

External Quality Assessment of Internal Audit
Report by Head of Internal Audit

Summary: This report presents the results of an external review by the Institute of Internal Auditors of Eastern Internal Audit Services conformance with the Standards.

Recommendation: The Committee is requested to note the contents of the report.

1 Introduction

- 1.1 The objective of the review was to undertake an independent, objective external quality assessment of the Eastern Internal Audit Services against the International Professional Practices Framework (IPPF). This has included considering the team's conformance to the IPPF, benchmarking the function's activities against best practice and assessing the impact of the internal audit on the organisations.
- 1.2 The assessment was conducted as a full external quality assessment using the methods prescribed by the Chartered Institute of Internal Auditors. A wide range of documentary evidence was reviewed, a number of representative stakeholders were interviewed, as were the head of Internal Audit and the TIAA Audit Director. This report presents the outcome of that review to the Committee, and the full report is attached at **Appendix A** to this report.

2 Outcomes from the assessment

- 2.1 The report concluded that the internal audit service fully meet most of the Standards, as well as the Definition, Core Principles and the Code of Ethics which form the mandatory elements of the IIA's IPPF, the globally recognised standard for quality in internal auditing. This is described as "**Generally Conforms**" and it means that the service may state in its audit reports that the work "**has been performed in accordance with the IPPF**".
- 2.2 In addition the IIA has benchmarked the service against others that have been assessed and has concluded against five key areas that:
- 2.3 The services is **excellent** in the efficiency of its operations – this is a fantastic result which really emphasises how well the contract works and the IIA have confirmed that this is a conclusion rarely achieved in such a review.

- 2.4 The service is **good** in its Reflection of the Standards and the Quality Assurance and Improvement Programme.
- 2.5 In relation to focusing on performance, risk, and adding value the service is **satisfactory** – this relates to more formally documenting the risks to the internal audit service itself and undertaking a more formal assessment of risks at each Authority and formally link this through to audit plans.
- 2.6 And finally, in relation to coordinating and maximising assurance we are considered to need improvement in this area – this is not uncommon and a conclusion drawn on by the assessors in the majority of reviews they undertake. This is where we need to more formally recognise the relationships with other internal teams i.e. Business Improvement, Monitoring Officer, Fraud, Risk etc. and then consider undertaking a wider assurance mapping exercise.

3 Conclusion

- 3.1 That the Authority's internal audit service fully meet most of the globally recognised Standards, which is described as "**Generally Conforms**". The internal audit service can state in its reports and literature that the work "has been performed in accordance with the Internal Professional Practices Framework".

Background papers:	Checklist completed by the IIA, copy retained by the Head of Internal Audit
Author:	Emma Hodds, Head of Internal Audit
Date of report:	15 June 2017
Broads Plan Objectives:	None
Appendices:	Appendix 1 – EQA Final Report for Eastern Internal Audit Services.



EXTERNAL QUALITY ASSESSMENT (EQA) FINAL REPORT FOR



Eastern Internal Audit Services (EIAS)

Prepared by John Chesshire and Jane Needham on behalf of the CIIA, 13 January 2017

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Report Caveat - This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of Chartered IIA.

The internal audit team **fully meet most of the Standards, as well as the Definition, Core Principles and the Code of Ethics** which form the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing. This is described as **"Generally Conforms"**. It means that the internal audit team may state in its audit reports that the work "has been performed in accordance with the IPPF".

We have benchmarked the performance of the internal audit team against a maturity model based on a wide range of UK and Irish internal audit functions and we believe that it is **Excellent** in:

- The efficiency of its operations

We consider that the internal audit team is **Good** in its:

- Reflection of the Standards
- Quality Assurance and Improvement Programme

We consider that the internal audit team is **Satisfactory** in its:

- Focus on performance, risk and adding value

We consider that the internal audit team **Needs Improvement** as regards:

- Coordinating and maximising assurance

We consider that a key factor in these achievements is that the Internal Audit Consortium Manager is competent, enthusiastic and well respected by key stakeholders.

We have provided the Internal Audit Consortium Manager with our comments in a detailed standard-by-standard checklist as a separate document.

We also make a number of recommendations to achieve conformance with the Standards. These are included below.

Finally, as part of this External Quality Assessment we undertook an online survey of 36 senior managers across the authorities and the seven audit committee chairs. We received 19 and four responses. The majority of the results were either good or excellent, with a small number of fair assessments and very few lower ratings. Audit committee feedback was particularly positive. We have sent on a separate copy of the results to the Internal Audit Consortium Manager.

Conformance to the Standards: The International Professional Practice Framework (IPPF)

The objective of this External Quality Assurance (EQA) review was to undertake an independent, objective external quality assessment of the Eastern Internal Audit Service against the IPPF. This has included considering the team’s conformance to the IPPF, benchmarking the function’s activities against best practice and assessing the impact of internal audit on the organisation.

The Institute of Internal Audit’s (IIA’s) International Professional Practice Framework (IPPF) includes the Definition of Internal Auditing, Core Principles, Code of Ethics and *International Standards*. There are 56 fundamental principles to achieve with more than 150 points of recommended practice. Below is a summary of the Eastern Internal Audit Service’s conformance to both the IPPF and the core principles. This is a good performance given the breadth of the IPPF and the diverse organisational contexts that the IA team operate in across the region.

Summary of IIA Conformance	Standards	N/A	Does not Conform	Partially Conforms	Generally Conforms	Total
Definition of IA and Code of Ethics	Rules of conduct	0	0	1	4	5
Purpose	1000 - 1130	1	0	2	5	8
People	1200 - 1230	0	0	1	3	4
Performance	1300 - 1322	1	0	1	5	7
Planning	2000 - 2130	0	0	1	10	11
Process	2200 - 2600	2	0	0	19	21
Total		4	0	6	46	56

The overall assessment resulting from the EQA is that Eastern Internal Audit Services “does generally conform to the IIA’s professional standards” and by extension, the Public Sector Internal Audit Standards (PSIAS).

It is therefore appropriate for Eastern Internal Audit Services to say in reports and other literature that it **“conforms to the IIA’s professional standards”** and that its work has been performed **“in accordance with the IPPF.”**

This external quality assessment was conducted as a full external quality assessment using the methods prescribed by Chartered Institute of Internal Auditors. We reviewed a wide range of documentary evidence, interviewed a number of representative stakeholders, and interviewed the Internal Audit Consortium Manager and TIAA Audit Director.

In addition to our review of the self-assessment, we also used a “Survey Monkey” application to survey a total of 36 senior managers and the seven audit committee chairs. The surveys provided consistent results that supported our validation and interviews. Copies of the survey results have been shared with the Internal Audit Consortium Manager.

We have also provided the Internal Audit Consortium Manager with our comments in a detailed standard-by-standard checklist as a separate document.

Key Achievements

Eastern Internal Audit Services deliver an effective independent and objective assurance and consulting service across the authorities it serves, covering the full range of activity that this organisation undertakes. Some challenges remain, of course, but overall we believe that stakeholders see the Internal Audit Consortium Manager and the core internal audit team as professional, approachable and competent in their work.

Senior managers also value the results of IA engagements.

The service is led by an experienced Internal Audit Consortium Manager who is a Chartered Internal Auditor and CMIIA qualified. She is supported by an experienced Audit Director and a core team of internal auditors from TIAA, the external partner.

Stakeholders were universally complimentary about the Internal Audit Consortium Manager's personal, communication, relationship and technical skills. Indeed, everyone we spoke to was full of praise for the Internal Audit Consortium Manager. Very well done – this is excellent!

Annual planning is comprehensive and is a very participative process involving clients and stakeholders at appropriate stages. Progress is documented and reported in quarterly sessions with respective audit committees. Eastern Internal Audit Services employ range of effective Key Performance Indicators to assess service performance, with a particular focus on quality and delivery.

Eastern Internal Audit Services have developed an appropriate methodology for auditing across the authorities. The operational internal audit processes are fit for purpose and documented in a professional audit manual and an associated set of templates and supporting guidance. Our file reviews showed appropriate compliance with the methodology and evidence of appropriate supervision and review. The internal audit process is efficient and economic.

Recommendations to achieve conformance to the Standards

Ref	IPPF section	Recommendations for the Internal Audit Consortium Manager	Internal Audit Consortium Manager
1.	Mission Statement & Definition of internal auditing	Amend the IA Charter to reflect the new IPPF and PSIAS – and in particular the mission statement and core principles – at its next formal review.	Agreed and already implemented.
2.	1010 - Recognising Mandatory Guidance in the Internal Audit Charter	More explicitly include reference to the mandatory nature of <i>the Core Principles for the Professional Practice of Internal Auditing</i> , the <i>Code of Ethics</i> , and the <i>International Standards</i> in the charters.	Agreed and already implemented.
3.	1100 - Independence and Objectivity	Formally document the role and relationship between internal audit and other assurance providers, across the authorities, with the aim of more formally sharing information, coordinating activities and potentially relying upon each other's work.	This is "known" informally for each authority and will be included in the Audit Charter update in 2018 following formal documentation and assessment of the other internal assurance providers such as Fraud, DP, H&S and Business Improvement Teams.
4.	1111 - Direct Interaction with the Board	Consider the benefits and opportunities associated with having an annual meeting with the audit committee chairs, without management present.	This is already considered and a process is already in place at each Authority. For example this is a standing item annually at Gt Yarmouth and six monthly at Breckland. As this is already considered I do not believe any further action is necessary.
5.	1230 - Continuing Professional Development	Formally develop and document a CPD plan to help ensure they stay up to date with new and emerging risk, governance and internal audit practices.	Agreed
6.	1311 – Internal Assessments	Formally review a sample of internal audit working files from time to time as part of their internal assessments.	The possibility to undertake such reviews is built into the contract and can be invoked as and when necessary. However the assure programmes (completed work programmes, including evaluation, population, sample selection, testing,

			<p>reference to supporting evidence and outcomes) -are reviewed along with every draft report to ensure that I would come to the same conclusions – if I have any queries I do ask for further information from the auditor and can also look into the supporting evidence files if necessary.</p> <p>I believe the risks associated with the current approach are very low.</p>
7.	1312 – External Assessments	Ensure that external assessments are undertaken at a minimum of five yearly intervals in the future.	Agreed but this is the first time that an external review has been necessary so it seems a bit harsh to have this as a formal recommendation.
8.	2000 - Managing the Internal Audit Activity	Undertake more formal risk management activity to increase the chance of Eastern Internal Audit Services achieving its objectives.	<p>We are informally aware of risks that face us a service, therefore I do not believe that just because we do not have these formally documented it prevents us from achieving our objectives – we provide a professional audit service to all our clients and complete all work on time and to a high standard.</p> <p>I also have the opportunity to raise high level risks through the South Norfolk Council risk management process and have done so historically i.e. whilst we were retendering for the service.</p>
9.	2010 - Planning	As risk management maturity improves across the authorities, undertake a more formal assessment of the risk maturity of each organisation and ensure that there is a defined link between the risk registers in place in each organisation and the internal audit RBIA annual plans.	<p>At some authorities I am able to link through to risk registers as part of audit planning and as part of this process I review the risk registers. However some sites have a more informal risk process so this is not possible.</p> <p>This action is one for future consideration.</p>
10.	2050 - Coordination and Reliance	As formal risk management maturity improves, consider developing a fit for purpose assurance map for each authority.	<p>Assurance mapping is recognised as a relatively new concept and can be time consuming.</p> <p>Options for how to do this more formally will be explored, however I would argue that this is carried out informally through the discussions with senior management as part of the audit planning process.</p>

Opportunities for Further Development and Continuous Improvement

The Chartered Institute regards conformance to the IPPF as the foundation for effective internal audit practice.

However, in our EQA reviews we also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with chief audit executives, summarised in an Internal Audit effectiveness matrix (page eight).

We then interpret our findings into a summary of strengths and weaknesses (page nine) to set the scope for further development based upon the wide range of guidance published by the Chartered Institute. It is our aim to offer advice and a degree of challenge to help internal audit functions continue their journey towards best practice and excellence.

Internal Audit Maturity Matrix: Eastern Internal Audit Services' Effectiveness highlighted

Assessment	IIA standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally conforms in all areas.	IA alignment to the organisation's objectives, risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as a 3 rd line of defence. The work of assurance providers is coordinated with IA reviewing reliability thereof.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise and produced promptly.	On-going efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
Good	The IIA Standards are fully integrated into the methodology – mainly generally conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC.
Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from partially to generally conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change but criteria and role require clarity.	The 3 lines of defence is model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising.
Needs improvement	Gaps in the methodology with a combination of non-conformances and partial conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagements go beyond deadline and a number are deferred.	QC not consistently embedded across the function. QA is limited / late or does not address root causes.
Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

SWOT analysis: Eastern Internal Audit Services' opportunities for development

What works well (Strengths)	What could be done better (Weaknesses)
<ul style="list-style-type: none"> • The Internal Audit Consortium Manager is highly respected by key stakeholders. • Stakeholders particularly praised the Internal Audit Consortium Manager's relationship, communication and engagement skills. • When issues have occurred in particular internal audits, stakeholders have been impressed by the Internal Audit Consortium Manager's timely resolution. • The Internal Audit Consortium Manager and internal audit service are responsive and flexible, and always try to be accommodating. They communicate effectively. • A range of KPIs are actively monitored to assess delivery and performance. • Stakeholders feel very engaged in the annual and engagement planning processes, and throughout the internal audit engagements. • Stakeholders felt that the annual plans covered relevant, useful subjects. • Stakeholders were very supportive of the revised internal audit engagement report format and structure. The operational effectiveness points were valued. • The core internal audit team were generally viewed as competent, knowledgeable and approachable. 	<ul style="list-style-type: none"> • Formalise risk management in Eastern Internal Audit Services to help ensure relationship, continuity, delivery and assurance risks are effectively mitigated. • More formal coordination and knowledge sharing with other internal and external assurance providers may help improve governance, risk and control across the authorities. • The Internal Audit Consortium Manager could sample check working files to enhance elements of her own QAIP.
What could deliver further value (Opportunities)	What could stand in your way (Threats)
<ul style="list-style-type: none"> • Some stakeholders want to see more insight, added value and a better idea of 'what good looks like' from TIAA's work with other organisations. • More cross-functional internal audit engagements could help highlight good practices and help enhance consistent adoption of these. • Benchmarking and knowledge sharing activities with other IA functions could be used to identify alternative strategies. SIAP could be a useful contact. • A closer link between authorities' risk maturity and annual internal audit plans would be beneficial and may help drive risk management improvements. • A greater focus on identifying any root causes of governance, risk and control weaknesses could add greater value. • There may be governance, risk and control benefits in an internal audit presence on the steering groups of key change initiatives and systems implementations. 	<ul style="list-style-type: none"> • The Internal Audit Consortium Manager should be cautious about reducing internal audit engagement durations to ensure that sufficient, professional work can be done in the time available to provide meaningful assurance. • Loss of the Internal Audit Consortium Manager would impact service. • Small core TIAA team with risk of loss of continuity, local knowledge and expertise if staff move elsewhere. • Cuts in authority budgets could reduce internal audit coverage below a minimum required to provide an annual opinion. • Less management buy in to internal audit could impact delivery and overall effectiveness. • Emerging risks could impact service quality unless ongoing CPD occurs.

The following rating scale has been used in this report.

Overall Audit Grading	
Generally Conforms (GC)	The assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The assessor has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The assessor has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The assessor must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a “generally conforms” rating.

List of Interviewees

Appendix 2

We greatly appreciate the time and assistance given by stakeholders and members of Eastern Internal Audit Services during the review.

Name	IA	Exec	Position / role
Emma Hodds	✓		Internal Audit Consortium Manager
Duncan Ellis		✓	Head of Finance and Assets &S151 at North Norfolk
Julie Cook		✓	Head of HR at Great Yarmouth (Previous similar post at North Norfolk)
Karen Sly		✓	Finance Director & S151 at Great Yarmouth (Previous Head of Finance at North Norfolk)
Hamish Melville		✓	Head of Economic Development at Broadland DC
Jill Penn		✓	Head of Finance and Revenues &S151 at Broadland (currently also S17 Officer for Broads Authority until 31/03/2017)
Emma Krelle		✓	Head of Finance at Broads Authority
Fiona Dodimead	✓		Director of Audit, TIAA
Debbie Lorimer			Director of Business Development and until recently S151 Officer at South Norfolk
Simon Bessey		✓	Finance Manager at South Norfolk
Greg Pearson		✓	Corporate Improvement and Performance Manager at Breckland and South Holland DC
Alison Chubbock		✓	Chief Accountant, Breckland and Holland DC
Totals	2	9	

Online Survey

We issued an online survey to 36 senior managers on 4th January 2017 and to the seven audit committee chairs on 6th January 2017. We received 19 and four responses respectively.