



**Southern Internal
Audit Partnership**






Southern Internal Audit Partnership (SIAP)

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EXECUTIVE SUMMARY

External Quality Assessment for Southern Internal Audit Partnership

| | |
|---|--|
|  | <p>Corporate Audit meets all the Standards and the Code of Ethics which form the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing. This is described as "Generally Conforms". It means that Southern Internal Audit Partnership (SIAP) may state in its audit reports that the work "has been performed in accordance with the IPPF".</p> <p>In addition, we confirm that SIAP have also met all the standards of the Public Sector Internal Audit Standards (PSIAS) and those contained in the Local Government Application Note (LGAN) for Internal Audit.</p> |
|  | <p>We have benchmarked the performance of Southern Internal Audit Partnership against a maturity model based on a wide range of UK and Irish internal audit functions and we believe that SIAP is Excellent in its</p> <ul style="list-style-type: none"> • Reflection of the Standards • Focus on performance, risk and adding value • Quality Assurance and Improvement Programme <p>We consider SIAP is Good as regards</p> <ul style="list-style-type: none"> • Coordinating and maximising assurance • The efficiency of its operations |
|  | <p>We consider that a key factor in these achievements is that SIAP has a highly competent and technically proficient Head of Internal Audit who has successfully developed the SIAP operation into a leading edge internal audit function, operating effectively across all its clients. We have listed its Strengths, Weaknesses, Opportunities and Threats as prompts for action for further development and continuous improvement.</p> |
|  | <p>Our discussions with Executive directors and Councillors across its client base confirm our view that SIAP is a highly reliable source of third line Assurance; and it is competent to advise on governance, risk and control.</p> |
|  | <p>Organisations tend to get the internal audit functions they deserve. We observed a very positive cultural and operational fit between SIAP and its client base, which has evolved over the last five years under the leadership of the current Head of Internal Audit.</p> |

1. Conformance to the Standards:

International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); Local government Application Note (LGAN).

The Institute of Internal Audit’s (IIA’s) International Professional Practice Framework (IPPF) includes the Definition of Internal Auditing, Code of Ethics and *International Standards*. Complimentary standards apply for the public sector as well as Local Government . Added together, there are 343 fundamental principles to achieve, and while some overlap, the context and thrust of the differing standards add complexity within SIAP not seen in many organisations.

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of these principles, as summarised in the table below. This performance is within the top decile of EQA reviews we have performed. This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

| | | IPPF | PSIAS | LGAN | | TOTAL |
|-------------------------------------|------------------|--------------------|--------------------|--------------------|----------|------------|
| Summary of Conformance | Standards | Generally Conforms | Generally conforms | Generally conforms | N/A | |
| Definition of IA and Code of Ethics | Rules of conduct | 5 | 11 | - | | 16 |
| Purpose | 1000 - 1130 | 7 | 30 | 18 | 2 | 57 |
| People | 1200 - 1230 | 4 | 13 | 4 | | 21 |
| Performance | 1300 - 1322 | 7 | 11 | 9 | 2 | 29 |
| Planning | 2000 - 2130 | 12 | 55 | 11 | | 78 |
| Process | 2200 - 2600 | 21 | 103 | 18 | | 142 |
| | Total | 56 | 223 | 60 | 4 | 343 |

Note: While PSIAS is based on the IPPF standards, it contains more specific and detailed requirements specifically for internal audit functions operating within the public sector. The LGAN also details further requirements. We have reviewed the self-assessment against each of these levels of requirement.

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

This external quality assessment was conducted as a validation of the self-assessment carried out by Southern Internal Audit Partnership using the methods prescribed by Chartered Institute of Internal Auditors. We reviewed a wide range of documentary evidence and in addition to members of the SIAP function, interviewed seventeen representative stakeholders and interviewed / discussed matters with members of the SIAP management team.

In addition to our review of the self-assessment, we also used a “Survey Monkey” application to survey a total of 61 persons (30 members of SIAP, 18 members of the executive management teams, and 13 members of Audit Committees), with consistent results that supported our validation and interviews. Copies of the survey results have been shared with the Head of internal Audit.

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

2. Opportunities for Further Development and Continuous Improvement

The Chartered Institute regards conformance to the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with chief audit executives, summarised in an Internal Audit effectiveness matrix (page 6). We then interpret our findings into a summary of strengths and weaknesses (page 7) to set the scope for further development based upon the wide range of guidance published by the Chartered Institute. It is our aim to offer advice and a degree of challenge to help internal audit functions continue their journey towards best practice and excellence.

Organisations tend to get the internal audit functions they deserve. We have observed a very positive cultural and operational fit between SIAP and the Councils serviced. This has evolved over the last five years under the leadership of the current Head of Internal Audit as SIAP has evolved and expanded. Further growth to the SIAP concept will however require investment within the SIAP leadership team to address the leadership constraint, and allow service enhancements to be achieved.

Our conversations with management and councillors indicate that SIAP is highly regarded, respected, trusted, and valued.

Internal Audit Effectiveness Matrix: Southern Internal Audit Partnership's Effectiveness highlighted

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

SWOT analysis: Southern Internal Audit Partnership 's opportunities for development:

| What works well (Strengths) | What could be done better (Weaknesses) |
|--|---|
| <ul style="list-style-type: none"> • Highly proficient team, delivering a high quality and consistent service across the client base, regardless of the extent of contracted work. • Engaged SIAP management team who are universally well regarded by both officers and councillors. • Specialist skills in house to address IT, counter fraud, procurement, and risk aspects. • Concise focussed reporting delivering insight and value. • Comprehensive and pragmatic understanding of the International Standards for Internal Audit (IPPF; PSIAS; LGAN) • Delivery of audit specific training to officers and councillors to improve understanding across SIAP client base | <ul style="list-style-type: none"> • We note that high performing Internal Audit functions in other organisations have separate but regular informal meetings with both management and audit committee chairs, allowing emerging matters to be identified and discussed. More could be done in this regard. • When presenting annual plans to the Client Audit Committees, the high-level plans do not provide any indication of the detailed scope for the work (itself planned to review areas of high / medium risk to the organisations). Inclusion of a succinct statement of scope for each project would address this need. • SIAP does not have its own function risk register, potentially impacting their ability to “do as I say”. Addressing this would also allow SIAP management to foresee potential issues prior to their crystallisation. |
| What could deliver further value (Opportunities) | What could stand in your way (Threats) |
| <ul style="list-style-type: none"> • We believe that the partnership clients have a varied understanding of risk and risk appetite. Strengthening this understanding further would allow more value to be added in the form of risk maturity reviews; appetite versus actual risk comparisons; • While SIAP report progress to the various clients including status reports for work in progress, this doesn't provide a flavour of timeliness or the causes of delays. Amending the existing report to highlight these delays would create visibility, which in turn should improve timeliness and SIAP efficiency. • SIAP have highlighted their intention to procure a file interrogation application “IDEA”, capable of comprehensively testing large data files. We endorse this approach • Through the execution of their work, SIAP have an opportunity to identify examples of better practice. Where applicable, this could be shared with other partnership organisations to improve the control environment and spread best practice. | <ul style="list-style-type: none"> • As the partnership grows, so the senior management team will become severely stretched to continue the high quality service offered. Investment in the first line management team will be necessary, but in turn will impact on SIAP's ability to hold down or reduce costs in line with the austerity objectives of the Councils. |

Recommendations for Further Development

While we have made a number of recommendations within the SWOT analysis, we believe some require further explanation and are detailed below.

| Recommendation | SIAP Head of Internal Audit response |
|---|--|
| <p>Our benchmarking experience demonstrates that effective Internal audit functions operate best when there is a constructive and in-depth understanding between the Head of Internal Audit and the Audit Committee Chairman, developed over time through informal 1-2-1 private meetings. We noted that this type of relationship did not exist with the clients of SIAP. We would therefore encourage the development of such relationships. (Weakness 1 above refers)</p> | <p>The Head of Internal Audit (or representative) currently meets with the Audit Committee Chair to discuss key points of note and pending agenda items as part of the Chairman’s Briefing prior to each Audit Committee meeting, this however, does not constitute the ‘informal 1-2-1 private meetings’ alluded to by the external assessment team.</p> <p>The Head of Internal Audit will liaise with Audit Committee Chairs across the partnership / client base to initiate private 1-2-1 meetings to further enhance current relationships.</p> <p>Head of Internal Audit – December 2015</p> |
| <p>One role of the Audit Committee is to review the proposed audit plans for the coming year, and to satisfy itself that the plan is balanced; focussed towards the risks of the organisation; and assists the Audit Committee in considering whether the risk appetite of the organisation is reflected in organisation activities. This can only be achieved if the Audit Committee understand the actual scope of proposed audit projects.</p> <p>We noted that while Audit committees were advised of the title of proposed projects, these were without any scope. We believe that the addition of one or two sentences to position the project within the plan would assist committee members in delivering on their obligations. (Weakness 2 refers)</p> | <p>The audit plan for each organisation is derived from extensive liaison with key stakeholders and internal audits own assessment of risk.</p> <p>The rational and indicative scope of reviews that formulate the plans are captured as part of that process, however, as highlighted by the external assessment team are not incorporated in reporting to Senior Management and the Board (Audit Committee).</p> <p>To better inform Senior Management and the Board (Audit Committee) future audit plans will incorporate one or two sentences to position each project within the plan.</p> <p>Head of Internal Audit – March 2016</p> |

| Recommendation | SIAP Head of Internal Audit response |
|--|--|
| <p>Managing the timing of Internal Audit activity is a challenge faced by all Heads of Internal Audit. Our benchmarking shows that the most effective way to keep audit projects on track is to improve clarity on why a particular audit project is taking the time it takes to get from inception to completed report. We find this is best achieved by highlighting the extent and underlying cause of delays within progress reports, rather than simply stating the stage reached by a particular project. (Opportunity 2 refers)</p> | <p>Internal Audit reports currently track progress and the sources / reason for delay within an appendix as part of each final audit report.</p> <p>The Head of Internal Audit will work to reconfigure the 'Progress Report' presented quarterly to Senior Management and the Board (Audit Committee) to highlight the extent and underlying cause for delays in audit assignments.</p> <p>Head of Internal Audit – December 2015</p> |
| <p>SIAP have a policy of not making recommendations, but instead, working with management to identify the most appropriate solution to an identified control & risk issue. Given the broad range of clients with whom SIAP operate, we believe it would be helpful if SIAP were able to give examples of best practice seen across its client base, or indeed those identified when liaising with similar Internal Audit service providers (e.g. South West Audit Partners), albeit within "Chatham House" rules. (Opportunity 4 refers)</p> | <p>Sharing of best practice is implicit within the way work portfolios are allocated and audit assignments are conducted, whereby staff with experience of a particular review area will be used to undertake similar reviews across other partner / client areas, thus imparting their knowledge and experience. However, it is recognised that key risks, opportunities or best practice principles are not formally drawn out and shared across the partnership.</p> <p>The Head of Internal Audit will undertake a quarterly assessment of such examples across the wider partnership and share as part of a standing item on the 'Partnership Board' agenda.</p> <p>Head of Internal Audit – October 2015</p> |

CIIA Grading definitions

Appendix 1

The following rating scale has been used in this report.

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

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

List of Interviewees

Appendix 2

The time and assistance given by Executive Directors, members of the various Senior Management Teams, Councillors, and the leaders and members of the Southern Internal Audit Partnership during the review is greatly appreciated.

| Name | SIAP | Exec | NED | Position / role |
|---------------------------|------|------|-----|--|
| Neil Pitman | ☐ | | | Head of Internal Audit SIAP |
| Karen Shaw | ☐ | | | Deputy Head of Internal Audit SIAP |
| Antony Harvey | ☐ | | | Internal Audit Manager SIAP |
| Councillor Evans | | | ☐ | Chairman Audit Committee – Hampshire County Council |
| Councillor Kemp-Gee | | | ☐ | Member Audit Committee Hampshire County Council & Chair of Pension Fund Panel |
| Carolyn Williamson | | ☐ | | Director of Corporate resources – Hampshire County Council / Office Police & Crime Commissioner |
| Rob Carr | | ☐ | | Head of Finance – Hampshire County Council |
| Councillor Cutler | | | ☐ | Chairman of Audit Committee – Winchester City Council |
| Simon Eden | | ☐ | | Chief Executive – Winchester City Council (Former Chair of Audit Committee University of Winchester) |
| Alexis Garlick | | ☐ | | Head of Finance – Winchester City Council |
| Councillor Barnes-Andrews | | | ☐ | Chairman of Governance Committee – Southampton City Council |
| Dawn Baxendale | | ☐ | | Chief Executive – Southampton City Council |
| Andy Lowe | | ☐ | | Head of Finance – Southampton City Council |
| Richard Croucher | | ☐ | | Lead Business Partner – Hampshire Constabulary |
| Councillor McIntosh | | | ☐ | Chairman of Governance & Scrutiny Committees – Hampshire Fire & Rescue Service |
| Councillor Williams | | | ☐ | Chairman of Governance & Audit Committee – East Hampshire District Council |
| Councillor Smith | | | ☐ | Chairman of Governance & Audit Committee Havant Borough Council |
| Councillor Perry | | | ☐ | Councillor – Havant Borough Council |
| Jane Eaton | | ☐ | | Executive Head of Governance & Logistics – East Hampshire District Council / Havant Borough Council |
| Kevin Gardner | | ☐ | | Chief Executive – Office Police & Crime Commissioner |
| Total | 3 | 9 | 8 | |