

## External Quality Assessment Action Plan

## Recommendations

Ref	Issue identified	Recommended action	Rating	Actions	Target Date
Resources 1	<p><b>Internal Audit Charter (IAC)</b></p> <p>The IAC requires an annual assurance opinion to be provided to the Audit Committee regarding the 'Control Environment', interpreted within the PSIAS as that relating to governance, risk management and control.</p> <p>Para 10.1 correctly states the basis for planning in the context of the full knowledge of the CAE however this contrasts with the narrower basis for the Annual Opinion.</p> <p>The Annual Opinion for 2021/22 para 2.4 stated that "From the evaluation and testing of systems during 2021/22 there appears to be a Satisfactory level of control</p> <p>Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks which each the Council is facing and significant risks which each the Council is facing and information from other assurance sources.</p>	<p>The annual internal audit planning process is based upon a continuous assessment of the risk environment faced by the Council, therefore the opinion is not based on the current years work as stated. It would be more accurate to reflect on the full knowledge of the CAE in providing an opinion on risk management, governance and control.</p> <p>Consider documenting how internal audit will determine its opinion relating to risk management and governance in relation to the need for the Councils to demonstrate compliance with CIPFA Solace and the Councils Code of Governance.</p> <p>Ensure this demonstrates appropriate independence regarding assurance opinions relating to risk management and insurance.</p> <p>Additionally, the Annual Opinion is based upon wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes and this should be clarified or reflected in the Annual Report.</p> <p><b>PSIAS 1000</b></p>		<p>The annual report has been updated to reflect the wider knowledge used in arriving at an annual opinion.</p> <p>A review of how internal audit can support the Council's code of governance will be undertaken during 2023/24.</p>	<p>Completed.</p> <p>Due to the change in Monitoring Officer this work was not undertaken.</p>
Resources 2	<p><b>Performance appraisal</b></p> <p>The self assessment identified that the CAE's appraisal which is undertaken by the Monitoring Officer at Stoke on Trent City Council, could beneficially include input from both the Chair of Audit and Standards Committee and the Head of Finance.</p>	<p>Inviting observations from both Chairs of Audit Committee in advance of the performance appraisal undertaken by the Head of Governance would be good practice.</p> <p><b>PSIAS 1110</b></p>		<p>Views will be sought to feed into the Head of Internal Audits annual performance review.</p>	<p>No longer required due to contract ending.</p>

Competency	<p><b>Audit Universe</b></p> <p>The current internal audit planning model reflects use of a “standard audit universe’ to which are applied a number of factors which represent a judgement of risk from an internal audit perspective. This is appropriate in circumstances where the client risk management system cannot be relied upon. Further development of this approach through increasing alignment with the Council’s risk environment at strategic and operational levels would enhance internal audits’ ability to demonstrate a commitment to helping the Council achieve its objectives. In this respect there remains an emphasis on a cyclical approach to “key systems” although we understand this was postponed during Covid, due to other priorities.</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded within the Councils risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance.</p> <p>Internal Audit works with each client manager at the time of an engagement to identify significant risks; it would be opportune to increasingly recognise and promote the value of ‘Control Risk’ at an operational level and transparently integrate this within the planning process.</p> <p>It would be beneficial therefore to increasingly align development of the internal audit planning system with the Councils risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level.</p> <p>The need to review key systems on a rotational basis should be reconsidered and in future aligned with the risk based approach and previous assurance opinions.</p> <p>It may be that such an approach would also help embed effective risk management within the Council’s governance processes at an operational level as this has been the subject of negative comment in the most recent reviews of the Council’s processes.</p> <p><b>PSIAS 2000/2010</b></p>		<p>The internal audit plan for 2023/24 approved by the Audit and Standards Committee in April 2023 was fully aligned to the council’s strategic risks. Key financial systems audit have been moved to a three year rolling programme in the 2023/24 internal Audit Plan. Audit planning process will be reviewed to ensure control risk is promoted.</p>	<p>Completed</p> <p>Completed.</p> <p>Completed.</p>
Competency	<p><b>Audit objectives</b></p> <p>The Audit Engagement Brief currently contains a statement which reflects the ‘purpose’ of the review as providing assurance regarding the area subject to review. In accordance with PSIAS requirements, which recognise the value of focusing on the objectives of the area under review; it may be beneficial to re focus the statement on Management Objectives as this would align directly with the significant risks which are then identified.</p>	<p>It may be beneficial to increasingly capture the Management Objectives for the area subject to review as this will help identify nature of the significant risks being and will assist with the discussions with client managers at the planning and reporting stages.</p> <p>Consequently determination of the key controls that will provide mitigation of the identified significant risks will provide the basis upon which the assurance opinion is provided.</p> <p><b>PSIAS 2201</b></p>		<p>Engagement brief templates have been updated to capture management objectives and the audit manual has been updated to reflect this.</p>	<p>Completed.</p>

Competency 1	<p><b>Use of the risk matrix and 'Heat Map'</b></p> <p>The current methodology requires identification at the commencement of an audit of the significant risks to be considered. The gross risk is then assessed with input from management in terms of its likelihood and impact and the outcome recorded on a Heat Map.</p> <p>Where available the assessment is informed by client risk management processes.</p> <p>The review then aims to identify appropriate policies, procedures and controls, concluding with an opinion based upon the residual risk in each area.</p> <p><b>The logic of this process represents good practice.</b></p>	<p>The PSIAS promotes the use of risk based techniques and the focus on significant risk. The Heat Map supports this process although its value is then diminished by focusing on all risks, including those of a 'negligible/minor' nature.</p> <p>Consider re-focusing each engagement on those significant risks which threaten achievement of management objectives. This may both add value as well as allow more efficient use of resources.</p> <p>The single learning point from the client survey indicates that the Shared Service might provide increased focus on significant risk and introducing best practice from elsewhere within the audit approach. This may promote understanding of risk throughout the process and produce outcomes which are regarded as adding value by clients.</p> <p><b>PSIAS 2010</b></p>		<p>Engagement templates and the audit manual have been amended to ensure the focus is on significant risks.</p> <p>The audit manual has been updated to ensure best practice is considered where practical as part of an audit review.</p>	<p>Completed.</p> <p>Completed.</p>
Competency 4	<p><b>Supervision</b></p> <p>Supervision is shown on the Working Paper (Audit Engagement Brief diary section) and as comments within the document which are responded to by the auditor.</p> <p>Evidence of review is contained within the email system.</p> <p>File review is completed at end of engagement and before release of draft report.</p>	<p>Ensure supervisory processes provide robust evidence of review throughout the audit engagement.</p> <p>Consider hyperlinking relevant documentation within the diary included as part of the 'Audit Engagement Brief'.</p> <p><b>PSIAS 2340</b></p>		<p>Current supervision processes are considered to be robust. The audit manual has been updated to ensure evidence of supervision is recorded and will be hyperlinked where possible.</p>	Completed
Competency 6	<p><b>Recognition of risk appetite</b></p> <p>As mentioned above use of the Heat Map within internal audit planning represents good practice and recognises the mitigation processes that support the identification of risk appetite.</p> <p>The assessment of gradings could do likewise by directly aligning definitions of risk assessment with the gradings allocated to recommendations and within opinions.</p>	<p>Consider aligning internal audit grading structures with the recognised processes within the Council.</p> <p>The approach would then allow alignment between the level and volume of recommendations being made with the overall opinion.</p> <p>In this respect consider reducing the levels of opinion to at least four on basis that Marginal and Satisfactory opinions appear very similar.</p>		<p>A review of internal audit grading will be undertaken to ensure alignment to risk.</p>	Completed.
Delivery 1	<p><b>Governance</b></p> <p>The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements.</p> <p>Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and Members expenses.</p>	<p>In Local Government the Council establishes a Code of Governance in accordance with CIPFA SOLACE it would be beneficial to map internal audit activity to the content of the Code 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>This would provide transparency regarding the basis upon which the opinion has been based.</p> <p><b>PSIAS 2110</b></p>		<p>A review against the Code of Governance will be undertaken.</p>	Due to the change in Monitoring Officer this work was not undertaken.
Delivery 2	<p><b>Risk Management</b></p> <p>As the Head of Internal Audit is also responsible for risk management in SoT the review of this area was outsourced to Zurich in 2019, the review highlighted that the 'organisation's overall risk management effectiveness is fundamentally undermined by the approach to risk within operational service areas, which is comparatively weaker'.</p>	<p>The standards require an annual opinion to be provided in the Head of Internal Audit's Annual Report regarding the effectiveness of the risk management process.</p> <p>Given the reviews in this area it would be beneficial to support the opinion with specific evidence regarding how the combination of the assurances gained at both strategic and at an operational levels within engagements have been assessed.</p> <p>This would include progress on the implementation of recommendations being made.</p> <p><b>PSIAS 2120</b></p>		<p>A review of risk management was completed during the 2022/23 which received a positive Satisfactory opinion. The results of the review have been detailed in the annual report and progress on recommendations will be reported to the Audit and Standards Committee. A further review is planned for 2023/24.</p>	Completed.

Delivery 3	<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 CAE. Approval for release is authorised under cover of an email. Reports are issued in the name of the Auditor.	Consideration should be given to either: a) showing the process for approval of each report by redesign of the existing front cover of the reporting template, or b) Including the name of the Head of Internal Audit above that of the Auditor on the front cover. <b>PSIAS 2420</b>		Option B has been implemented and templates amended to include the name of the Head of Internal Audit on all reports.	Completed.
Delivery 4	<b>Internal Audit Risk Based Strategy</b> Audit Engagement Plans and Reports do not contain an explanation of how the Internal Audit Team relate the levels of risk evaluation to the conduct of the audit, and the grading of recommendations, leading to an opinion. It would be beneficial to include a summary of the grading processes used within all client communications as this would help embed both internal audit's approach and improve familiarity with risk management throughout the Council.	Definitions of the grading of risks and the basis for opinions should be included within the Internal Audit Manual (through cross reference to client Risk Management Policies), Audit Engagement Plans and Audit Reports as this would help to ensure a consistent approach and understanding of risk is embedded throughout both internal audit and the Council. <b>PSIAS 2420</b>		Definitions have been added to the audit manual and all templates.	Completed

#### Suggested Enhancements for Consideration

Ref	Issue identified	Recommended action	Actions	Target Date
1	<b>Key Performance Indicators</b> Completion of the Internal Audit Plan is regarded as the current focus of performance monitoring, although other indicators based on recommendations and opinions are recorded in the Head of Internal Audit's Annual Report. Good practice elsewhere utilises a range of quantitative and qualitative measures to demonstrate performance against the Internal Audit Charter. The future introduction of Pentana software may be beneficial in this respect.	Consideration could be given to devising a more comprehensive list of indicators and including these within the QAIP process to be summarised in the Head of Internal Audit's Annual Report of performance and client feedback received. This may include both KPI's already produced and others which may be available and include: <ul style="list-style-type: none"> <li>• Reports issued to agreed timescales</li> <li>• Recommendations accepted/not accepted by risk rating</li> <li>• Recommendations acted upon in a timely manner</li> <li>• Client satisfaction</li> <li>• Staffing levels and qualifications</li> <li>• Planned training completed</li> </ul> <b>PSIAS 1310</b>	A number of performance measures are in place. As part of the development of the new audit management system consideration will be given to appropriate performance measures.	Completed.
2	<b>Training</b> The Internal Audit Team has developed a comprehensive training and skills matrix which includes reference to mandatory requirements although this has not been maintained. As the internal audit planning process is based on a continuous review of the Council's assurances needs and devises a forward looking plan based on need and priority, it would be beneficial to consider the future training needs of internal audit staff and include these in future resource planning.	Consider the benefits of using the priorities included in internal audit planning process to identify potential courses or seminars which may provide increased understanding of the risk environment that will require review in the medium term. Ensure that training records are maintained and used to inform the QAIP. <b>PSIAS 1210</b>	Training is currently being reviewed against the newly agreed internal audit plan.	Completed.
3	<b>Fraud Survey</b> The Internal Audit Team participates in the CIPFA Fraud Survey which reflects good practice regarding the consideration of fraud risk within the PSIAS.	When completed it would be beneficial to align outcomes with the significance of fraud risk in relation to achievement of the management objectives agreed within each engagement.	Fraud risk is currently considered during the overall audit planning process and at individual audit level. The survey will be completed and the results will feed into this process.	No longer required due to contract ending.

4	<p><b>Confidentiality and liability</b></p> <p>There is an occasional need to share an internal audit report outside of the organisation and in which case the legal implications should be considered.</p> <p>Current reports contain a statement regarding confidentiality and Freedom of Information.</p>	<p>The Internal Audit Team should consider the need to also include an appropriate limitation of liability clause in reports which may be placed in the public domain or shared with third parties, including external audit.</p> <p><b>PSIAS 2440</b></p>	<p>Clause added and templates updated.</p>	<p>Completed.</p>
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