

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

## Northumberland County Council's Internal Audit Service

**Final Report**

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# Northumberland County Council's Internal Audit Service

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## 1. Introduction

- 1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1<sup>st</sup> April 2013 (revised 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments (EQA), or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal Audit service's own self-assessment at least once in a five-year period.

## 2. Background

- 2.1 The internal audit service provides internal audit and investigatory services to Northumberland County Council and the Council's wholly owned subsidiary company Advance Northumberland. The Chief Audit Executive is the Council's Head of Internal Audit and Risk Management (referred to as the HIA&RM in this report). The internal audit service consists of ten posts, including two specialist computer auditors and two posts with managerial responsibilities. The HIA&RM is an experienced internal audit professional who is a CCAB accountant (CIPFA). There are currently two Group Assurance Manager posts in the structure, and they are both experienced internal audit professionals. One is a CCAB accountant (FCCA) and a Chartered Internal Auditor (CMIIA), while the other is AAT qualified and is currently undertaking the CIA qualification with the IIA. Below the Group Assurance Manager Level there are three Senior Auditor posts and three Assurance/Audit Officer posts.
- 2.2 From an operational perspective, the internal audit service is part of the Transformation and Resources Directorate and the HIA&RM reports directly to the Executive Director of Transformation and Resources, who is the Council's Section 151 Officer.
- 2.3 The internal audit service has been operating under PSIAS since its launch in 2013, albeit as a shared service with North Tyneside Council until April 2022. This is the first (EQA) that the in-house service has commissioned. It should be noted that the in-house service is still relatively new and, as such, this is reflected in our opinion of their conformance to the PSIAS.

## 3. Validation Process

- 3.1 This validation of the service's self-assessment comprised a combination of a review of the evidence provided by Internal Audit; a review of a sample of completed internal audits; a survey that was sent to, and completed by, a range of stakeholders; and interviews with key stakeholders, using MS Teams. The interviews focussed on determining the strengths and weaknesses of Internal Audit and assessed the service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.
- 3.2 The internal audit service provided a comprehensive range of documents that they used as evidence to support their self-assessment, and these were available for examination prior to and during this validation review. These documents included the:
- self-assessment against the standards;
  - quality assurance and improvement plan (QAIP);
  - evidence file to support the self-assessment;
  - the audit charter;
  - the annual report and opinions

- the audit plan and strategy;
- audit procedures manual;
- a range of documents and records relating to the team members;
- progress and other reports to the Audit Committee.

All the above documents were examined during this EQA.

- 3.3 The main phase of the validation process was carried out during the week commencing 1 May 2023, with further work and interviews undertaken during the following weeks. This phase of the EQA involved a review of a sample of audit files and interviews with a wide sample of key stakeholders. Overall, the feedback from the interviewees was positive with clients valuing the professional, knowledgeable, and objective way the internal audit service delivered their services.
- 3.4 A survey was sent to a range of key stakeholders and the results analysed during the review. Details of the survey findings have been provided to the HIA&RM and a summary table has been included in this report.
- 3.5 The assessor reviewed examples of completed audits, to confirm his understanding of the audit process used at the Council, and to determine how Internal Audit has applied the PSIAS and LGAN in practice.

## 4. Opinion

**It is our opinion that the internal audit service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.**

- 4.1 The Internal Audit service has self-assessed themselves as generally conforming to the standards and we concur with that view. We are mindful of the fact that at the time of the EQA this was a relatively new in-house service, and they were in the process of changing and developing much of the legacy processes inherited from the previous shared service with North Tyneside Council. We acknowledge that they have made considerable progress towards compliance with the PSIAS and the LGAN, but there are still some areas that would benefit from further enhancement.

The table below shows the internal audit service's level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	<b>Generally Conforms</b>
Core principles	<b>Generally Conforms</b>
Code of ethics	<b>Generally Conforms</b>
Attribute standard 1000 – Purpose, Authority and Responsibility	<b>Partially Conforms</b>

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

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

### 5.1 Mission Statement and Definition of Internal Audit

The definition of internal audit from the PSIAS is included in the 2022 version of the audit charter for Northumberland County Council but not the Mission Statement. This was added to the 2023 version by the HIA&RM during the EQA.

### 5.2 Core Principles for the Professional Practice of Internal Auditing

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

The indication from this EQA is that the Core Principles form part of Internal Audit's procedures and working methodologies and they are a competent and experienced service that conforms to the Core Principles.

### 5.3 Code of Ethics

*The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the*

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

The indication from this EQA is that the internal audit service conforms to the Code of Ethics, and this forms part of their procedures and audit methodologies. The code of ethics is part of their overarching culture and underpins the way the service operates.

#### 5.4 **Attribute Standard 1100 – Independence and Objectivity**

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

The need for independence and objectivity is an integral part of any internal audit service's culture. The HIA&RM reports in his own name directly to the Executive Director of Transformation and Resources and to the Audit Committee.

The general view from many of the officers that were interviewed and/or returned surveys is that the service is independent and objective, although it is also apparent that some individuals at the Council still need further convincing that the current HIA&RM and his team are very different to the previous regime that was in place under the shared arrangement with North Tyneside Council. Whilst much has already been achieved to raise the profile of the service, it can take a long time to change people's perceptions. To achieve this, the HIA&RM needs to continually raise the profile of the service and demonstrate to all officers and elected members that they are a modern, independent and objective assurance and consulting service that adds value to their clients.

Consideration should also be given to undertaking a self-assessment of HIA&RM's compliance with the five principles from the CIPFA guidance on the Role of the Head of Internal Audit. We recommend undertaking such a self-assessment to identify any areas that may need enhancing and including these in the QAIP.

Furthermore, consideration should also be given to the contents of the CIPFA publication "Internal Audit: Untapped Potential" as this provides a wealth of useful advice and guidance on enhancing the internal audit service. Appendix B, entitled "Maximising the Impact of Internal Audit" is particularly significant to raising the service's profile.

We have included actions relating to the above observations in section 9 of this report.

We have reviewed the internal audit service's procedures and their standard documentation; their quality assurance and improvement plan; and a small sample of completed audit files. We have also reviewed their reporting lines and their positioning within the organisations. The HIA&RM has responsibility for the Council's risk management function, and this is set out clearly in the audit charter, along with the mechanism that will be followed when this function is being audited, to ensure the independence and objectivity of the HIA&RM and the internal audit service are maintained. In order to enhance transparency, we suggest that the Audit Committee regularly reviews and challenges the effectiveness of these arrangements. We have included an action in section 9 of this report relating to this observation.

All employees declare any potential impairment to their independence or objectivity on an annual basis. Where there have not been any impairments to the independence and objectivity of either the Head of Internal Audit and Risk Management, or the service as a whole, it is good practice to include a statement confirming this in the HIA&RM's annual report. This was added to the 2022/23 annual report during the EQA.

Notwithstanding the above observations, we feel that the internal audit service generally conforms with attribute standard 1100 and the LGAN.

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

*Attribute standard 1200 requires the internal audit services' 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.*

The internal audit service consists of ten posts, including two specialist computer auditors and three posts with managerial responsibilities. The HIA&RM is an experienced internal audit professional who is a CCAB accountant (CIPFA). There are currently two Group Assurance Manager posts in the structure, and they are both experienced internal audit professionals. One is a CCAB accountant (FCCA) and a Chartered Internal Auditor (CMIIA), while the other is AAT qualified and is currently undertaking the CIA qualification with the IIA. Below the Group Assurance Manager Level there are three Senior Auditor posts and three Assurance/Audit Officer posts.

All the Senior Auditor posts are occupied by experienced internal audit professionals. One is a specialist computer auditor with a relevant computer audit qualification (QICA). Of the other three, one holds the AAT qualification; one is a part qualified accountant (CIMA) who also holds the PIIA qualification (and is a temporary resource); and the other is an Assurance Officer who is acting up into the post but only performing some of the elements of the role. They do not hold a relevant audit or accountancy qualification but are currently undertaking the PIA qualification with the IIA. There are three posts at the Assurance Officer level but only two were occupied at the time of the EQA, both by experienced internal auditors. One post is designated as a specialist IT Assurance Officer who is part CIPFA qualified. The other assurance Officer post is occupied by an individual on a fixed term contract but does not hold a relevant accountancy or internal audit qualification.

In addition to the qualifications referred to above, we note that the HIA&RM, the Group Audit Managers, two senior Auditors and the IT Assurance Officer all hold the Advanced Professional Certificate in Investigative Practice.

The standards require internal audit services to consider the use of data analytics when performing their audit reviews. The individual team members have access to software that can be used for data analysis, such as MS Excel, and the service does have a licence for an old version of IDEA but at the time of the EQA were not using it on a regular basis as the service does not currently carry out much data analytics as part of their audit methodologies. Where they do so, it is generally performed by utilising the tools in MS Excel, however, this application has a limited range of functionality compared to the specialist data analytics applications. The HIA&RM is aware of the limitations in the functionality of Excel and has also identified that the service needs to make greater use of data analytics for its audits, by using IDEA, and the Power BI reporting application that is now being used in many parts of the Council. While we acknowledge that there is a cost attached to obtaining an up-to-date version of IDEA, we believe the HIA&RM should consider this as the functionality within the latest version of IDEA is significantly greater than the previous versions. This would enable the service to enhance their data analytics capabilities, such as undertaking data matching and data mining exercises, developing the continuous auditing / monitoring of key systems such as the fundamental financial systems, and providing enhanced assurance by testing the whole data population when carrying out audits rather than sample testing and extrapolating the results to the whole population. We have included this as an advisory action in section 9 of this report.

There is an opportunity to further broaden the use of data analytics by making use of external sources of data that can be used for benchmarking purposes, such as the local

authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Council should already have access to, and/or the data held by the Local Government Association in their LG Inform application. These are now versatile and adaptable tools that should not be overlooked, particularly when auditors are preparing the terms of reference for audits as benchmarking can highlight areas where there may be scope to add value to operations, or at least challenge the current thinking. We have included this as an advisory action for management to consider in section 9 of this report.

Notwithstanding the above observations, it is our opinion that the internal audit service generally conforms with attribute standard 1200 and the LGAN.

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

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

The internal audit service is a relatively new in-house function that was formed in April 2022 following the demise of the shared internal audit service with North Tyneside Council. Although the HIA&RM and many of the team members previously worked for the shared service and were familiar with their operating practices, the HIA&RM deemed many of these did not meet the needs of the in-house service. Consequently, he has been developing the service's working methodologies to ensure they meet the need of the County Council and Advance Northumberland, including developing some of the processes and procedures from scratch. The HIA&RM has developed a comprehensive quality assurance and improvement programme that is designed to ensure engagements are performed to a high standard. This was reported to, and agreed by, the Audit Committee in January 2023. However, we have observed that this document does not include an action plan setting out the improvements that the service needs to make and a time frame for achieving them. We have therefore included an advisory action for this observation in section 9 of this report.

Supervision of audit engagements is carried out during the audit process, and evidence is recorded in the audit files. The service has carried out an annual self-assessment of their conformance to the standards and the LGAN and commissioned this EQA early after becoming operational as an in-house function. The service has agreed a set of key performance indicators with the audit committee to be introduced during 2023/24, but as these have only recently been agreed there were no KPIs to review during the EQA.

We have examined the self-assessment and supporting evidence provided by the internal audit service during this EQA. Notwithstanding the above observation we feel the service generally conforms to attribute standard 1300 and the LGAN.

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

*The remit of this standard is wide and requires the Chief Audit Executive 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 Chief Audit Executive must produce an audit plan and communicate this and the service's resource requirements, including the impact of resource limitations, to senior management and the Audit and Risk Committee for their review and approval. The Chief Audit Executive must ensure that internal audit's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.*

*The standard also requires the Chief Audit Executive to establish policies and procedures to guide the internal audit activity, and to share information, co-ordinate*



*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 Chief Audit Executive to report periodically to senior management and the Audit Committees on internal audit's 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 committee.*

The internal audit service has an audit manual in place that covers the main aspects of the internal audit service's operations.

The service has developed planning processes and assurance maps, based around the three lines model for the Council's strategic risks. We have reviewed the strategic audit plan for 2023/24, including the draft assurance map that forms part of the planning process, and have made the following observations. The service's audit plan and strategy are based on the risk-based auditing concept and is underpinned by the Council's strategic risk register and the draft assurance maps. Whilst it is acknowledged that the risk-based auditing concept is the recommended approach for a modern internal audit service, it does expect the service to be insightful and take into consideration local and national issues. These issues may not feature on the strategic risk register but, nonetheless, should be subjected to review by internal audit. There are some relatively common high-profile risks that are found on the audit plans of many unitary and upper tier authorities that do not currently feature in the service's audit plan. For example, risks relating to SEND, the safeguarding of vulnerable individuals, public health, children's social care or adult social care, the majority of which are statutory services. Many councils around the country are issuing warnings that they have significant gaps in their funding that they may not be able to continue to deliver these services, with the worst-case scenarios being that some may have to issue a section 114 notice. Whilst we acknowledge that this may not be the case for Northumberland County Council, we would, nonetheless, have expected to see some of these services featured on the audit plan. We are aware the HIA&RM has started to review the service's audit universe to ensure that it is comprehensive and takes into consideration the local, national and emerging issues facing local authorities, however, we recommend that this exercise is accelerated to ensure the service has a comprehensive audit universe in place, that is linked to the relevant strategic and operational risks in time for the 2023/24 audit planning cycle. Such an audit universe could also then be used to underpin the draft assurance map.

We have also observed from the draft assurance map, that the HIA&RM does not appear to be intending to place much reliance on other potential sources of assurance. Whilst the standards only recommend that the HIA&RM needs to consider other potential sources of assurance, we feel there is a risk that the service may be missing an opportunity here as there are many external and internal sources of assurance that could provide a degree of assurance, albeit limited, and feed into the HIA&RM's annual report and opinion.

In addition, there are opportunities to enhance the way the Council obtains assurance by the service considering working with the service directorates to undertake some joint reviews of specific functions. For example, it is common for both adults and children's social care functions to have comprehensive quality assurance and improvement processes in place that focus on the assessment and delivery of the individual care packages. Whilst internal audit is not qualified or skilled to undertake this type of review, they are able to review the processes that feed into and support the care assessments. Undertaking joint reviews with the social care functions can provide a more holistic view

of those services and has the potential to add greater value to their operations and the Council as a whole. We have included actions relating to these observations in section 9 of the report.

The service produces an audit strategy and a prioritised risk-based audit plan that maps the audits to the Council's priorities and the strategic risk register. The audit plan is reviewed and approved by the Corporate Management Team and the Audit Committee.

Details of the completed audits, together with updates on the progress being made on delivering the audit plan are reported to the Corporate Management Team and the Audit Committee. An annual report and opinion are also issued at the end of the year and presented to the Corporate Management Team and the Audit Committee. The HIA&RM attends all meetings of the Audit Committee, and progress on delivery of the audit plan is reported to the Audit Committee twice a year. However, to ensure that audit committees are kept abreast of progress and any issues affecting delivery of the plan or changed priorities in a timely manner, most internal audit services tend to update committees more frequently with the norm being three or four times a year. We have included an action relating to this observation in section 9 of the report.

The HIA&RM has direct access to the Independent Chair of the Audit Committee and meets with him prior to the scheduled Audit Committee meetings to go through the agenda items and any issues relating to them.

The indication from this EQA is that the service has made significant progress in transforming from the old, shared service arrangement with North Tyneside Council and although the HIA&RM has put in place a framework for managing the service, there are elements of this that need further enhancing. Nonetheless, it is our opinion that the internal audit service generally conforms to performance standard 2000 and the LGAN.

#### **5.8 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.*

Although this is the underlying approach adopted by the internal audit service and forms part of their working methodologies, there appears to have been a greater focus on internal control in the past rather than the effectiveness of the Council's risk management and governance frameworks. Since the service has been brought back in house, and the external review that focussed on the failings in the Council's governance arrangements, the HIA&RM has started to address this, however, as we have highlighted elsewhere in the report, there is still more work needed around the effectiveness of the risk management and governance frameworks.

During this EQA, we reviewed a sample of completed audits and examined them to see if they conformed to standard 2100, the LGAN and internal audit's own methodologies. We found that the sample that we reviewed conformed to all three.

The indication from this EQA is that the internal audit service generally conforms to performance standard 2100 and the LGAN.

#### **5.9 Performance Standard 2200 – Engagement Planning**

*Performance standard 2200 requires internal auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.*

As already mentioned, the service has a set of audit procedures and methodologies in place, and there are robust supervision processes in place that cover engagement

planning. From the sample of audits that we examined during the EQA, we found that they covered the key objectives we would have expected to see in the audit.

The indication from this EQA is that the service generally conforms to performance standard 2200 and the LGAN.

#### 5.10 **Performance Standard 2300 – Performing the Engagement**

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

As we have mentioned above, the internal audit service has a set of audit procedures and methodologies and sound supervision arrangements in place that meet the requirements of the standards. We reviewed the evidence provided in support of the service's self-assessment, together with a sample of audits to see if they conformed to the standards, and internal audit's own working methodologies. We found that the evidence we examined generally conformed to the standards, the LGAN, and the service's own audit procedures. There is scope to make greater use of data analytics as part of the audit process and we have covered this detail under attribute standard 1200 above. We therefore conclude that internal audit service generally conforms to performance standard 2300 and the LGAN.

#### 5.11 **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 committee and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".*

The service's procedures and supervision processes cover the communication of results of individual audits and meet the requirements of the standards and the LGAN. During the EQA we reviewed the evidence provided in support of the service's self-assessment and the audit reports issued for a sample of audits to establish if they conformed to the standards. We found that all the evidence we examined generally conformed to the standards and internal audit's own procedures and methodologies. For 2023/24 the service has changed its reporting format and moved away from a detailed report to a one-page summary report that includes some graphics and links to the agreed audit brief and the agreed management action plan, although most of the audits we examined used the detailed report format. The new 'lean' one page format report is very easy to read and understand, and the use of colour draws the reader's attention to the key elements of the report.

We also reviewed the progress and annual reports presented to the audit committee and found that, overall, these also generally conformed to the standards. There are some issues around the frequency of reporting to the audit committee and reporting on the newly agreed KPIs, but these have been covered in detail elsewhere in the report.

We therefore conclude that the internal audit service generally conforms to performance standard 2400 and the LGAN.

#### 5.12 **Performance Standard 2500 – Monitoring Progress**

There is a comprehensive follow-up process in place, the objective of which is to monitor the client's progress towards the implementation of agreed actions. The results of the

follow-up reviews are reported to the Audit Committee. From this EQA, it is evident that the internal audit service generally conforms to performance standard 2500 and the LGAN.

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

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

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

### 6.1 **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 board for approval.*

There is an audit charter in place for the County Council but not for Advance Northumberland. We reviewed this document and found it contained the elements that the PSIAS expects to be included in an audit charter, apart from the Mission Statement referred to above, although there is scope to enhance the style and flow of the document. At the time of the EQA, Advance Northumberland did not have a separate audit charter and relied on the one for the County Council. The Local Government Application Note states that “PSIAS 1000 requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter”. It goes on to state “Responsibility for and ownership of the internal audit charter remains with the organisation”. The standard is quite clear that ownership of the audit charter resides with the organisation, and not the internal audit service. This means that where internal audit provides services to more than one organisation, a separate audit charter is required for each organisation. We have included a medium priority action in section 9 of this report relating to this observation.

Although internal audit provides services to Advance Northumberland, which is a separate external legal entity albeit wholly owned by the Council, we understand that from discussions with key stakeholders that internal audit does not have any form of contract or service level agreement in place with Advance Northumberland. We also understand that this is unlike the other functions of the Council that provide services to Advance Northumberland that do have some form of contract or service level agreement in place. To enhance the transparency around the relationship between internal audit and Advance Northumberland, we have included a medium priority action in section 9 of this report relating to this observation.

To enhance the flow and readability of the audit charter, we suggest that the HIA&RM compares it to those produced by other local authorities to identify a style and format that is easier for a lay person to read and understand. We have included an action relating to this observation in section 9 of this report.

Notwithstanding the above observations, we are satisfied that the internal audit service generally conforms to attribute standard 1000 and the LGAN.

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

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

## 8. Survey results

- 8.1 Overall, the results of the survey of key stakeholders were spread across the options available to the respondents, with greater numbers tending to indicate that they either 'agree' or 'partially agree' with the statements in the survey. There are a few 'do not agree' and several 'don't know' responses that the HIA&RM may wish to explore in more detail to determine if there are any underlying reasons for those responses that need to be addressed. Whilst many respondents appear to value the services provided by internal audit, there are several respondents that felt that internal audit did not have sufficient resources to provide them and the Council with the level of service that they need. This issue was also raised by some of the key stakeholders that were interviewed during the EQA. The detailed findings from the survey have been shared with the Head of Internal Audit and Risk Management to enable them to explore the responses in more depth. A summary of the survey results is included in this report at Appendix A.

## 9. Issues for management action

- 9.1 From this EQA we have identified a total of fifteen observations for the HIA&RM and/or the Council. It should be noted that some of the actions are for the Audit Committee and/or the Executive Director of Transformation and Resources to consider, not just the HIA&RM.

Issues for management action	Priority
The Head of Internal Audit and Risk Management should explore all options for raising the profile of internal audit to demonstrate to all officers and members that they are an independent, objective, insightful and proactive assurance and consulting service that adds value to its clients.	<b>Advisory</b>
The Council should undertake a self-assessment of the Head of Internal Audit and Risk Management's compliance with the five principles from the CIPFA guidance on the "Role of the Head of Internal Audit". We recommend undertaking such a self-assessment as this will not only help with raising the profile of the Head of Internal Audit and Risk Management but may identify aspects of the principles that need enhancing. These should be included in the service's quality assurance and improvement programme (QAIP). The self-assessment should be overseen by the Executive Director for Transformation and Resources.	<b>Advisory</b>
The Head of Internal Audit and Risk Management, together with the Executive Director for Transformation and Resources, should consider the contents of the CIPFA publication "Internal Audit: Untapped Potential" as this not only provides a wealth of useful information, but also makes recommendations around how local authorities can make best use of their internal audit services. Appendix B, entitled "Maximising the Impact of Internal Audit" is	<b>Advisory</b>

Issues for management action	Priority
particularly significant to raising the service's profile and can be developed into a self-assessment of the service.	
<p>The Head of Internal Audit and Risk Management has responsibility for the Council's risk management function, and this is set out clearly in the audit charter, along with the mechanism that will be followed when this function is being audited, to ensure the independence and objectivity of the Head of Internal Audit and Risk Management, and the internal audit service as a whole, are maintained. To enhance transparency and ensure these arrangements remain fit for purpose we recommend that the Audit Committee regularly reviews and challenges the effectiveness of these arrangements.</p>	<b>Low</b>
<p>While we acknowledge that there is a cost attached to obtaining an up-to-date version of IDEA, we believe the HIA&amp;RM should consider this as the functionality within the latest version of IDEA is significantly greater than the previous versions. This would enable the service to enhance their data analytics capabilities, such as undertaking data matching and data mining exercises, developing the continuous auditing / monitoring of key systems such as the fundamental financial systems, and providing enhanced assurance by testing the whole data population when carrying out audits rather than sample testing and extrapolating the results to the whole population.</p>	<b>Advisory</b>
<p>Internal audit should consider using the local authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Council should already be able to access, and/or the data held by the Local Government Association in their LG Inform application. These are adaptable tools that should not be overlooked, particularly when preparing audit terms of reference as they can highlight areas where there may be scope to add value to the Council.</p>	<b>Advisory</b>
<p>The HIA&amp;RM has developed a comprehensive quality assurance and improvement programme that is designed to ensure engagements are performed to a high standard. This was reported to and agreed by the Audit Committee in January 2023. However, we have observed that this document does not follow best practice and include an action plan setting out the improvements that the service needs to make and a time frame for achieving them. We suggest that the quality assurance and improvement plan include an action plan and progress on delivering this is reported regularly to the Audit Committee.</p>	<b>Advisory</b>
<p>We are aware the HIA&amp;RM has started to review the service's audit universe to ensure that it is comprehensive and takes into consideration the local, national and emerging issues facing local authorities, however, we recommend that this exercise is accelerated to ensure the service has a comprehensive audit universe in place, that is linked to the relevant strategic and operational risks in time for the 2023/24 audit planning cycle.</p>	<b>Medium</b>

Issues for management action	Priority
Such an audit universe could also then be used to underpin the draft assurance map.	
We have also observed from the draft assurance map, that the HIA&RM does not appear to be intending to place much reliance on other potential sources of assurance. Whilst the standards only recommend that the HIA&RM needs to consider other potential sources of assurance, we feel there is a risk that the service may be missing an opportunity here as there are many external and internal sources of assurance that could provide a degree of assurance, albeit limited, and feed into the HIA&RM's annual report and opinion	<b>Low</b>
In addition, there are opportunities to enhance the way the Council obtains assurance by the service considering working with the service directorates to undertake some joint reviews of specific functions. For example, it is common for both adults and children's social care functions to have comprehensive quality assurance and improvement processes in place that focus on the assessment and delivery of the individual care packages. Whilst internal audit is not qualified or skilled to undertake this type of review, they are able to review the processes that feed into and support the care assessments. Undertaking joint reviews with the social care functions can provide a more holistic view of those services and has the potential to add greater value to their operations and the Council as a whole. We have included actions relating to these observations in section 9 of the report.	<b>Advisory</b>
To ensure that the Audit Committee are kept abreast of progress and any issues affecting delivery of the plan or changed priorities in a timely manner, most internal audit services tend to update committees more frequently with the norm being three or four times a year. We therefore suggested consideration is given to increasing the number of times progress is reported to the Audit Committee.	<b>Advisory</b>
Although Advance Northumberland is a separate legal entity, it does not have its own audit charter but instead relies on one for the Council. To conform with the requirements of the standards which require all of the service's clients to have their own audit charter, we recommend that a separate audit charter is put in place for Advance Northumberland.	<b>Medium</b>
The service provides internal audit services to Advance Northumberland, a separate external legal entity, albeit wholly owned by the Council, however, the service does not have any form of contract or service level agreement in place with Advance Northumberland, unlike the other Council functions that provide services to Advance Northumberland. To enhance the transparency around the relationship between internal audit and Advance Northumberland, we recommend that a separate service level agreement is put in place.	<b>Medium</b>

Issues for management action	Priority
To enhance the flow and readability of the current audit charter, we suggest that the HIA&RM compares it to those produced by other local authorities to identify a style and format that is easier for a lay person to read and understand.	<b>Advisory</b>
Management should be mindful of the fact that a consultation on revising the Institute of Internal Auditors Global IPPF which is incorporated into the PSIAS, has recently taken place and any changes to the standards arising from the consultation may affect the service's future conformance to the standards. It is, therefore, suggested that the Audit Manager keeps a watching brief on the developments to the standards and how this may impact the service in the medium term.	<b>Advisory</b>

The co-operation of the Head of Internal Audit and Risk Management and the Group Assurance Managers in providing the information requested for the EQA, is greatly appreciated. Our thanks also go to the Chair of the Audit Committee and the key stakeholders that made themselves available for interview during the EQAs and/or completed the survey.

Ray Gard, CPFA, FCCA, FCIA, DMS

22 December 2023



## 10. Definitions

Level of Conformity	Description
<b>Generally Conforms</b>	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the individual Standard, the element of the Code of Ethics, and the Local Government Application Note in all material respects. This means that there is general conformance to a majority of the individual standards, elements of the Code of Ethics, or the Local Government Application note, and at least partial conformance to the others.
<b>Partially Conforms</b>	The internal audit service is endeavouring to deliver an effective service, however, they are falling short of achieving some of their objectives and/or generally conforming to a majority of the individual standards, elements of the Code of Ethics, or the Local Government Application note and at least partial conformance to the others. There will usually be significant opportunities to improve the delivery of effective internal audit, and enhance conformance to the standards, elements of the Code of Ethics, and/or the Local Government Application Note. The internal audit service may be aware of some of these opportunities and the areas they need to develop. Some identified deficiencies may be beyond the control of internal audit and may result in actions for Senior Management or the Board of the organisation to address.
<b>Does Not Conform</b>	The internal audit service is not aware of; not making efforts to comply with; or is failing to achieve many/all of the individual standards, elements of the Code of Ethics, or the Local Government Application Note. These deficiencies will usually have a significant adverse impact on internal audit's effectiveness and its potential to add value and are likely to represent significant opportunities for improvement to internal audit. Some identified deficiencies may be beyond the control of internal audit and may result in recommendations to Senior Management or the Board of the organisation.

Action Priorities	Criteria
<b>High priority</b>	The internal audit service needs to rectify a significant issue of non-conformance with the standards and/or operational issues that could impact on their conformance to the standards. Remedial action to resolve the issue should be taken urgently.
<b>Medium priority</b>	The internal audit service needs to rectify a moderate issue of conformance with the standards and/or operational issues that could impact on their conformance to the standards. Remedial action to resolve the issue should be taken, ideally within a reasonable time scale, for example six months.

<b>Low priority</b>	The internal audit service should consider rectifying a minor issue of conformance with the standards and/or operational issues that could impact on their conformance to the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
<b>Advisory</b>	These are issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

## 11. Disclaimer

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

The report was prepared solely for the use and benefit of Northumberland County Council's internal audit service, including the Officers and elected Members of the Council, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any other third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

### Northumberland County Council's Internal Audit Service - Summary of Survey Responses



