

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

North-East Lincolnshire & North
Lincolnshire Shared Internal Audit Service

Final Report

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North-East Lincolnshire & North Lincolnshire Shared Internal Audit Service

Table of contents

Section	Title	Page
1	Introduction	3
2	Background	3
3	Validation process	4
4	Opinion	5
5	Areas of full conformance	6
6	Areas of partial conformance	12
7	Areas of no conformance	12
8	Stakeholder survey	12
9	Issues for management action	12
10	Definitions	15
11	Disclaimer	16
	Appendix A	17

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 1st 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 Shared Internal Audit Service provides the internal audit services to North-East Lincolnshire Council and North Lincolnshire Council. The Chief Audit Executive is the Council's Head of Audit and Assurance (HAA). Below the HAA post are two Strategic Lead posts (one of which is vacant due to recently retiring and the other was on long term sick leave but returned to work during the EQA); 4 FTE Principal Auditor posts (one of which has given notice that they are leaving); and 5.8 FTE Audit Advisor posts (one of which became vacant during the EQA). The HAA is aware that this is quite a flat structure with limited opportunities for career progression and no scope for trainees to join the Shared Service. We have been advised that plans have been drawn up for a restructure of the Shared Service, but this will take some months to complete and fill all the vacant posts. The HAA is aware that there is a dire shortage of experienced and/or qualified internal auditors across the country and as such they may not be successful in filling any vacant posts generated from the restructure. With this in mind, it would be prudent to develop a mid/long term resourcing strategy for the Service and we have included this as an advisory action in section 9 of the report.

In addition to the in-house team, the Service uses some external partners for the provision of specialist IT Audit and the audit of services led by the HAA e.g. counter fraud, and risk management.

- 2.2 The HAA is an experienced internal audit professional who is a CCAB accountant and a Chartered Internal Auditor. The Strategic Lead that is in post is also an experienced internal audit professional with a relevant qualification.
- 2.3 From an operational perspective, the Shared Internal Audit Service was formed by merging the internal audit services from the two councils into a service managed by a single HAA, without a nominated host authority. This means that the individual team members remain on the payroll and under the employment terms and conditions of their respective employers prior to the formation of the Shared Service. For example, the HAA is an employee of North-East Lincolnshire Council and the Strategic Lead that is in post is an employee of North Lincolnshire Council. This arrangement is not common in local government with most shared services being established with a single host authority as this tends to provide a better degree of uniformity regarding remuneration, employment terms and conditions, staff development, and line management of employees. During the EQA some key stakeholders from both Councils commented that it may be time to reconsider the format of the Shared Service to see if the current model is still fit for purpose, or whether an alternative model would better serve both Councils. With this in mind, we have included this as an advisory action in section 9 of this report.
- 2.4 The Internal Audit Service has been operating under PSIAS since its launch in 2013, and this is the second external quality assessment (EQA) that they have commissioned.
- 2.5 The Shared Internal Audit Service has an audit manual that provides the auditors with a comprehensive guide to all aspects of performing an internal audit or consultancy

assignment. The Service uses standard templates for all terms of reference, engagement working papers, testing schedules, and audit reports, all of which are contained in their MK Insight (MKI) audit management system. Supervision of the engagements takes place at every stage of the process and is recorded in MKI.

- 2.6 There is a quality assurance process in place that includes internal and external quality assessments of the Service, reviews of live engagements, a post-audit client feedback survey, and final clearance of all completed reports is carried out by the Strategic Leads for Internal Audit or the HAA, all of which feed into the Shared Internal Audit Service's Quality Assurance and Improvement Programme (QAIP).

3. Validation Process

- 3.1 This validation of the Shared 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 Shared 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 charters;
- the annual reports and opinions
- the audit plans and strategies;
- audit procedures manual;
- a range of documents and records relating to the team members;
- progress and other reports to the respective Audit Committees.

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 6 November 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 sample of key stakeholders from North-East Lincolnshire Council and North Lincolnshire Council. 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 The assessor reviewed examples of completed audits from both organisations to confirm his understanding of the audit process used, and to determine how Internal Audit has applied the PSIAS and LGAN in practice.

4. Opinion

It is our opinion that the self-assessment for the Shared Internal Audit Service is accurate, and we therefore conclude that they **GENERALLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.**

4.1 The table below shows the Shared 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	Generally Conforms
Core principles	Generally Conforms
Code of ethics	Generally Conforms
Attribute standard 1000 – Purpose, Authority and Responsibility	Generally Conforms
Attribute standard 1100 – Independence and Objectivity	Generally Conforms
Attribute standard 1200 – Proficiency and Due Professional Care	Generally Conforms
Attribute standard 1300 – Quality Assurance and Improvement Programmes	Generally Conforms
Performance standard 2000 – Managing the Internal Audit Activity	Generally Conforms
Performance standard 2100 – Nature of Work	Generally Conforms
Performance standard 2200 – Engagement Planning	Generally Conforms
Performance standard 2300 – Performing the Engagement	Generally Conforms
Performance standard 2400 – Communicating Results	Generally Conforms
Performance standard 2500 – Monitoring Progress	Generally Conforms
Performance standard 2600 – Communicating the Acceptance of Risk	Generally Conforms

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

5.1 Mission Statement and Definition of Internal Audit

The mission statement and definition of internal audit from the PSIAS are included in the audit charters.

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 are, on the whole, embedded in the Shared Internal Audit's procedures and working methodologies. The Shared Internal Audit Service are a competent, experienced, and professional function that generally conforms to all ten elements of the Core Principles. There is, however, scope to enhance their conformance to the Core Principles in two ways. The first is for the Shared Service to be more commercially focussed by enhancing their knowledge and skills of auditing in a more commercial environment. This is key when carrying out audits of services that have been commissioned from external delivery partners, rather than being provided by in-house functions, as they need to have a sound understanding of the business risks and issues associated with this operational model. The second enhancement relates to the Shared Internal Audit Service being able to demonstrate continuous improvement, insight and proactivity. We included two advisory actions in section 9 of this report relating to these observations.

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 clear indication from this EQA is that the Shared Internal Audit Service conforms to the Code of Ethics, and this is embedded in their procedures, and their audit methodologies. The code of ethics is part of their overarching culture and underpins the way the Shared Service operates.

5.4 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 panel for approval.

There are separate audit charters in place for each authority, and these are reviewed on an annual basis. We reviewed these documents and found them to be comprehensive and well written and contain all the elements that the PSIAS expects to be included in an

audit charter. We are satisfied that the Shared Internal Audit Service conforms to attribute standard 1000 and the LGAN.

5.5 **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 HAA reports in his own name directly to the Senior Management Teams at each authority, and to the Audit and Governance Committee at North-East Lincolnshire Council and the Audit Committee at North Lincolnshire Council. All employees declare any potential impairment to their independence or objectivity on recruitment to the Service and again on an annual basis.

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 audits. We have also reviewed their reporting lines and their positioning within both authorities. In addition to internal audit, the HAA has responsibilities for the counter fraud, risk management and insurance functions. All these functions are subjected to periodic review and assessment from external partners with their findings being reported directly to the HAA's line manager.

The HAA has identified two areas where the Shared Service could enhance their conformance to Attribute Standard 1100. The first relates to involving the respective Chief Executive Officer and the chair of the Audit Committee in the HAA's annual appraisal process, and the second point relates to rotating the team members around the planned audits to enhance objectivity. We have included these as advisory actions in section 9 of this report.

Notwithstanding the above observation, we are satisfied that the Shared Internal Audit Service conforms with attribute standard 1100 and the LGAN.

5.6 **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.

As mentioned above, The HAA is an experienced internal audit professional who is a CCAB accountant and a Chartered Internal Auditor. The Strategic Lead that is in post is also an experienced internal audit professional with a relevant qualification. The team members have sufficient knowledge of the operation of high-level IT controls, and they can incorporate these in their testing for the audits they undertake. The more detailed and complex ICT reviews are undertaken by an external specialist ICT audit partner.

The Standards require internal audit services to consider the use of data analytics when performing their audit reviews. The Service has the latest version of the IDEA data analytics software and makes extensive use of this application and has a strategy and supporting action plan to further develop its application. Notwithstanding the above, we feel there are further opportunities to broaden the use of data analytics by making use of external sources of data for benchmarking purposes, such as the local authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Councils should already have access to, or the data held by the Local Government Association in their LG Inform application. These are useful sources of data for benchmarking that should not be overlooked, particularly when auditors are undertaking research and preparing the terms of reference for audits as benchmarking can highlight areas where there may be scope to add value to the Council's 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.

Standard 1200 expects internal auditors to maintain and enhance their knowledge and this is usually achieved through undertaking relevant training, reading technical publications, networking with relevant professional groups and research for audits. Individual training plans are discussed at regular one to one sessions with the team members, and all professionally qualified staff are required to maintain their CPD records according to the requirements of their respective institutions. However, team members are not currently required to record any training they have undertaken on any form of central or Shared Service log. As this is an important element of the Shared Service being able to demonstrate that they maintain continuous improvement within the Service, we have therefore included an action in section 9 of this report.

Notwithstanding the above observations, it is evident from this review that the Shared Internal Audit Service's employees are experienced and perform their duties with due professional care. We are therefore satisfied that the Internal Audit Service complies with attribute standard 1200 and the LGAN.

5.7 **Attribute Standard 1300 – Quality Assurance and Improvement Programmes**

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

The Shared Internal Audit Service has developed a quality assurance process which feeds into their quality assurance and improvement programme and ensures engagements are performed to a high standard. Supervision of audit engagements is carried out at all stages of the audit and is recorded throughout the audit process in the MKI audit management system. There are, however, opportunities to strengthen the QAIP process. The first relates to developing a more formal approach to the QAIP and this has been identified by the HAA. The second relates to the Shared Internal Audit Service's management's capacity to carry out quality reviews of completed audits in a systematic and timely manner. The HAA has already identified that this is an issue that should be addressed as part of the planned restructure of the Shared Service, although this will not conclude for some time. As an interim measure we suggest that consideration is given to encouraging the Principal Auditors to undertake some of the audit file reviews, including peer reviews where appropriate. The final observation relates to the self-assessment process where the HAA has identified that although these are being undertaken, the process is more 'ad hoc' rather than being done in a systematic way. We have included these observations, along with appropriate actions, in section 9 of this report.

We have examined the supporting evidence provided by the Shared Internal Audit Service during this EQA and subsequently provided to us, and notwithstanding the observations mentioned above, we feel that the Shared Service generally conforms to attribute standard 1300 and the LGAN.

5.8 **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 Governance and Ethics 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 Governance Committee 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 Shared Internal Audit Service has a comprehensive audit manual in place that covers all aspects of the Internal Audit Service. Their planning processes take into consideration the respective Council's risk management and governance frameworks; objectives and priorities; other relevant and reliable sources of assurance that are available; the key issues identified by managers during the annual planning meetings; the Shared Service's own risk and audit needs assessments; and any emerging risks identified through horizon scanning and networking with other organisations and regional audit groups.

For each authority, the Service produces a risk-based audit plan that is designed to provide each Council with relevant assurance on their governance, risk management and control frameworks. The audit plans are reviewed and approved by the respective Senior Management Teams and Audit Committees. The individual audits in the respective audit plans are not, however, allocated a priority level and we have included an action in section 9 of this report relating to this observation.

In the self-assessment, the HAA commented that the staffing resources within the Shared Service are tight, and we have noted that the Shared Service are carrying a number of vacancies in the team with more team members due to leave during the coming months. In addition, the Shared Service have also experienced a degree of sickness amongst the team members, particularly at the management level, which has had an adverse impact on their ability to deliver the full complement of planned audits. This problem is further compounded by some audits over running their allocated time budgets, putting additional pressure on the Shared Service's ability to deliver the annual plan. Consequently, the HAA and the strategic lead is having to spend considerable time reviewing and flexing the audit plan to meet the available resources, and trying to identify alternative sources of assurance that could be relied upon. He is also exploring whether additional resources could be obtained from external sources to assist with delivering the audit plans. However, we feel it would be prudent for the HAA to consider whether sufficient assurance work will be completed by the end of the year to enable him to issue a full assurance opinion, or whether it will be necessary to issue a limited scope opinion. We have included this as an action in section 9 of this report.

We understand that the HAA has drafted proposals for a restructure of the Shared Service in an attempt to recruit to any vacant posts generated from the restructure and provide a better career pathway for the staff.

The retirement of one of the Strategic Leads coupled with periods of sickness for the other Strategic Lead and the HAA, and the fact the HAA is also responsible for risk, insurance and counter fraud at both Councils, means he has limited time available for Internal Audit at either Council. This inevitably means increased pressure on the remaining Strategic Lead and was a likely contributor to the prolonged sickness for this Officer. These factors have highlighted the need for the Shared Service to strengthen its management and supervision capacity, perhaps by involving the Principal Auditors more in these functions. Tackling the issues around management and supervision capacity are factors that should be taken into consideration during the planned restructure of the Shared Service. We have included this as an advisory action in section 9 of this report.

Details of the completed audits, together with updates on the progress being made on delivering the audit plans and the performance of the Shared Internal Audit Service, are reported to the respective Senior Management Teams and the Audit Committees on a six-monthly basis. The performance data reported to the respective Audit Committees includes the number of planned audit days compared to the actual audit days delivered by the Shared Service, with the planned days being adjusted (usually down) when the audit plan has been adjusted i.e. for audits that have been cancelled, removed from the plan, or postponed, together with the timeliness of completed audit reports, and customer satisfaction with the respective audits.

Some of these performance measures are 'traditional measures' of service inputs and are now regarded as being out of date and not that useful for a modern insightful audit service. A more informed approach would be to provide the Audit Committees with performance data relating to 'outcomes achieved' by the Shared Service, for example audits delivered compared to those audits in the original audit plan; audits that overran the budget days; and the time taken to issue the final report following the final meeting, to provide just a few possible examples.

An annual report and opinion are produced for each authority at the end of the year and presented to the respective Senior Management Teams and Audit Committees. These give separate audit opinions for the risk management, governance and control frameworks at each Council and is recognised as being good practice.

We feel that notwithstanding the observations mentioned above, the Shared Service generally conforms to standard 2000 and the LGAN.

5.9 **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.

This is the approach adopted by the Shared Internal Audit Service and is embedded in their working methodologies. During this EQA, we reviewed a small 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 all the sample audits examined during the EQA complied with all three. We have, however, noted that some audits undertaken during the year overran their planned days, partly due to some audits having over ambitious scopes for the available budgeted days. We have discussed this problem with the HAA and agreed that to avoid future recurrences of the problem, the audit scope could be split into 'must do' and 'only do if time permits' elements. We have included this as an advisory action in section 9 of the report.

The indication from this EQA is that the Shared Internal Audit Service conforms to performance standard 2100 and the LGAN.

5.10 **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 mentioned above, the Shared Service has an audit manual and supervision processes in place, that include engagement planning, and meets the requirements of the PSIAS. From the sample of audits that we examined during the EQA, we found that they all conformed to standard 2200, the LGAN, and the Shared Service's own audit procedures, and we therefore conclude that Internal Audit conforms to performance standard 2200 and the LGAN.

5.11 **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.

The Shared Internal Audit Service has an audit manual, supervision arrangements, and quality assurance processes in place that meet the requirements of the standards. We reviewed the evidence provided in support of the Shared Service's self-assessment, together with a sample of audits to see if they conformed to the standards, and Shared Internal Audit Service's own working methodologies. We found that all the evidence we examined conformed to the standards and their own procedures and methodologies. We therefore conclude that the Shared Internal Audit Service conforms to performance standard 2300 and the LGAN.

5.12 **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 Shared Service's procedures and supervision processes cover the communication of results of individual audits and meet the requirements of the PSIAS. 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 conformed to the standards and the shared Internal Audit Service's own procedures and methodologies.

We also reviewed the progress and annual reports presented to the respective Audit Committees and found that, on the whole, these also conformed to the standards and the Service's own internal procedures, although we have made observations regarding the data provided to the respective Audit Committees under performance standard 2000 above.

Notwithstanding the observations under performance standard 2000, we conclude that the Shared Internal Audit Service conforms to performance standard 2400 and the LGAN.

5.13 **Performance Standard 2500 – Monitoring Progress**

There is a 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 respective Audit Committees. From this EQA, it is evident that the Internal Audit Service conforms to performance standard 2500 and the LGAN.

5.14 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the HAA 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 There are no areas of partial conformance with the Public Sector Internal Audit Standards or the CIPFA Local Government Application Note.

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 positive with respondents valuing the services provided by them with most respondents agreeing or partially agreeing with the survey statements. The detailed findings from the survey have been shared with the Head of Audit and Assurance 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 our review of the Service's self-assessment we have identified several issues that the Shared Service and the Councils need to address or consider, and these are all set out in the table below:

Issues for management action	Priority
There are some key stakeholders from both Councils who feel that it may be time to reconsider the formation of the Shared Service to see if the current model is still fit for purpose, or whether an alternative model, such as one authority being the host or a stand-alone independent function, would better serve both Councils	Advisory
The Shared Service should be more commercially focussed as they need to have a sound understanding of the business risks and issues associated with services provided by external delivery partners. This is key when carrying out audits of services that have been commissioned from external delivery partners, rather than being provided by in-house functions, or when auditing arm's length management organisations.	Advisory
The Shared Audit Service needs to be able to demonstrate continuous improvement, insight and proactivity. This includes ensuring staff undertake regular and appropriate learning and development that is recorded on a central log so the Shared Service can demonstrate continuous improvement takes place and they are insightful. Learning and development includes reading technical journals, research for audits and attendance at networking events and regional group meetings.	Medium

Issues for management action	Priority
The Head of Audit and Assurance has identified the need to involve the respective Chief Executive Officers and the chair of the Audit Committees in his annual appraisal process to enhance conformance to the standards.	Advisory
To enhance objectivity and remove the risk of complacency, staff allocated to specific audits should be rotated so the same person does not carry out two consecutive audits of a function. The Head of audit and assurance has identified that this is an issue that needs to be addressed.	Medium
The Service's use of data analytics can be enhanced further by making use of external sources of data for benchmarking purposes. Suitable sources of external sources of data are the local authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Councils should already have access to, and the benchmarking data held by the Local Government Association in their LG Inform application.	Advisory
The Head of Audit and Assurance has identified that there is scope to enhance the QAIP process by adopting a more formal approach to the process.	Medium
The Head of Audit and Assurance has identified that there is limited capacity within the Shared Service's current structure to facilitate the undertaking of sufficient and detailed 'cold' quality reviews of the completed audits in a timely manner. Whilst the planned restructure of the Shared Service will assist with addressing this matter, it will not conclude for some time. In the interim we suggest that consideration is given to encouraging the Principal Auditors to undertake peer reviews where appropriate, and to also undertake a programme of 'cold' reviews of completed audits to see if there are any development points that need to be addressed.	Medium
Consideration should be given to developing a mid/long term recruitment and retention strategy for the Shared Service.	Advisory
Consideration should be given to adopting a more systematic approach to carrying out the self-assessments of conformance to the Standards to ensure all elements are covered annually.	Low
The individual audits in the respective audit plans should be allocated a priority rating.	Low
Given the problems encountered during the year as a result of vacant posts and staff sickness, which are likely to result in the audit plans being condensed, the Head of Audit and Assurance should consider whether sufficient assurance work will be completed to enable him to issue a full assurance opinion at the end of the year, or whether it will be necessary to issue a limited scope opinion instead.	Advisory

Issues for management action	Priority
<p>Consideration should be given to splitting the scope of the audits into 'must do' and 'only do if time permits' elements to enable auditors to complete the audits in the allocated time budgets.</p>	<p>Advisory</p>
<p>The information provided to the respective audit committees during the year on the delivery of the plan and the changes made to it, could be more informative to give the audit Committees a better understanding of how well the shared service is doing. Some of the performance measures reported to the audit committees are 'traditional measures' of service inputs and are now regarded as being out of date and not that useful for a modern insightful audit service. A more informed approach would be to provide the Audit Committees with performance data relating to 'outcomes achieved' by the Shared Service, for example audits delivered compared to those audits in the original audit plan; audits that overran the budgeted days; and the time taken to issue the final report following the final meeting, to provide just a few possible examples.</p>	<p>Advisory</p>
<p>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 Head of Audit and Assurance continues to keep a watching brief on the developments to the Standards and how this may impact the Service in the medium term.</p>	<p>Advisory</p>

The co-operation of the Head of Audit and Assurance in providing the information requested for the EQA, is greatly appreciated. Our thanks also go to the Chairs of the Audit Committees and the key stakeholders that made themselves available for interview during the EQA.

Ray Gard, CPFA, FCCA, FCIIA, DMS

4 March 2024

10. Definitions

Level of Conformity	Description
Generally Conforms	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.
Partially Conforms	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.
Does Not Conform	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
High priority	The Internal Audit Service needs to rectify a significant issue of non-conformance with the standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The Internal Audit Service needs to rectify a moderate issue of conformance with the standards. Remedial action to resolve the issue should be taken, ideally within a reasonable time scale, for example six months.

Low priority	The Internal Audit Service should consider rectifying a minor issue of conformance with the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	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 the North-East Lincolnshire & North Lincolnshire Shared Internal Audit Service, 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 the North-East Lincolnshire & North Lincolnshire Shared Internal Audit Service, including the Officers and elected Members of the both Councils, and the Shared Internal Audit Service's clients, 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.

Shared Internal Audit Service Stakeholder Survey





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