of what is considered significant for inclusion within the Annual Governance Statement.</p>	<p>It would be beneficial to align all similar processes with each client's risk management processes and the definitions of risk impact.</p> <p>In the case of LCC this might reflect that defined as those risks attracting a 'Major' or Very High/Critical Grading'.</p> <p>Please read in conjunction with item c7 which follows.</p> <p style="text-align: right;"><b>PSIAS 2200/2450</b></p>

# Competency continued

	Issue identified	Recommended action
5.	<p><b>Assurance mapping</b></p> <p>The IAC (s 8.2) recognises the need for internal audit to ‘take account of other sources of assurance’. Internal Audit practice currently attempts to identify second and third line assurance that is available at an operational level, although this is not formally recognised as such. Recognition is good practice within the profession. Identification is intended to be more formally developed into a comprehensive assurance mapping process.</p> <p>The existence of such assurance is though not formally recognised within the engagement as recognised within PSIAS 2050 when planning internal audit activity.</p>	<p>Consider further developing the internal audit methodology by formally documenting the sources of assurance available to internal audit within each engagement as part of routine processes. Assurances maybe both internal and external.</p> <p>Use the accumulated knowledge gained to support the Annual Assurance opinion in the Head of Internal Audit’s Annual Report as the role of the CAE in the assurance mapping process is enhanced within the new GIAS.</p> <p style="text-align: right;"><b>PSIAS 2050</b></p>
6.	<p><b>Management Objectives</b></p> <p>Current LCIAS practice is to define ‘Audit Objectives and Scope’ within the Terms of Engagement for an assignment. These are then supported by an analysis of ‘Control Objectives’ or ‘Expected Controls’</p> <p>Consideration of ‘Managements Objectives’ is required by PSIAS 2201 as this is likely to support a better understanding of the area to be reviewed, allowing a direct focus on the significant risks to the achievement of the stated objectives as agreed with management.</p> <p>Whilst the Audit Objective does include the areas upon which assurance will be sought, increased focus is likely to deliver relevant assurance in relation to identified significant risks.</p> <p>Significant risks should be consistently reflective of Stakeholder expectations.</p>	<p>Review the terminology used within the Terms of Engagement to reflect ‘Management’s Objectives’ within the area for review. Consequently, base identification and discussion of risks in relation to the achievement of the agreed objectives, focusing each engagement on significant risks as recognised by client risk management processes and Stakeholder expectations..</p> <p>Consider extending the existing link to client gradings of risk impact and likelihood throughout the audit process including more formal alignment of definitions with recommendations and opinions, which may ultimately be aligned with confirmation of the residual risk scores within client risk management processes.</p> <p>Consider including recommendations graded as ‘High’ as further mitigating actions within risk management systems.</p> <p style="text-align: right;"><b>PSIAS 2010 A2/2201</b></p>

# Competency continued

## Issue identified

## Recommended action

### 7. Grading of recommendations

The grading of recommendations currently reflect 'an assessment of threat to achievement of objectives' or 'improvements in control' identified within an engagement, without consistently reflecting the significant risk to the achievement of objectives at a recommendation or overall opinion level.

The current range of assurance levels is as follows

**Full assurance** Based on the audit work undertaken, sufficient controls are in place.

**Substantial assurance** Controls are in place, but there are some weaknesses that need to be addressed by management.

**Partial assurance** There are significant issues that need to be addressed by management.

**Little or no assurance** The controls are inadequate and immediate action is required by management.

Significance	No.	Description
High	0	Recommendations requiring essential action by management in order to address a fundamental threat to the achievement of objectives. The implementation of these recommendations will be monitored by the Audit & Risk Committee.
Medium	7	Recommendations requiring action by management to improve control, although the achievement of objectives is not fundamentally threatened.
Low	5	Recommendations presented for management consideration only, as they represent a suggested improvement in management of the risks.

As stated earlier a significant feature of the PSIAS is a focus on significant risk and therefore aligning internal audit terminology with 'client speak' in terms of risk impact definitions may improve communication regarding findings, recommendations and opinions.

It would be beneficial to more formally align future grading of recommendations with those impact definitions used within the client's risk management process, particularly those agreed as 'significant' as these may impact on residual risk ratings.

That for LCC is shown below:

Scale	Description	Department Service Plan	Internal Operations	People	Reputation	Impact on the Environment	Impact from <sup>1</sup>	Financial per annum <sup>2</sup> per loss <sup>2</sup>
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	None or insignificant damage		<£50k
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor injury to those in the Council's care	Minor adverse local / public / media attention and complaints	Minor local impact	Minor damage	£50k-£250k Minimal effect on budget/ cost
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	Moderate local impact	Moderate damage and risk of injury	£250k - £500k Small increase on budget/ cost/ Handled within the team/service
4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	Major local impact	Major damage and risk to life	£500-£750k Significant increase in budget/cost. Service budgets exceeded
5	Very High/ Critical	Significant failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers.	Major regional or national impact.	Wide scale damage and risk to life	>£750k Large increase on budget/cost. Impact on whole council

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, grading recommendations and in providing an opinion within assurance reports.

We believe the profession is generally moving towards use of a three-tier opinion/recommendation structure for assurance.

# Competency continued

Issue identified	Recommended action
<p><b>8. Engagement Planning – Control Risk</b></p> <p>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.</p> <p>The degree to which the internal audit methodology allows a focus on “Significant”, as opposed to covering ‘other risks’ is determined by each auditor and their supervisor.</p> <p>The ability of the internal audit team to target areas of greatest potential risk exposure which threaten achievement of Council objectives at a Strategic or Operational level may be better informed through recognition of risk at inherent and residual (current) levels, although it is recognised that this may not be readily identified in all risk management processes.</p> <p>Inherent risk can beneficially be used within planning of reviews, whereas residual risk becomes more relevant following completion of the review where findings should assess the adequacy and effectiveness of the control framework. The use and understanding of this process will introduce the concept of ‘Control Risk’ to the LCIAS delivery and should help identify areas, where provision of internal audit assurance maybe most beneficial.</p>	<p>Engagements should be increasingly constructed to reflect significant risks and aligned to Risk Impact definitions within the Risk Management Strategy. This will ensure standard recognition of terminology throughout each client.</p> <p>Assessment of ‘Control Risk’ in relation to the achievement of Management Objectives would focus reviews upon:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• Risks where the value of ‘Control Risk’ is limited or zero and as a result suggesting the controls may be insufficient or ineffective, and</li> <li>• Key Controls (rather than a wider view of all controls which may have little impact on risk reduction or the achievement of business objectives), where these are defined within client risk management processes (risk registers).</li> </ul> <p>By also 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.</p> <p style="text-align: right;"><b>PSIAS 2201</b></p>

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.	<p><b>Release of draft and final reports</b> Reports are currently issued to clients by the auditor responsible for the engagement following approval by the nominated Audit Manager/CAE.</p> <p>It is understood that where an engagement includes a 'High Risk' grading this requires CAE authorisation.</p> <p>Reports are issued in the name of the CAE. Whilst this is provided for within the PSIAS it is suggested that greater formality should introduced regarding the approval process.</p>	<p>Consideration should be given to documenting the process for approval of a draft/final report in the Internal Audit Manual where significant risk or negative assurance opinions are to be reported, or otherwise in the absence of the CAE.</p> <p style="text-align: right;"><b>PSIAS 2420</b></p>	
2.	<p><b>Exit meetings</b> Current practice for completion of an engagement exit relates to the nature of the findings; where the formality will be decided upon the complexity of the review and significance of the findings.</p> <p>Communication frequently takes place using the draft report as a basis for discussions.</p> <p>The Internal Audit Manual specifies that an Exit Meeting should take place prior to drafting the report</p>	<p>A formal exit meeting at the conclusion of an engagement represents an opportunity to build relationships with management. PSIAS emphasises the relevance of effective communication with management, however GIAS goes further stating that the CAE "should encourage internal auditors to acknowledge satisfactory and positive performance in engagement communications".</p> <p>It is common practice to base such a discussion on an 'Exit Meeting Template' rather than the draft report as this may provide a more open discussion regarding the conduct of the engagement and outcomes.</p> <p>It may be beneficial therefore to reconsider the LCIAS approach to closure of engagements in order to further develop relationships.</p> <p style="text-align: right;"><b>PSIAS 2400</b></p>	



	Issue identified	Recommended action
3.	<p><b>Opinions</b> Not all draft and final engagement reports include a table showing the basis upon which recommendations and opinions have been made.</p>	<p>Include an appropriate table in a form suggested within C7 previously.</p> <p>Explanations should focus on significance, with priority being reflected within an agreed action plan for each recommendation.</p> <p style="text-align: right;"><b>PSIAS 2450</b></p>
4.	<p><b>HolA Annual Report</b> The terminology used by the CAE to express an Annual Opinion is understated as this currently reflects assurance regarding risk management, governance and control in relation and principally upon the work of the internal audit team in the current year, professional judgement and assurances available from other sources.</p> <p>The report identifies risks or areas of concern that have been identified during the year, a summary of follow-up regarding recommendations.</p> <p>Commentary on the outcomes of the QAIP were highlighted in the covering report to the CGC..</p> <p>Standard 2060 does however also include reference to bringing the attention of the Audit Committee to assessment of the significant risks facing the organisation and any other assurance sources that have been recognised. (Referred to in C2).</p>	<p>In practice the opinion is based upon a much broader knowledge of the client, gained through previous years programmes and that gained within and provided for within the internal planning cycle, including discussions with management and reference to risk management processes.</p> <p>It would be good practice to support the comprehensive assurance opinion in relation to risk management, governance and control with broader reference to significant risks and other sources of assurance that are available, including reference to those within the risk management process and any future assurance mapping objectives.</p> <p>In this form, the opinion would also better align with the required content of the PSIAS and underpin the emphasis within the Annual Governance Statement.</p> <p>Planning for continuous assurance over a defined period rather than on the basis of a single years' plan was reflected in R1.</p> <p style="text-align: right;"><b>PSIAS 2060/2450</b></p>

## Suggested enhancements for consideration

Comments in this section relate to matters where either:

1. Current processes would benefit from adopting best practice seen elsewhere in the delivery of internal audit services and where it is felt these would be beneficial to delivery, and/or
2. The new Global Internal Audit Standards, which apply from 1 April 2025, will require enhancement of existing processes in order to demonstrate compliance.

# Suggested Enhancements for consideration

	Issue identified	Recommended action
1.	<p><b>Client surveys</b></p> <p>Progress has been made in obtaining verbal feedback from clients following each audit engagement, although formal feedback using a questionnaire has been variable.</p> <p>This experience is consistent with other sector experience.</p> <p>A bi-annual survey is completed by the Corporate Resources Team which provides assurance of a high level of satisfaction with internal audit provision,</p> <p>The survey conducted within the EQA achieved a 75% response rate which is above the sector norm of 60-70%,</p>	<p>Internal Audit may find it useful to implement an approach now being used by other teams which provides for:</p> <ol style="list-style-type: none"> <li>1. Issue of the digital form to the relevant client manager following an engagement within the draft report, and require feedback as part of the closure process, or</li> <li>2. Support the feedback gained with an annual survey to Senior Client Managers, or</li> <li>3. Use Automated software such as Survey Monkey to administer feedback.</li> </ol> <p>In this way feedback may be directed toward different aspects of the provision of internal audit service as well as seen as more relevant, as a result encouraging increased participation which can be included in the QAIP process.</p> <p style="text-align: right;"><b>PSIAS 2000</b></p>
2.	<p><b>Confidentiality</b></p> <p>Internal audit reports are currently distributed without a clause restricting access and ensuring that if viewed outside of the organisation no 'legal responsibility' is provided to those who may seek to rely upon the content..</p>	<p>The Internal Audit Team should consider the need to include appropriate confidentiality and limitation of liability clauses in all reports which are or may be shared with clients, Audit Committees and third parties directly or indirectly. An appropriate statement may be:</p> <p>"This report provides an opinion on the effectiveness of internal controls and may provide reasonable, but not absolute assurance. This report has been prepared solely for the managers listed above and as such should not to be circulated beyond those named above without the express permission of the report author. No liability is therefore offered to third parties receiving a copy of the report. All or part of this document may be released under Freedom of Information Act 2000".</p> <p style="text-align: right;"><b>PSIAS 2440</b></p>

# Suggested Enhancements for consideration

	Issue identified	Recommended action
3.	<p><b>Reports</b> Different report formats are used to reflect the circumstances of each client.</p>	<p>Consider the benefits of moving to a consistent report template for all clients in which:</p> <ol style="list-style-type: none"> <li>1. Opinions and recommendations are graded using a similar scale although aligned to what each client considers to be a 'significant risk' within its risk management system.</li> <li>2. Use more colour to highlight issues that demand attention in line with above categories.</li> <li>3. Include references in all reports to compliance with the PSAS and the Code of Ethics.</li> <li>4. Remove the duplication within reports so as to focus specifically on the opinion, an executive summary and a table of findings, recommendation and agreed action plans.</li> </ol> <p>This may help to remove pressure on completion of reports following fieldwork and focus by management and the CGC on significant issues.</p> <p style="text-align: right;"><b>PSIAS 2400</b></p>
4.	<p><b>Demonstration of progression</b> Routine reporting by internal audit would benefit from introduction of progress through comparison to previous years. Examples may be:</p> <ul style="list-style-type: none"> <li>- Movement in Assurance Opinions between engagements'</li> <li>- Current risk scores changed following an internal audit engagement</li> <li>- Comparison of outcomes of client surveys in successive years,</li> <li>- Relative outcomes of audit engagements in successive years to underpin overall annual opinion in relation to governance risk and control.</li> </ul>	<p>Consider greater use of trend information to support the various forms of report used in order to highlight achievements and concerns and develop transparency.</p> <p style="text-align: right;"><b>PSIAS 1300</b></p>

# Suggested Enhancements for consideration

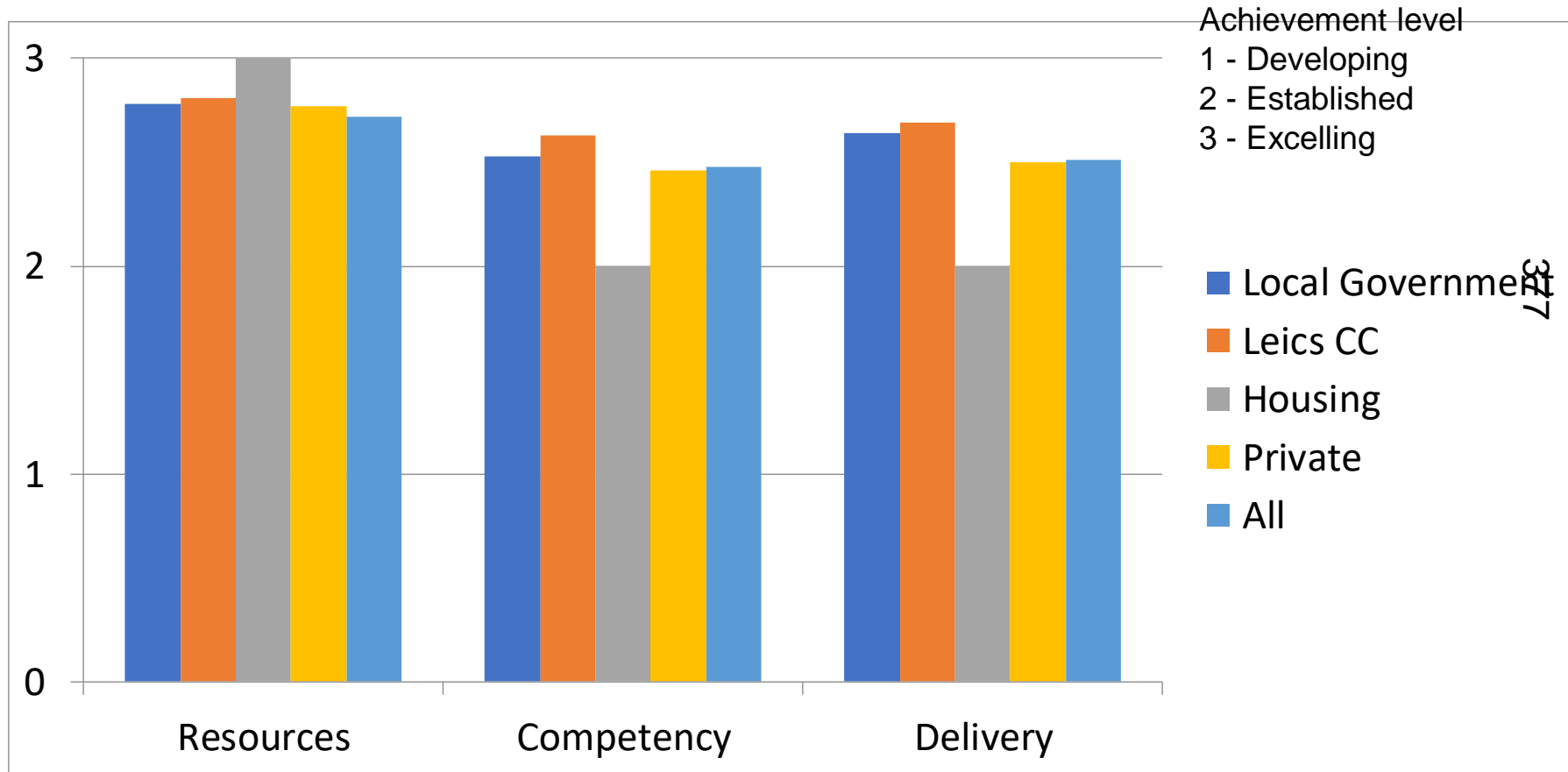
	Issue identified	Recommended action
5.	<p><b>Risk Management/Insurance opinions</b></p> <p>The standard approach to providing an annual opinion relating to risk management is achieved by consideration of both review of the process at a strategic level and supported by conclusions reached within individual engagements.</p> <p>The CAE is conflicted within this process due to his role and arrangements are being considered to require the Insurers to provide ‘third line defence’.</p> <p>The CAE is also conflicted regarding provision of an opinion in relation to Insurance arrangements.</p> <p>It may also be that the Insurers may be conflicted due to their situation regarding the arrangement of appropriate and value for money services.</p>	<p>It would be beneficial to support the current opinion by adding further clarification in the either the IAC or the Annual Report as to how in practice this is achieved through combining the two sources of assurance referred to and thereby also demonstrating the independence of the CAE.</p> <p>Whilst recognising that relevant reviews are signed off by other Senior Directors within LCC the new GIAS places emphasis on ensuring that organisational independence is maintained and therefore it is suggested that arrangements in this area should be reviewed in order to demonstrate transparency and compliance.</p> <p>Ensure arrangements support an Annual Opinion in the Head of Internal Audit Annual Report.</p> <p style="text-align: right;"><b>PSIAS 2120</b></p>
6.	<p><b>Stakeholders</b></p> <p>Whilst the PSIAS does make reference to considering the expectations of senior management, the board and <b>other stakeholders</b> for internal audit opinions and other conclusions (2010.A2). LCIAS recognises this within its Internal Audit Charter.</p> <p>The emphasis in the proposed new Global Internal Audit Standards is much stronger.</p>	<p>Consider how future internal audit activity may demonstrate appropriate consideration of other stakeholder expectations:</p> <ol style="list-style-type: none"> <li>1. In devising internal audit plans</li> <li>2. When identifying Management Objectives in future audits.</li> </ol> <p style="text-align: right;"><b>PSIAS 2010</b></p>

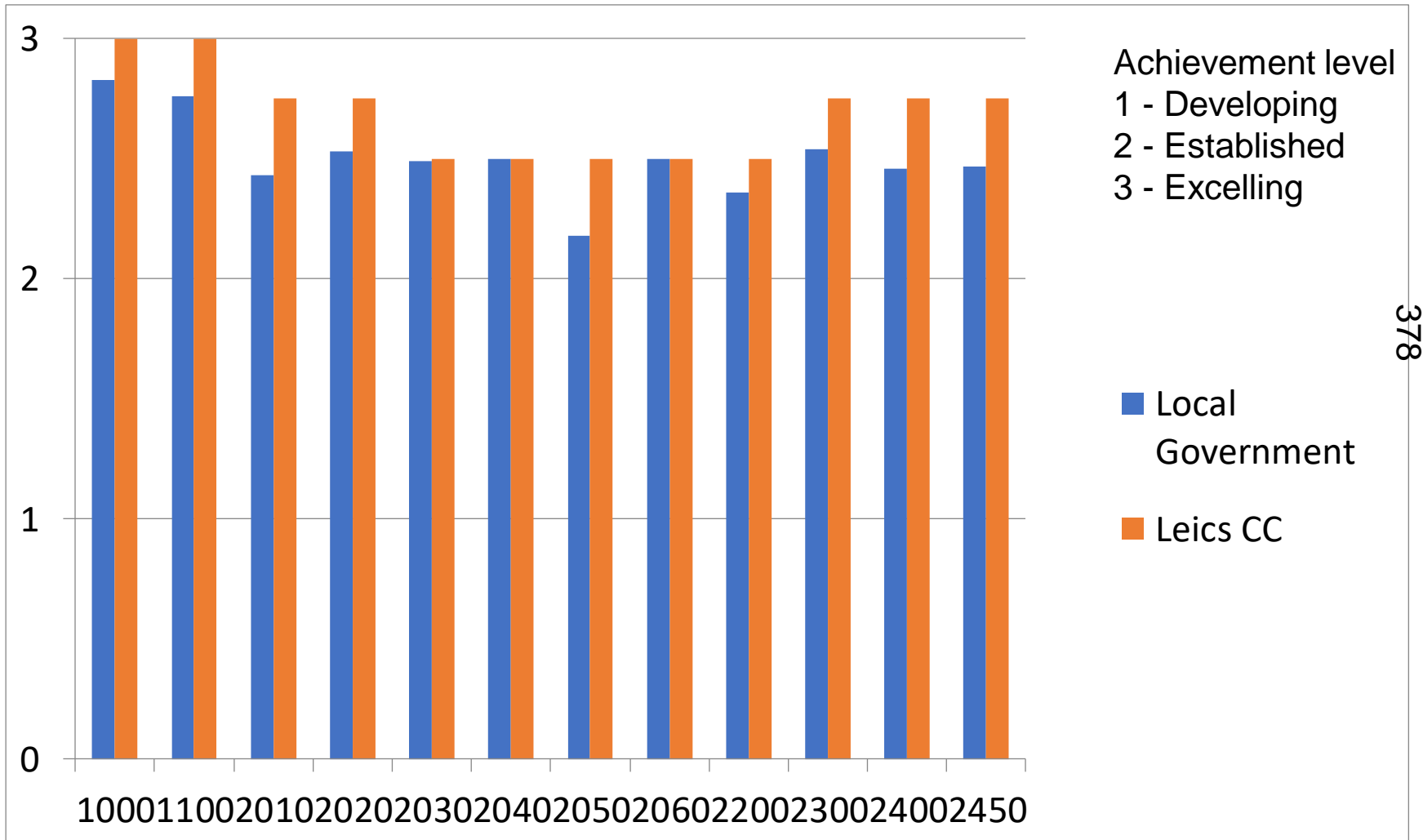
# Part three

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## Benchmarking







# Appendix

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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	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	100	
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	100	
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?	89	11
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	78	22
<b>Average</b>	<b>96%</b>	<b>4%</b>

**Conclusion:**

Feedback from stakeholders confirms that clients consider that they receive a good quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded. Observations were made regarding the value of increasing emphasis on sharing best practice from within the sector and the benefits of using external support.

## Other relevant observations

A planned programme of internal audits is available with flexibility to respond to any concerns raised

I would like to thank Matt and Neil for their approach to our audit process which has always been supportive and progressive

IA has been a valued and flexible service. They do seem under-resourced and have always valued quality of audits over quantity

I entered disagree on the skills point, as I think it is increasingly difficult for an internal resourced IA function to do everything.

IA have successfully brought in external expertise to support, which I think they should continue to do, they just need to recognise more quickly when it would be beneficial.

Issued

12

Returned

9

Response rate

75%

**Above average**

# 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 <i>Standards</i> . 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

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## 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
<b>Enhance</b>	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.
<b>Review</b>	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
<b>Consider</b>	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.