

REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	7 DECEMBER 2022	CATEGORY:
		RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR CORPORATE RESOURCES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@southderbyshire.gov.uk	DOC: h/KS/audit/cmap/external assessment/dec 22
SUBJECT:	CENTRAL MIDLANDS AUDIT PARTNERSHIP: EXTERNAL QUALITY ASSESSMENT	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

- 1.1 That the outcomes from the External Quality Assessment as detailed in the report are considered and noted.

2.0 Purpose of the Report

- 2.1 To consider the outcomes from the External Quality Assessment (EQA) undertaken by Business Risk Solutions in September 2022, which assessed the Central Midlands Audit Partnership's (CMAP) conformance with the Public Sector Internal Audit Standards (PSIAS).

3.0 Detail

- 3.1 CMAP provide the Council's Internal Audit Service, the Council being one of six authorities which comprise the Partnership. The Lead Authority are Derby City Council, with Amber Valley BC, Ashfield DC, Derby Homes and Derbyshire Fire and Rescue Service being the other constituent members.
- 3.2 Significant non-compliance with the PSIAS could undermine the value of the assurances provided by CMAP. CMAP, as the Internal Audit Service, is a key assurance provider to each Partner; they must apply professional audit standards to their approach and activity to ensure that assurance is credible and reliable.
- 3.3 Internal audit within the public sector in the United Kingdom is governed by the PSIAS, which have been in place since April 2013. In local government, the way internal audit services operate is more flexible than in other parts of the public sector where there is a large degree of central control.
- 3.4 To ensure local authority internal audit services apply the PSIAS in a uniform way, CIPFA has produced the Local Government Application Note which provides

additional detail for each of the individual standards. The Note is mandatory for local authority internal audit.

- 3.5 All public sector internal audit services are required to assess their performance on conformance to the standards and this can be achieved by undertaking periodic self-assessments, or external quality assessments, or a combination of both methods. CMAP undertakes a regular self-assessment of its conformance with the PSIAS.
- 3.6 However, Standard 1312 requires that "*External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation*". This can be in the form of a full assessment or the validation of the internal audit service's own self-assessment.
- 3.7 Assessments are based on the following three ratings:
- **Generally Conforms** - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.
 - **Partially Conforms** - means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
 - **Does Not Conform** - means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities
- 3.8 CMAP was previously externally assessed in 2017 and it was determined that it generally conformed with each standard.

External Assessment 2022

- 3.9 An independent and qualified company (Business Risk Solutions – BRS) undertook a EQA in September 2022 in accordance with Standard 1312.
- 3.10 The overall assessment is that CMAP "**Generally Conforms with the Public Sector Internal Audit Standards**". The report from BRS also states that CMAP compare favourably with peer groups in both local government and the private sector. Their report is attached in **Appendix 1**.
- 3.11 CMAP came out as "best in class" position in terms of all the EQA reviews that BRS has done. Feedback to the CMAP Operational Group was that CMAP was an established team that was well regarded by all clients.
- 3.12 The good practice identified from the assessment was:
- An Internal Audit Charter setting out the role and responsibilities of Internal Audit guides delivery and establishes the basis upon which the Head of Internal Audit's Annual Opinion will be based.
 - The service has developed a documented internal audit methodology and supporting templates that delivers a consistent service.

- Consistent supervisory processes ensure that a standard approach delivers a robust assurance report.
- Routine reporting informs clients and the Audit Committee regarding progress and completion of the internal audit plan, together with findings and the follow up of recommendations.
- Self-assessment identifies areas in which future development will be beneficial and is based upon the development of job descriptions, performance appraisals, the establishment of a training matrix and client feedback.

3.13 Areas for consideration were:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of each client particularly in terms of planning at a strategic and engagement level would be mutually beneficial. However, it was noted that degree to which this is possible is hampered by the variable maturity of client risk management processes across each client.
- Developing a clear alignment through the working papers for each assignment to focus on agreed management objectives and the associated significant risks and relevant key controls will assist in the provision of a transparent assurance opinion in the final audit report.
- Consideration should be given to the revision of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by each client within its Risk Management Policy rather than rely on those of a generic nature.
- Formalise Quality Assurance Improvement Programme processes.

3.14 The CMAP Leadership team are in the process of evaluating the points for consideration that BRS made. It needs to be borne in mind that the Standards best reflect an internal audit service of an individual entity.

3.15 CMAP took the decision when it was formed to use a uniform approach to internal auditing across the Partnership. Some of the recommendations will require a tailored approach for individual Partners to reflect the differences in risk management, governance, terminology etc.

3.16 For example, using each Partners risk impact definitions when expressing audit recommendations and opinions would require a different set of working papers and reporting for each Partner.

3.17 It is considered that changes of this nature may reduce the benefits that Partners receive from the efficiencies achieved through a standardised approach, particularly as CMAP staff are not dedicated to one Partner and tend to work across the Partnership. This is considered to be a key benefit for all Partners to provide resilience and capacity, together with multi-skilling and development opportunities for auditors.

4.0 Financial Implications

4.1 The cost of the Assessment was met from within the CMAP Budget and was not a direct cost for any of the Partners.

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 None

Risk Impact

5.4 None.

6.0 Community Impact

Consultation

6.1 None required

Equality and Diversity Impact

6.2 None

Social Value Impact

6.3 None

Environmental Sustainability

6.4 None

7.0 Background Papers

None