

**DARTFORD & SEVENOAKS AUDIT PARTNERSHIP**

**Self-Assessment**  
**Public Sector Internal Audit**  
**Standards**  
**September 2019**

**DARTFORD**  
BOROUGH COUNCIL

  
**Sevenoaks**  
DISTRICT COUNCIL

## Introduction

All Local Authorities in the UK must make proper provision for Internal Audit. Regulations (the [Accounts and Audit Regulations 2015](#)) state that internal audit services must follow the [Public Sector Internal Audit Standards](#). These standards are a consolidated approach to internal auditing across the whole of public sector, and are a more demanding adaptation of the international standards.

In [March 2019](#) the Committee commented on and agreed our **Audit Charter**. This is a key governance document for the Audit Partnership as it sets out the purpose, authority and responsibility for the service. The Charter sets out how we apply the Standards to the way in which we work, and includes the arrangements we have in place to ensure conformance.

The Standards are mandatory and include the following requirements around how to assess conformance internally (the Standards also set out the requirements for external assessments).

### 1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

### 1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

#### *Interpretation:*

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

We monitor and report on audit activity continuously, and the Committee will be familiar with how we track and measure performance through our quarterly update reports. However, this alone is not sufficient to give Members assurance that we are acting at all times, in conformance with our professional standards. As such, we conduct a self-assessment internally and report the findings to the Committee annually. In addition, and in accordance with the standards, we undertake an external assessment once every 5 years.

This is the first internal assessment since appointment of the Interim Audit Manager in August 2018 and since the implementation of a number of significant service changes and updates.

## Purpose

The purpose of this report is to provide Members with the outcomes of our internal self-assessment undertaken in August 2019 against the Public Sector Internal Audit Standards (PSIAS).

The Committee is asked to consider and provide comments on the outcomes, and to **note** the findings and actions. Progress against implementing the actions will feature as part of our regular update reports throughout the year.

## Background

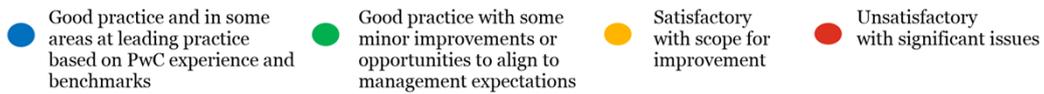
The Audit Partnership was formed in 2010 and brought together the internal audit services from Dartford Borough Council and Sevenoaks District Council. The Partnership is governed by a Partnership Board and a designated lead officer. The Chief Finance Officer is the client lead for Sevenoaks, and meets regularly with the Audit Manager, and the client lead for Dartford to ensure that the service is operating effectively. The service and Chief Audit Executive, is ultimately accountable to the 'Board', a role fulfilled by the Audit Committee in Sevenoaks and Audit Board in Dartford.

The Partnership is made up of 5.8 FTE and is supported by an administrator (0.6FTE). Auditors work across both sites and conduct a varied work plan of audit and consultancy projects.

The Public Sector Internal Audit Standards were introduced in 2013 and were applied as mandatory across the whole of public sector. They replaced the previous *Code of Practice for Internal Audit in Local Government*. At the time of introduction, the Standards were demanding and complex, not only incorporating international standards but also including specific public sector interpretations and requirements. Following a period of implementation, the standards were reviewed and updated, with the current version as published being effective from **March 2017**.

The Standards introduced the requirement for internal audit services to be assessed for conformance, both internally and externally. All public sector internal audit services were mandated to undertake an External Quality Assessment (EQA) every 5 years. This meant that services had until 2018 (5 years after the standards were first introduced) to be externally assessed, in order to meet requirements.

The Audit Partnership tendered for their EQA in 2014, and in November of the same year commissioned PricewaterhouseCoopers (PWC) to undertake the review. In May 2015 PWC issued their assessment along with a number of findings and conclusions. Their conclusions were that there was scope for improvement across all areas of their assessment, but generally the service was 'satisfactory':



The following diagram summarises the overall rating for each of the in-scope areas outlined above:



The detailed findings of the review and agreed action plan were reported to Members in [June 2015](#).

Since that time, the service has continued to work to address the findings, and has undertaken a number of internal self-assessments to evidence implementation of the actions. Each time, the outcomes have been reported to Audit Committee and progress to address the actions has been tracked.

In August 2017 PwC were commissioned to undertake a formal follow-up of their 2015 action plan, and to update the overall conclusions based on progress made. While progress had been made to address some of the findings, their overall conclusion identified 3 areas requiring improvement:

	EQA Rating (2015)*	Number of recommendations				EQA Follow Up Rating (2017)	Direction of travel
		Raised in the EQA	Not implemented	Partially implemented	Fully implemented		
Organisation and independence	●	3	2	1	-	●	↔
Audit team	●	2	2	-	-	●	↔
Quality assurance and audit management	●	6	1	2	3	●	↑
Communication and Reporting	●	6	-	3	3	●	↑
Quality, Tools and Performance Management	●	4	-	2	2	●	↑
<b>Total</b>		<b>21</b>	<b>5</b>	<b>8</b>	<b>8</b>		

Over the last few years the partnership as a whole has faced some significant challenges. For a period of time there was no Manager in post, and while interim arrangements were put in place, they were not sustainable.

The Principal Auditor temporarily stepped up to manage the service, but her departure in July 2018 meant that the service was left without any audit management support. In August 2018 the partnership entered into a secondment with Mid-Kent Audit to provide audit management (and Chief Audit Executive responsibilities) until March 2020.

The findings and actions from the internal and external assessments were used to develop the objectives over the secondment period, including a full review of the service, reconfiguration of the partnership, and the development of an Audit Partnership Strategy.

### Progress against action plans

The last self-assessment was conducted in early 2017/18 by the previous Audit Manager. At the same time, PricewaterhouseCoopers (PWC) were commissioned to conduct a follow-up to their 2014/15 External Quality Assessment (EQA). The outcome of both assessments were reported to Audit Committee in **July 2018**.

The overall conclusion was that the service had progressed well to address a number of the initial findings and actions, however, collectively, the assessments set out **11** action areas that were outstanding and needed to be addressed.

These actions were used to form the objectives for the new Audit Manager, appointed via secondment from Mid Kent Audit in August 2018. Members have been kept up to date with regular updates against achievement of these objectives as part of the quarterly update reports.

The table below consolidates all of the actions and summarises the progress made since being initially reported in July 2018:

Origin	Action	Progress	Conclusion
Self-assessment 2017/18 Standard: Objectivity	To update the Charter to build in safeguards where auditor objectivity comes in to question.	New Audit Charter agreed by Audit Committee in <a href="#">March 2019</a> .	Complete
Self-assessment 2017/18 Standard: Proficiency	To review and update the remaining job descriptions as appropriate	New Job Profiles were created for the restructure and adopted in August 2019.	Complete
Self-assessment 2017/18 Standard: Due Professional Care	To review and update IA manual to reflect current working practises.	The Audit Manual was fully redesigned, updated and implemented in November 2018.	Complete
Self-assessment 2017/18 Standard: Policies & Procedures	Update procedure to include new working practises following the implementation of the TeamMate electronic audit software.	Teammate processes were incorporated into the revised Audit Manual in November 2018.	Complete
External Assessment July 2018 Standard: Organisation & Independence	The new Audit Manager will prioritise developing a vision and strategy for Internal Audit once in post.	The Audit Partnership Strategy will be developed over the course of 2019/20 for adoption in April 2020.	Ongoing
External Assessment July 2018 Standard: Organisation & Independence	Audit Charter to be updated and taken to Audit Committee for approval.	New Audit Charter agreed by Audit Committee in <a href="#">March 2019</a> .	Complete
External Assessment July 2018 Standard: Audit Team	A skills assessment of the Internal Audit team is to be drawn up and a training programme for the team to be developed.	A full skills and competencies assessment was undertaken in December 2018 prior to developing the partnership restructure proposal.	Complete
External Assessment July 2018 Standard: QAIP	Audit manual to be updated.	The Audit Manual was fully redesigned, updated and implemented in November 2018.	Complete

External Assessment July 2018 Standard: Communication & Reporting	Audit report template to be updated.	A suite of refreshed and updated reports and templates were developed and implemented over 2018/19.	Complete
External Assessment July 2018 Standard: Communication & Reporting	Audit manual to be updated	The Audit Manual was fully redesigned, updated and implemented in November 2018.	Complete
External Assessment July 2018 Standard: Quality, Tools & Performance	Template for scoping and feedback meetings to be amended to include benchmarking and good practice.	A suite of refreshed and updated reports and templates were developed and implemented over 2018/19.	Complete

Of the 11 actions we have addressed and fully implemented 10. The remaining action forms part of the long-term strategy for the service, which will be drafted later in the year. This is to allow for the vacancies in the new structure to be appointed and to align with the 2020/21 audit plan.

The Partnership has developed and implemented a number improvements over the last year, most of which have all been mapped alongside the PSIAS. By doing this, the Partnership will be in the best possible position to be fully conforming to the Standards in time for the next External Quality Assessment in 2020/21.

Operating in full conformance with the professional standards is a clear benefit to the investment in time, resource and effort that has made over the last couple of years to move the service and the Partnership from being perceived as not adding value, to a service that is ahead of others, and striving to make real positive change. This is something that the Committee has also echoed over the last couple of years, and have sought to support as the service have undergone challenging but necessary changes.

In order to successfully navigate an external assessment process, we have once again internally re-assessed ourselves against the standards. This time, however, we have used the newly published Local Authority Application Note, issued by CIPFA in February 2019. This guidance not only sets out the assessment criteria for the Standards, but also expands in greater detail (and with examples) on the Local Authority requirements.

The remainder of this report looks ahead to the future, rather than reflecting back on the work undertaken so far. This is important, as we will soon be working to set the long-term strategy for the Audit Partnership which will include the continued development and enhancement of the service.

### Self-Assessment Checklist 2019/20

There are 135 criteria in the Local Government Application Note. Of these, 1 is not applicable to us as it relates to outsourced services. We are able to evidence full compliance with 125 (92.5%), and are partially compliant with the remaining 9 areas. We identified no areas of non-conformance. The table below summarises the outcomes of the self-assessment, and includes findings and any related actions:

PSIAS	Criteria	Conformance			Findings & Actions
		Conforms	Partial	Non Conformance	
Section 1: Mission of Internal Audit		1	-	-	None
Section 2: Definition of Internal Auditing		2	-	-	None
Section 3: Core Principles	<ol style="list-style-type: none"> <li>1) Demonstrates integrity</li> <li>2) Demonstrates competent and due professional care</li> <li>3) Is objective and free from undue influence</li> <li>4) Aligns with the strategies, objectives and risks of the organisation</li> <li>5) Is appropriately positioned and adequately resourced</li> <li>6) Demonstrates quality &amp; continuous improvement</li> <li>7) Communicates effectively</li> <li>8) Provides risk-based assurance</li> <li>9) Is Insightful, proactive and future focussed</li> <li>10) Promotes organisational improvement</li> </ol>	10	3	-	<p><b>Internal Audit Strategy</b> The work undertaken over the last year has focussed on creating the right foundations to secure the long-term future of the Audit Partnership. Following recruitment into the new Lead Auditor posts, the next stage will be to draft the long-term strategy of the Partnership.</p> <p><b>Continuous improvement</b> At the current time, given the restructure and immanent recruitment into vacant posts, we are still striving to enhance the value we add. This work will remain ongoing but will be more explicitly referenced in the Audit Partnership Strategy</p> <p><b>Insightful, proactive and future focussed</b> As above</p> <p><b>Action 1:</b> Draft the Audit Partnership Strategy, in consultation with Senior Management, for approval by the Audit Committee / board.</p>

		Conformance			
Section 4: Code of Ethics	<ul style="list-style-type: none"> <li>a) Integrity</li> <li>b) Objectivity</li> <li>c) Confidentiality</li> <li>d) Competency</li> <li>e) Seven Principles of Public Life (NOLAN)</li> </ul>	4	-	-	
Section 5: Attribute Standards	<b>Purpose, Authority &amp; Responsibility</b>	4	-	-	
	<b>Independence &amp; Objectivity</b> <ul style="list-style-type: none"> <li>a) Organisational objectivity</li> <li>b) Direct interaction with the Board</li> <li>c) CAE roles beyond Internal Audit</li> <li>d) Individual objectivity</li> <li>e) Impairment to independence or objectivity</li> </ul>	20	1	-	<b>Conflicts of Interest</b> While in practice Auditors will ‘avoid’ conflicts of interest, we have no guidance in place to set out how we ‘manage’ apparent or actual conflicts of interest.  <b>Action 2:</b> Develop guidance to manage conflicts of interest.
	<b>Proficiency &amp; Due Professional Care</b> <ul style="list-style-type: none"> <li>a) Proficiency</li> <li>b) Due professional care</li> <li>c) Continuing Professional Development</li> </ul>	8	2	-	<b>Counter Fraud &amp; Fraud Risk</b> A recruitment exercise currently underway and will seek to address skills, knowledge and expertise gaps.  <b>ICT and Cyber</b> The Audit Partnership does not have specialist IT / cyber audit skills, however, we are part of two framework agreements that allow us to ‘call-in’ this expertise if and when needed.  <b>Action 3:</b> Seek to develop in-house counter-fraud and IT skills and expertise via CPD
	<b>Quality Assurance &amp; Improvement Programme (QAIP)</b> <ul style="list-style-type: none"> <li>a) Requirements of the QIAP</li> </ul>	14	-	-	

		Conformance		
	b) <i>Internal Assessments</i> c) <i>External Assessments</i> d) <i>Reporting on the QAIP</i> e) <i>Use of 'Conforms with International Standards for the Professional Practice of Internal Auditing'</i> f) <i>Disclosure of non-conformance</i>			

PSIAS	Criteria	Conformance			Findings & Actions
		Conforms	Partial	Non Conformance	
Section 5: Attribute Standards	<b>Managing the Internal Audit Activity</b> a) <i>Planning</i> b) <i>Communication and approval</i> c) <i>Resource management</i> d) <i>Policies and procedures</i> e) <i>Coordination</i> f) <i>Reporting to Senior Management &amp; the Board</i> g) <i>External Service Provider - Not applicable</i>	14	2	-	<b>Policies &amp; Procedures</b> We have an up to date Audit Manual which includes supporting guidance and templates. Ongoing development of the manual will need to include procedures for consultancy, risk, counter fraud and any related policies. <b>Review and update of the manual is an ongoing process</b>  <b>Assurance mapping</b> External assurance is taken into account as part of the audit planning risk assessment and also as part of individual audit projects. This will need to be developed further into a full assurance map to capture any other areas of assurance.  <b>Action 4:</b> Create an assurance map to support future audit planning and the wider assurance framework.
	<b>Nature of Work</b> a) <i>Governance</i> b) <i>Risk management</i> c) <i>Control</i>	9	1	-	<b>Fraud risk</b> Fraud risks are considered as part of individual audit projects and we have developed a framework that is included in all audits. The Fraud Risk Assessment is included on the 2019/20 audit plan.  <b>Action 5:</b> Conduct the counter fraud risk assessment
	<b>Engagement planning</b>	12	-	-	

		Conformance			
	a) <i>Engagement objectives</i> b) <i>Engagement scope</i> c) <i>Engagement resource allocation</i> d) <i>Engagement work programme</i>				
	<b>Performing the engagement</b> a) <i>Identifying information</i> b) <i>Analysis &amp; evaluation</i> c) <i>Documenting information</i> d) <i>Engagement supervision</i>	6	-	-	

PSIAS	Criteria	Conformance			Findings & Actions
		Conforms	Partial	Non Conformance	
Section 5: Attribute Standards	<b>Communicating results</b> a) <i>Criteria for communicating</i> b) <i>Quality of communications</i> c) <i>Errors and omissions</i> d) <i>Use of 'Conforms with International Standards for the Professional Practice of Internal Auditing'</i> e) <i>Disclosure of non-conformance</i> f) <i>Disseminating results</i> g) <i>Overall Opinion</i>	18	-	-	
	<b>Monitoring progress</b>	2	-	-	
	<b>Communicating the acceptance of risk</b>	1	-	-	
	<b>TOTAL</b>	<b>125</b>	<b>9</b>	<b>-</b>	

Through the self-assessment exercise we have identified 5 actions that are ongoing to address areas of partial compliance. This includes the outstanding action from the 2018 assessment. The action plan below will be used to inform the ongoing development of the Audit Partnership, and will ensure that we can address any areas of partial conformance before our next external assessment (2020/21):

Action	Response	Timeframe
<b>Action 1:</b> Draft the Audit Partnership Strategy, in consultation with Senior Management, for approval by the Audit Committee / board	Work to develop the Audit Partnership Strategy will commence following appointment of the Lead Auditors	<b>Between January - March 2020</b>
<b>Action 2:</b> Develop guidance to manage conflicts of interest	The work will aligned with the annual review of the Audit Manual	<b>November 2019</b>
<b>Action 3:</b> Seek to develop in-house counter-fraud and IT skills and expertise via CPD	Where possible these skills will be recruited into the Partnership. Then training plans put in place to support ongoing CPD.	<b>From September 2019 onwards</b>
<b>Action 4:</b> Create an assurance map to support future audit planning and wider assurance framework	This work will be aligned with the 2020/21 audit planning process	<b>Between January - March 2020</b>
<b>Action 5:</b> Conduct the fraud risk assessment	This work is already scheduled on the 2020/21 audit plan	<b>By March 2020</b>

## Next steps & conclusion

Internal audit is a key component of corporate governance. It provides Management and Members with a vital source of independent and objective assurance over the effectiveness of the internal control, risk management and governance arrangements for the Council. Given the mandatory nature of the Standards, and the overarching mission for internal audit to '**enhance and protect organisational value**' we strive to not only conform to the requirements, but to continually develop and advance the services we provide.

The outcomes of the self-assessment show that we have made a number of significant improvements over the last year, and that generally we are conforming to Standards. Areas for improvement will form part of the ongoing work plan to put us in the best possible position for the next external assessment.

Over the next 6 months there are a number of key work streams to see through to completion:

***Role of the Audit Manager (Chief Audit Executive):*** The current arrangements conform to the Standards, however they are temporary. The secondment with Mid Kent for the provision of the Audit Manager is due to end on the 31 March 2020. Following the restructure of the partnership, all roles were redesigned, updated and evaluated, except for the Audit Manager (CAE) post. This work is in progress and will be a necessary step before a permanent appointment can be made.

***Restructure & appointment into new roles:*** Our new structure has been designed with a long-term ambition in mind, for us to be a top performing and forward thinking sustainable shared audit service. The appointment into vacancies will inject new expertise and qualifications into the partnership, and the introduction of a new trainee role will mean we can nurture and develop our own talent further and to greater benefit than ever before. Following the appointments there will be a period of induction and training to bring new members of the team up to speed.

***Audit Partnership Strategy:*** The audit planning process for 2018/19 gave us a fully risk assessed audit universe for the first time. We are able to use this to inform our assurance plan and strategy, to ensure that future work remains current, risk focussed and flexible to the changing environment. Drafting our strategic goals and ambitions will pave the way for the future, and allow us to align our objectives to the wider Council Plans.

***Development of broader governance:*** Much of the transformation work over the last year has been focussed on the internal audit activity, however, the partnership is uniquely placed to support the improvement and advancement of wider governance, including risk management and counter fraud. There is a degree of harmony between audit and risk, and while we must safeguard our independence, audit teams across public sector commonly take a lead role with wider governance work. As we develop our strategy we will be working across the Partnership to establish our role with regards broader governance and devise a work plan for the ongoing development and enhancement of the arrangements.

## Acknowledgements

All of the internal work we have been undertaking to review, update and improve our service would not have been possible without the hard work and dedication of our audit team, and their willingness to embrace new ways of working. In addition, the appetite from Management and Members to want more from the Audit Partnership and in turn to support us while we implement change has been invaluable.