

External Quality Assessment of Newcastle Under-Lyme Borough Council's Internal Audit Service to the Public Sector Internal Audit Standards

Final Executive Summary Report

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Guidance**

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Review of Newcastle-Under-Lyme Borough Council's Internal Audit Service – January/February 2017

Introduction

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

Background

Newcastle-Under-Lyme Borough Council's (NULBC) Internal Audit is based at the Civic Centre and only provides internal audit services to Newcastle-Under-Lyme Council. The team comprises 3.8 full time equivalent experienced and qualified staff, and have access to external specialists for computer audit on a contract basis.

The service has been operating under PSIAS for over three years, so this was deemed a good time for their first external review against the standards and the local government application note (LAGN) produced by CIPFA.

Review Process

The review was carried out between the 30th January and 3rd February 2017 through a process of interviews with employees of NULBC's Internal Audit Service, key officers within the Council, the Chair and Vice Chair of the Audit and Risk Committee, and document review. With regard to the latter, NULBC provided a comprehensive range of documents that were available for examination prior to and during this review. This included the services self-assessment against the PSIAS; quality assurance and improvement plan (QAIP); the audit manual and audit protocol; individual audit reports and supporting records; and a range of reports and communications that demonstrate the flow of information between Internal Audit and the Audit and Risk Committee.

All of these documents were made available to the reviewer and whilst they all contributed to the process, the following documents are regarded as fundamental and a major contributor to the review process:

- the audit charter and audit committee terms of reference;
- progress reports to the audit committee for the Council;
- Head of audit's annual report and opinion to the audit committee;
- audit plan and covering report to the audit committee;
- audit manual;
- individual audit reports and working papers;
- staff declarations of interest; and
- staff training and development records.

Conclusion and Opinion

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

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

On this basis it is our opinion that Newcastle-Under-Lyme Borough Council's Internal Audit Service generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note.

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

Some practical suggestions have also been made to assist Newcastle-Under-Lyme Borough Council's Internal Audit Service with its continuous improvement and development programme. These primarily relate to the internal operations of the Internal Audit Service and not their conformity with PSIAS, and comprise minor enhancements to the policies, procedures, and manuals used by the service; individual audit reports; reports to management and the Audit and Risk Committee; and the use of computer assisted audit techniques. These are set out in detail in the full report. Some suggestions relating to the enhancement of the audit charter were incorporated into the revised charter for 2017/18 as the Head of Audit and Elections was revising this document during the review processes.

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

The Head of Audit and Elections has been provided with details of the areas where there is scope to enhance conformity with the standards and incorporate good practice into their operations.

Ray Gard, CPFA, FCCA, FCIIA, DMS

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and Suggestions	No
Attribute standards				
1000 Purpose, authority and responsibility	Partially Conforms	<p>The terms board, senior management and the chief audit executive (CAE) are all defined in the charter. The CAE has line management responsibilities for services that are subjected to review by internal audit and there is a mechanism in place to ensure that the CAE's integrity and objectivity is not impaired.</p> <p>The audit charter provides an adequate description of assurance services and consultancy services. The CAE's annual report for 2016/17 will also need to include these definitions.</p> <p>As consulting activity is likely to expand during the coming months, the audit charter and audit protocol should be revised to incorporate a section on consulting services.</p> <p>The audit charter makes reference to compliance with the definition of internal audit and to PSIAS, and the code of ethics for the professional bodies that the staff are members of. Compliance with the code of ethics for internal audit is not in the 2015/16 CAE's annual report so this</p>	<p>Include a definition for assurance and consulting services are included in the CAE's annual report and opinion for 2016/17.</p> <p>Expand the CAE's annual report and opinion for 2016/17 should be expanded to include compliance with the code of ethics for internal auditors and the core principles for internal audit. Reference must also be made to compliance with the CIPFA Local Government Application Note, as this is mandatory within UK local government organisations.</p>	<p>R1</p> <p>R2</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		should be added to the CAE's annual report for 2016/17.		
1100 Independence and objectivity	Generally Conforms	<p>The CAE reports to the Section 151 officer. In addition to being the Council's CAE they are also the Monitoring Officer and also manages the Election service.</p> <p>Internal audit reports to the Audit and Risk (A&R) Committee and the CAE has direct access to the chair of the committee, although this is not covered in the terms of reference for the A&R committee.</p> <p>The service is free from interference in determining the scope of their work and reporting. Independence and objectivity is maintained and there are processes in place to deal with potential or actual impairments (see 1000 above).</p>	No recommendations have been made for this standard	
1200 Proficiency and due professional care	Generally Conforms	<p>The CAE holds a relevant CCAB qualification, being CPFA qualified.</p> <p>The internal audit team is experienced and qualified to Technician level with both team members in post being MAAT qualified.</p> <p>The team also has a qualified dedicated fraud specialist.</p> <p>The CAE has an understanding of IT risks and controls, but this knowledge is limited amongst the rest of the team who need to</p>	Enhance the knowledge and understanding of IT risks and controls for the Audit Technicians by implementing the action point on the QAIP	R3

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>be developed in this area of activity. This issue has been identified by the CAE and is on the services QAIP.</p> <p>For specialist technical reviews, they buy in specialist ICT auditors on an annual contract.</p> <p>The CAE has an understanding of computer assisted audit techniques (CAATs) and the service has had an IDEA licence in the past, although they do not currently have a current licence for IDEA or any other CAATs application. The CAE is however aware that they may need to develop the use of this application to test routine systems on a regular basis as this could free up staff resources to undertake audits that cannot be carried out by electronic means.</p> <p>The team has an audit manual and an audit protocol, and well-established working papers and methodologies. At the time of the EQA, the service was in a transition phase between audit management systems. The old system, APACE, had been de-commissioned as the licence had expired, and the new system, Pentana, was in the final stages of user acceptance testing and transferred from the 'test environment' to the 'live environment' during the EQA site visit.</p>		

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>Consequently most working papers for 2015/16 were held as word or excel files on internal audit's shared drive.</p> <p>A risk based approach is applied to each audit assignment. There is a robust supervision and review process in place with the CAE performing this function for all working papers, draft and final audit reports.</p> <p>Staff development and CPD are linked to the employees annual appraisals and development programme, with data being held in the councils HR application</p>		
1300 Quality assurance and improvement programme	Generally Conforms	<p>Both internal and external assessments are used as part of the quality assurance and improvement programme. The Head of Audit and Elections undertakes a self-assessment against PSIAS annually.</p> <p>CIPFA has been commissioned to undertake the full EQA review and the outcome of this review will be reported to the A&R Committee. The EQA review took place in January & February 2017.</p> <p>The outcomes of the annual self assessment and the pre-EQA review by the IIA have been reported to the A&R Committee.</p> <p>The annual report includes a statement stating that the service has complied with</p>	The CAE's annual report and opinion for 2016/17 should be expanded to include compliance with the code of ethics for internal auditors and the core principles for internal audit. Reference must also be made to compliance with the CIPFA Local Government Application Note as this is mandatory within UK local government organisations. (see above)	R2

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>PSIAS but the 2015/16 report did not mention the definition for internal audit, the code of ethics or the local government application note. This should be added to the CAE's annual report for 2016/17.</p> <p>Individual audit reports do not currently refer to the fact that the audit has been performed in accordance with the requirements of PSIAS or ISPPIA. This should be added to the report template currently being finalised in Pentana.</p> <p>The 2015/16 annual report also does not include a section regarding any impairments to independence or objectivity.</p>		
Performance standards				
2000 Managing the internal audit activity	Partially Conforms	The planning process uses the internal audit's risk assessments, the outcomes from previous audits and discussions with senior managers. The plan does not make full use of the strategic risk register and does not use the operational risk registers as the CAE feels that these are not sufficiently mature to add value to the audit planning process. The risk assessment processes should be reviewed as the majority of the key financial systems tend to score as high risk and	<p>Align the IA plan with the priorities in the Council's strategic plan 2015-18. This could be achieved by mapping the audits in the audit universe within Pentana to the priorities.</p> <p>Align the IA plan with the Council's strategic risk register. Again this could be achieved within the Pentana application.</p> <p>Ensure the key risks from the</p>	<p>R4</p> <p>R5</p> <p>R6</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>have been audited on an annual basis, regardless of the fact that most are well controlled and few if any recommendations are made.</p> <p>Comprehensive policies and procedures, an audit manual and an audit protocol underpin the planning process.</p> <p>The 2016/17 audit plan is not aligned to the Council's objectives and strategies.</p> <p>The service does not have a separate strategic statement setting out how the CAE will deliver the internal audit service. Instead, the CAE has set out how the service will be delivered in the annual audit plan report to committee.</p> <p>Resource management is also covered in both the audit charter and the audit plan report. Whilst these documents provide information regarding the service having sufficient resources, they do not mention that the service also has sufficient skills to deliver the service.</p> <p>Reference is included in the audit charter, annual report, and audit protocol regarding coordination of resources, reporting etc refers to sharing information with the external auditor.</p> <p>Reports to the A&R Committee are informative and are usually made on a</p>	operational risk registers are covered in the audit plan	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>quarterly basis. However, due to the de-commissioning of the old APACE audit management system it has not been possible to provide detailed information for the A&R committee for the September and November 2016 meetings. Consequently, briefing papers were tabled at these two meetings rather than full progress reports.</p> <p>Regular reports are sent to the Corporate Management Team and the Statutory Officers group.</p>		
2100 Nature of work	Generally Conforms	<p>The audit processes and methodology are set out in the audit manual and the risks, controls and audit objectives are recorded in the working papers. These are also included in the new Pentana application.</p> <p>The audit service assesses the adequacy of governance, risk, and IT governance arrangements as part of their audit activity as well as the control environment.</p> <p>At present, the service audits most of the key financial services on an annual basis even though 'well controlled' assurance opinions have been issued on the services for a number of years, often with no recommendations. Consideration should be given to moving the audit of these services to a less frequent timetable and redirecting audit resources to areas of</p>	No recommendations have been made for this standard	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>greater risk.</p> <p>The service has not been engaged to carry out consulting assignments in the past so this area of activity is not currently covered in the audit manual or the audit protocol. However, indications from senior management suggest this area of activity is likely to become an element of the services provided by internal audit in the future.</p>		
2200 Engagement planning	Generally Conforms	<p>There is a robust planning process in place for all engagements based on internal audits risk assessments, the outcomes from previous audits and discussions with senior managers. Comprehensive policies and procedures, an audit manual, and an audit protocol underpin the planning and audit process.</p> <p>Detailed terms of reference are produced for each audit setting out the objectives, risks, key controls, information required for the audit, and time scales for the audit, but not the distribution schedule for the draft or final audit reports.</p> <p>Each assurance assignment includes an evaluation of the risks, governance and controls. Where opportunities to add value to the service are identified these are also reported to management.</p>	No recommendations have been made for this standard	

Standard	Compliance	Findings	Recommendations and Suggestions	No
2300 Performing the engagement	Generally Conforms	<p>The audit manual sets out the methodologies for carrying out the audits. The review process ensures that each audit is undertaken in accordance with the audit manual and methodologies, and the core principles for internal audit.</p> <p>Sufficient and relevant evidence is obtained for the audits and recorded in the audit files and set out in the audit reports. Going forward this will also be recorded in the Pentana application. Access control is applied to the audit records. The service has a records retention policy in place.</p>	No recommendations have been made for this standard	
2400 Communicating the results	Partially Conforms	<p>The results of audit assignments are communicated to senior managers, the section 151 Officer, and those officers responsible for managing the services that have been reviewed.</p> <p>The results of all completed audit are reported to the A&R Committee and those with 'less than adequately controlled' assurance audits are discussed in detail at the committee meetings</p> <p>Whilst all audit work carried out conforms to PSIAS, the code of ethics and the definition for internal audit, and this is confirmed in the CAE's annual report, a similar paragraph is not included in each individual audit report. Including such a paragraph would enhance the reputation of</p>	<p>Expand the CAE's annual report to include the Council's risk management and governance arrangements as well as the control environment.</p> <p>Add a statement to the CAE's annual report regarding compliance with the definition for internal audit, the code of ethics, PSIAS, the CIPFA Local Government Application Note and the seven principles of public life.</p>	<p>R7</p> <p>R8</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>the service. This issue has been identified by the CAE and is on the services QAIP, so including this as an improvement suggestion in this report will not add any further value to the service.</p> <p>Similarly should a situation arise where an audit does not conform, a statement should be included in the individual audit reports setting out the reasons for the non conformance</p> <p>The annual report for 2015/16 only gave an assurance opinion on the Council's control environment and did not cover the Council's governance and risk management arrangements. This needs to be added to the opinion in the CAE's annual report.</p> <p>The annual report for 2015/16 did not include a statement stating that the service complies with the definition of internal audit, the code of ethics, PSIAS, and the seven principles of public life. It is recommended that that this is added to the annual report for 2016/17.</p>		
2500 Monitoring progress	Generally Conforms	<p>Progress on delivering the audit plan is reported to the A&R Committee.</p> <p>Performance indicators are set by the CAE in line with those used throughout the Staffordshire internal audit services and</p>	No recommendations have been made for this standard	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		are monitored on a quarterly basis. Management's progress on implementing recommendations is monitored by internal audit. Where applicable follow up reviews are undertaken although a revised audit opinion is not normally issued if the recommendations have been implemented. Progress on the implementation of recommendations is reported to the A&R Committee		
2600 Communicating the acceptance of risks	Generally Conforms	The communication of the acceptance of risk is covered by the audit manual and audit protocol. There is an escalation process through the Statutory Officers Group and the A&R Committee if internal audit believe management is accepting a level of risk greater than the Council's risk appetite.	No recommendations have been made for this standard	
Code of Ethics	Generally Conforms	The service is conforming to the code of ethics for internal audit although this is not specifically referred to in the 2015/16 annual report. This is covered under standard 2400 above.	A statement is added to the CAE's annual report regarding compliance with the definition for internal audit, the code of ethics, PSIAS, the CIPFA Local Government Application Note and the seven principles of public life.	R4
Mission	Generally Conforms	The draft audit charter for 2017/18 includes the mission statement as required by the revised (2016) PSIAS	No recommendations have been made for the mission	

Standard	Compliance	Findings	Recommendations and Suggestions	No
Core principles of internal audit	Generally Conforms	Overall the internal audit service conforms to the core principles of internal audit although they are not set out in the audit charter and should be added at the next revision. A paragraph stating that the service complies with the core principles should also be included in the Head of Audit and Elections annual report for 2016/17.	Add the core principles for internal audit to the audit charter at the next revision.	R9
		<p>The CAE believes the service is currently operating at the minimum level to provide an adequate audit service and she is conscious that there is no cover for her post should the need arise.</p> <p>The S151 officer also believes that the service is lean, whilst the Chief Executive would like Internal Audit to develop into a service that could undertake VFM and consulting assignments. Both officers acknowledge that this will be difficult to achieve with the current limited resources. A solution to this problem will however need to be found if the service is to become the insightful, proactive and forward thinking service that senior management clearly want.</p>	<p>Look to strengthen the service by exploring options to support the Head of Audit and Elections whilst remaining within the current budget allocation. This could be through creating a principle auditor post to take on the deputy role; or seconding staff into the section on a temporary basis; or partnering with another authority or public sector internal audit provider for additional resources; or entering into a full shared service arrangement</p>	R10

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Include a definition for assurance and consulting services are included in the CAE's annual report and opinion for 2016/17.	Agreed this will be included in the Annual Report for 2016/17	Head of Audit & Elections – Liz Dodd	31 July 2017
R2	Expand the CAE's annual report and opinion for 2016/17 should be expanded to include compliance with the code of ethics for internal auditors and the core principles for internal audit. Reference must also be made to compliance with the CIPFA Local Government Application Note as this is mandatory within UK local government organisations.	Agreed this will be included in the Annual Report for 2016/17	Head of Audit & Elections – Liz Dodd	31 July 2017
R3	Enhance the knowledge and understanding of IT risks and controls for the Audit Technicians by implementing the action point on the QAIP	Agreed – this area of work continue to be developed alongside the work programme of the Staffs Chief Auditors Computer Sub Group, which both of the Audit Technicians attend.	Head of Audit & Elections – Liz Dodd	31 March 2018
R4	Align the IA plan with the priorities in the Council's strategic plan 2015-18. This could be achieved by mapping the audits in the audit universe within Pentana to the priorities.	This will be reviewed during 2017/18 through the use of Pentana	Head of Audit & Elections – Liz Dodd	31 March 2018
R5	Align the IA plan with the Council's strategic risk register. Again this could be achieved within the Pentana application.	This will be reviewed during 2017/18 through the use of Pentana	Head of Audit & Elections – Liz Dodd	31 March 2018

No	Recommendation	Response	Responsible Person	Action date
R6	Ensure the key risks from the operational risk registers are covered in the audit plan	This will be reviewed during 2017/18 through the use of Pentana	Head of Audit & Elections – Liz Dodd	31 March 2018
R7	Expand the CAE's annual report to include the Council's risk management and governance arrangements as well as the control environment.	Agreed this will be included in the Annual Report for 2016/17	Head of Audit & Elections – Liz Dodd	31 July 2017
R8	Add a statement is added to the CAE's annual report regarding compliance with the definition for internal audit, the code of ethics, PSIAS, the CIPFA Local Government Application Note and the seven principles of public life.	Agreed this will be included in the Annual Report for 2016/17	Head of Audit & Elections – Liz Dodd	31 July 2017
R9	Add the core principles for internal audit to the audit charter at the next revision.	Agreed this will be added to the next revision of the Charter	Head of Audit & Elections – Liz Dodd	31 March 2018
R10	Look to strengthen the service by exploring options to support the Head of Audit and Elections whilst remaining within the current budget allocation. This could be through creating a principle auditor post to take on the deputy role; or seconding staff into the section on a temporary basis; or partnering with another authority or public sector internal audit provider for additional resources; or entering into a full shared service arrangement.	Options will be discussed with the Section 151 Officer and there will be a continual look at the way we can develop the service through shared resource or partnering	Head of Audit & Elections – Liz Dodd	31 March 2018

Appendix 2: Interviewees

Person	Position	Organisation
Liz Dodd	Head of Audit and Elections (and Monitoring Officer)	Newcastle-Under-Lyme Borough Council
John Sellgren	Chief Executive Officer	Newcastle-Under-Lyme Borough Council
Kelvin Turner	Executive Director of Resources & Support Services (and Section 151 Officer)	Newcastle-Under-Lyme Borough Council
Dave Adams	Executive Director Operational Services	Newcastle-Under-Lyme Borough Council
Jane Spencer	Benefits Manager	Newcastle-Under-Lyme Borough Council
Sarah Moore	Partnerships Manager	Newcastle-Under-Lyme Borough Council
Nesta Barker	Head of Environmental Services	Newcastle-Under-Lyme Borough Council
Sarah Pickup	Chair of Audit and Risk Committee	Newcastle-Under-Lyme Borough Council
Sylvia Diamond	Vice Chair of Audit and Risk Committee	Newcastle-Under-Lyme Borough Council
Phil Evans	Audit Technician	Newcastle-Under-Lyme Borough Council
Phil Templeton	Audit Technician	Newcastle-Under-Lyme Borough Council
Tony Marshall	Agency Audit Technician	Newcastle-Under-Lyme Borough Council