

SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION

ORBIS INTERNAL AUDIT SERVICES



FEBRUARY 2018

**COMPLETED BY:
SWAP INTERNAL AUDIT SERVICES**



Independent Validation by SWAP Internal Audit Services

Report on Self-Assessment of the ORBIS Internal Audit Service

8th February 2018

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EXECUTIVE SUMMARY

The *Public Sector Internal Auditing Standard (PSIAS)* and the *International Standards for the Professional Practice of Internal Auditing* requires that an external quality assessment (QA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the QA process. The QA can be accomplished through a full external assessment or a self-assessment with independent validation.

The Chief Internal Auditor (CIA) discussed the form and frequency of the QA, as well as the independence and qualifications of the external assessor or assessment team from outside the organisation, including any potential conflicts of interest with their partner Audit Committees (boards); in this case and with reference to the Standards, the Audit Committee is the board and is referred to as such throughout this report. Upon consultation and agreement by the boards, the ORBIS Internal Audit Service conducted a self-assessment of its internal audit activity and selected SWAP Internal Audit Services (SWAP) as the qualified, independent external assessor or assessment team to conduct a validation of the self-assessment of ORBIS Internal Audit.

The internal audit team is currently made up of c.30 employees not including the CIA but including a specialist investigations team, based at three locations, Lewes, Brighton and Kingston-upon-Thames. There is a good mix of qualified staff led by a sovereign lead at each location, reporting to the CIA. In addition to providing the Internal Audit Service for ORBIS the team have recently engaged with Horsham District Council to provide their internal audit service. This is in addition to existing external customers including Elmbridge District Council, South Downs National Park Authority and East Sussex Fire Authority.

The CIA reports functionally to the ORBIS Director of Finance and is a member of the Orbis Finance Senior Leadership Team. The CIA is highly respected amongst the majority of senior officers and Members interviewed at the three locations. It should be noted however that at one Council, Brighton and Hove, some of the senior officers and Members interviewed were less familiar with the CIA. This is hardly surprising and in no way reflects negatively on the CIA given the developing nature of the ORBIS internal audit partnership. It should be noted that each of the individual teams, and in particular each sovereign lead, are highly respected and valued.

Opinion as to Conformance with the *Standards* and the Code of Ethics

It is our overall opinion that internal audit generally conforms with the *Standards* and the Code of Ethics. A detailed list of conformance with individual *Standards* and the Code of Ethics is shown in appendix A.

The Institute of Internal Auditors (IIA) suggests a scale of three rankings when opining on the internal audit activity, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.”

- “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics.
- “Partially Conforms” means that deficiencies in practice are noted that are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- “Does Not Conform” means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The internal audit service was assessed against all 45 points outlined in appendix A and found to be in General Conformance with all but 3. For these 3 points the review team found the internal audit service was in Partial Conformance and none were significant enough to affect their overall opinion. Recommendations have been made in this report to address these areas for improvement.

A detailed description of conformance criteria can be found in appendix B.

Objectives, Scope, and Methodology

Objectives

- The principle objective of the QA was to assess internal audit's conformance with the *Standards* and the Code of Ethics.
- internal audit also evaluated its effectiveness in carrying out its mission (as set forth in the internal audit charter and expressed in the expectations of the ORBIS partner Councils' management); identified successful internal audit practices demonstrated by internal audit; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to their stakeholders.
- SWAP Internal Audit Services validated the results of internal audit's self-assessment. The main focus was to validate the conclusion of internal audit related to conformance with the *Standards* and the Code of Ethics. They also reviewed internal audit observations related to successful internal audit practices and opportunities for continuous improvement. They offered additional observations as they deemed appropriate.

Scope

- The scope of the QA included internal audit, as set forth in the internal audit charter and approved by the boards, which defines the purpose, authority, and responsibility of internal audit.
- The QA was concluded during January 2018 and provides senior management and the boards with information about internal audit as of that date.
- The *Standards* and the Code of Ethics in place and effective as of 1st January 2017, were the basis for the QA.

Methodology

- Internal audit compiled and prepared information consistent with the methodology established in the *Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note*. This information included all supporting documentation; an evaluation summary, documenting all conclusions and observations; and the self-assessment by internal audit. Further evidence was provided to the external validation team as requested.
- Internal audit identified key stakeholders (internal audit staff, senior management and the boards, and the external auditors) and interviewed each individual identified. The results were tabulated by Gerry Cox, Chief Executive and Ian Baker, Director of Quality (the review team); individual responses remain confidential. Survey results were shared with internal audit during their self-assessment process.
- Prior to commencement of the on-site validation portion of the internal audit self-assessment, the review team discussed with internal audit preparation for the review, identified key stakeholders to be interviewed and other details relating to the review.
- To accomplish the objectives, the review team reviewed information prepared by internal audit and the conclusions reached in the QA assessment. The review team also conducted interviews with selected key stakeholders, including the audit committee chairmen, senior management of the three ORBIS Partner Councils, external auditors, the Chief Executive of South Downs National Park and internal audit management and staff; reviewed a sample of audit projects and associated working papers and reports; reviewed survey data received from ORBIS partner Council stakeholders and internal audit management and staff; and prepared diagnostic tools consistent with the methodology established for a QA in the *Quality Assessment Manual for the Internal Audit Activity*.
- The validators prepared an “Independent Validation Statement” to document conclusions related to the validation of internal audit’s self-assessment. This statement is included as appendix C to this report.

Summary of Observations

Evidence gathered indicates that the *Standards* are well understood, the Code of Ethics is being applied, and internal audit management is endeavouring to provide necessary support and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation.

Observations are divided into three categories:

- **Successful Internal Audit Practices** – Areas where internal audit is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these areas is intended to provide internal audit stakeholders with a view on things internal audit is doing in a leading practice manner when compared to other internal audit activities.
- **Gaps to Conformance** – Areas identified where internal audit is operating in a manner that falls short of achieving one or more major objectives, and attains an opinion of “partially conforms” or “does not conform” with the *Standards* or the Code of Ethics. These items will include recommendations for actions needed to be “generally in conformance,” and will include an internal audit response and an action plan to address the gap.
- **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency or effectiveness of internal audit’s infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or Code of Ethics. They may also be operational ideas based on the experiences obtained while working with other internal audit activities. A management response and an action plan to address each opportunity noted are normally included.

DETAIL – SUCCESSFUL INTERNAL AUDIT PRACTICES

As mentioned above, the *Standards* are understood, and the Code of Ethics is being applied. The CIA and his team are well respected, and their opinion sought by senior management and the board. There were numerous examples of this offered during the course of our interviews and a specific example was the review of Internal Governance which helped to support a response to an Ofsted Report for the Council in question. There was strong support particularly for the CIA and a sense of trust placed in him and his team by both senior management and Members. Other positive observations include:

- The review team are of the opinion that the self-assessment has been carried out thoroughly and provided them with adequate evidence to support the conclusions.
- Interviews with key stakeholders confirm that the CIA and the IA team have a good reputation and organisational profile.
- The service receives a high level of satisfaction from individual audit review feedback forms.
- We asked the stakeholders interviewed to rate the internal audit service out of 10. Out of the 13 that offered an assessment, the service received an average score of 8.03 which indicates it is highly valued by its clients.
- The Statutory Officers Group, Statutory Responsibilities Network Group and the Officers Governance Board, all attended by the CIA or sovereign lead, provide excellent opportunity for internal audit to play an active role in the Councils' corporate governance.
- To inform future year planning the service benefits from a Mazaar's document looking at risks on the horizon and in addition they maintain a record of potential audit plan ideas for the year ahead.
- A number of stakeholders referred to the 'national' perspective that the CIA brings and referred to the 'Audit Together' Bulletin as an example of good practice and shared learning.

1. DETAIL – GAPS TO CONFORMANCE WITH THE *STANDARDS* OR THE CODE OF ETHICS

We have assessed the ORBIS Internal Audit Service to be in General Conformance with the *Standards*. However, there are some areas where we believe that the service has some gaps in its conformance, none of which we would describe as significant. These are detailed as follows:

1.1 1110 – Organisational Independence – The CIA reports to the ORBIS Director of Finance. The interpretation for this Standard states that *“Organisational independence is effectively achieved when the chief audit executive (CIA) reports functionally to the board.”* One of the examples of achieving this is given as *“Approving decisions regarding the appointment and removal of the chief audit executive (CIA).”*

The board in the case of local authorities normally refers to the Audit Committee. The practicalities of having an officer report to such a Committee would not be appropriate. However, the approved Audit Charter makes no reference to the appointment or removal of the CIA or who has authority to do so. Having the responsibility lie at an inappropriate level could potentially impact on the independent reporting of the CIA or at least on the perception of his independence by others.

In the case of ORBIS this is somewhat complicated by the fact that the CIA reports into three Committees. East Sussex have been very specific in the recruitment and dismissal of the CIA, ensuring that the Chairman is involved in the recruitment and would be informed of any proposal to dismiss the CIA.

Recruitment of the current CIA was covered in that the interviews were conducted by a panel of the three Audit Committee Chairmen and this could form the process of any future appointment. There seems no reason why the same panel should not be involved in any dismissal process. This could then form part of ORBIS Internal Audit Charter.

1.1a	Proposed Outcome:		
We recommend that the Audit Charter is updated to make specific reference to who has the authority for approving decisions regarding the appointment and removal of the CIA and that this is set appropriately to provide assurance on the independence of the CIA, both real and perceived. Our suggestion would be the three ORBIS Partner Audit Committee Chairmen.			
Action Plan:			
Person Responsible:	Russell Banks	Target Date:	July 2018
Management Response:	The CIA will undertake appropriate consultation across the three Orbis partner Councils with a view to updating all three Internal Audit Charters to include specific reference to the appointment and removal of the CIA.		

- 1.2 2040 – Policies and Procedures** – This Standard requires that “The chief audit executive (CIA) must establish policies and procedures to guide the internal audit activity.” There is however, a caveat that such “policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.”

The ORBIS internal audit team is relatively large, working across a number of locations. It is therefore essential that guidance notes and templates are managed effectively and are easily accessible to all staff. Currently procedures are being developed for the ORBIS team. The team will also soon adopt MKi as their audit management tool. MKi, if structured correctly, will drive much of the audit process to an agreed methodology, ensuring consistency across the team. In addition, a central ‘Toolkit’ is being developed to assist and guide staff and this will be stored and managed through SharePoint. Although not fully conforming currently, this matter is already in hand and so no recommendation is made.

- 1.3 2050 - Coordination and Reliance** – The Standard states that “The chief audit executive should share information, coordinate 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.”

Some stakeholders were not able to confirm if there was duplication of effort across assurance providers (although they did not confirm there was). The CIA recognises the need to conduct an assurance mapping exercise and therefore again, no recommendation is made.

2. DETAIL – OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

In addition to the points raised above, the review team were mindful of any areas where there could be opportunity for the service to demonstrate continual improvement. A separate report has been prepared by SWAP aimed at raising such matters and assisting the ORBIS Internal Audit Team in its transition to a single functioning team.

2.1 Other Minor Observations – The following items, reported to the CIA verbally, were identified during the review and are very minor in nature:

- Whilst the Audit Charter is approved by each of the three partner Audit Committees, from our interviews with key stakeholders, there appeared to be a lack of awareness of the document. The CIA should consider raising such awareness.
- All staff are aware of each sovereign Council's Code of Conduct and are also required to sign up to the Professional Code of Ethics. Whilst it is clear this process has been rolled out, we were not able to evidence that all staff had signed and returned their individual declaration. These should be managed for distribution and return through SharePoint.
- Consideration should be given as to how the performance of the CIA will be managed. It would seem sensible to ensure there is a 360-degree feedback process involving all three partner Councils i.e. Audit Committee Chairmen, Chief Executives and other appropriate Senior Management.
- The Local Government Application Note (LGAN) asks *"Is the internal audit activity's plan of engagements based on a documented risk assessment?"* Having reviewed the content of the plans we were satisfied that they contained a well-balanced overview of the risks facing the organisation. There is scope to consider whether there is a need to audit some activities annually and instead focus this resource on new and emerging risks. However, the self-assessment identified that *'no formal scored risk assessment is however maintained'*. The CIA is introducing a standard approach to planning for the service and therefore no recommendation is offered.

APPENDIX A – EVALUATION SUMMARY

	GC	PC	DNC
Overall Evaluation	✓		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility			
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organisational Independence		✓	
1111	Direct Interaction with the Board	✓		
1112	Chief Audit Executive Roles Beyond Internal Auditing	✓		
1120	Individual Objectivity	✓		
1130	Impairment to Independence or Objectivity	✓		
1200	Proficiency and Due Professional Care			
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		

Attribute Standards (1000 through 1300) - <i>continued</i>		GC	PC	DNC
1300	Quality Assurance and Improvement Program			
1310	Requirements of the Quality Assurance and Improvement Program		✓	
1311	Internal Assessments	✓		
1312	External Assessments	✓		
1320	Reporting on the Quality Assurance and Improvement Program	✓		
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓		
1322	Disclosure of Non-conformance	N/A		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity			
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures		✓	
2050	Coordination and Reliance	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organisational Responsibility for Internal Auditing	N/A		

Performance Standards (2000 through 2600) - <i>continued</i>		GC	PC	DNC
2100	Nature of Work			
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		
2200	Engagement Planning			
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Program	✓		
2300	Performing the Engagement			
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results			
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		

Performance Standards (2000 through 2600) - <i>continued</i>		GC	PC	DNC
2421	Errors and Omissions	✓		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓		
2431	Engagement Disclosure of Non-conformance	N/A		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Communicating the Acceptance of Risks	✓		

Code of Ethics		GC	PC	DNC
	Code of Ethics	✓		

APPENDIX B - RATING DEFINITIONS

GC – “Generally Conforms” means that the assessor or the assessment team 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 elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a 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 the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organisation.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

APPENDIX C – INDEPENDENT VALIDATION STATEMENT

SWAP Internal Audit Services was engaged to conduct an independent validation of ORBIS internal audit's self-assessment. The primary objective of the validation was to verify the assertions and conclusions made in the self-assessment report concerning adequate fulfilment of the organisation's basic expectations of internal audit, its conformity to The IIA's *International Standards for the Professional Practice of Internal Auditing*, LGANs and successful internal audit practices and opportunities for continuous improvement noted. Other matters that might have been covered in a full external assessment, such as an in-depth analysis of successful practices based on benchmark data, governance activities, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the Chief Internal Auditor.

In acting as the qualified, independent external assessor from outside the organisation, SWAP Internal Audit Services is fully independent of ORBIS Internal Audit Services and has the necessary skills to undertake this engagement. The validation, concluded on 17th January 2018, consisted primarily of a review and a test of the procedures and results of internal audit's self-assessment. In addition, interviews were conducted with key stakeholders including the Chief Executives, Heads of Finance, audit committee chairmen, other members of senior management, and the external auditors.

SWAP Internal Audit Services concurs with internal audit's conclusions and observations documented in their self-assessment. Implementation of the recommendations contained in this report will improve the effectiveness, enhance the value, and support internal audit's conformity with the *Standards* and the Code of Ethics.



Gerry Cox

Chief Executive – SWAP Internal Audit Services

Independent External Assessor Performing the Validation

6th February 2018