

# Report of the Director of Finance to the meeting of the Governance and Audit Committee to be held on 29 September 2016.

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**Subject: PUBLIC SECTOR INTERNAL AUDIT STANDARDS – PROPOSALS FOR UNDERTAKING AN EXTERNAL REVIEW OF INTERNAL AUDIT**

## Summary statement:

To outline the benefits of, and seek the Governance and Audit Committee's Agreement to, the proposed arrangements for carrying out the external review of the Council's Internal Audit function, as required by the Public Sector Internal Audit Standards (PSIAS).

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## 1. SUMMARY

- 1.1 To outline the benefits of, and seek Governance and Audit Committee's Agreement to, the proposed arrangements for carrying out the external review of the Council's Internal Audit function, as required by the Public Sector Internal Audit Standards (PSIAS).

## 2. BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 require the Council to have an Internal Audit function which operates in accordance with best professional practice. Compliance with the Public Sector Internal Audit Standards (PSIAS) is now acknowledged as adhering to best practice.

- 2.2 One of the requirements is the need for an external assessment of the Internal Audit service under Standard 1312 - External Assessments which states

“External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Chief Audit Executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.”

- 2.3 Heads of Internal Audit from across the West and South Yorkshire councils have discussed the potential options for procuring their external assessment, as required by the PSIAS. Such options include:

- Peer reviews to be carried out by Heads of Internal Audit across the West / South Yorkshire Group;
- Buying in the function from a professional body, e.g. The Institute of Internal Auditors;
- Buying in the service from another suitably qualified and experienced individual / firm;
- Provision of the function via the appointed external auditor

- 2.4 Following detailed discussion of the above options the consensus amongst the Heads of Internal Audit was that some form of Peer review of each other's arrangements was preferred. To this extent a Briefing Note / Terms of Reference document has been produced by the Group – see Appendix 1 attached, which sets out some benefits of the proposed approach, including:

- Cost benefits through carrying out the Peer Reviews within existing resources;
- Consistency of approach through all “signing up” to one method of review;
- Provides further evidence of the willingness and benefits of collaborative working.

In addition to the benefits summarised above, it should be noted that undertaking the External Assessments through a Peer Review exercise will also create enhanced Peer to Peer learning opportunities, amongst senior officers within each Council taking part, thus providing valuable experience and knowledge which can be put to further use in the future.

- 2.5 Since the terms of references were agreed in 2014, Sheffield and Leeds have decided to join the core cities external assessment approach whilst Rotherham is looking for an assessment from an independent provider. This has left six Councils, Bradford, Wakefield, Kirklees, Barnsley, Doncaster and Calderdale who are looking to adopt a peer review process. In order to maintain the independence of the review process it has been provisionally agreed that the following peer reviews should take place.

Assessor / Assessed

Bradford / Barnsley  
 Doncaster / Bradford  
 Barnsley / Calderdale  
 Kirklees / Doncaster  
 Calderdale / Wakefield  
 Wakefield / Kirklees

- 2.6 In March 2016 Bradford Internal Audit Service completed the review of Barnsley Internal Audit Service which included the South Yorkshire Committees also supported by Barnsley Internal Audit Service. The Audit Committee at Barnsley welcomed the professional approach undertaken by the Bradford review team. At the current time Calderdale are embarking on the review at Wakefield and Barnsley at Calderdale.
- 2.7 Bradford Council Internal Audit Service is currently transforming its working practices through the adoption of MK Insight (a software package that supports an ICT based internal audit service). Once this has been completed, which is planned for March 2017, Bradford would like to initiate its PSIAS review by Doncaster Council Internal Audit Service. This will be partially dependent on the availability of colleagues from Doncaster which will need to be confirmed nearer the time. The Bradford sponsor of the review will be the Director of Finance
- 2.8 The result of the review will be the issuing of a report to this Committee which will provide an assessment of compliance with the PSIAS, an action plan and implementation dates to deliver on any improvements. The report will cover the Internal Audit operations for both Bradford Council and the West Yorkshire Pension Fund.

**3. OVERVIEW AND SCRUTINY COMMITTEE CONSIDERATION**

- 3.1 Not Applicable.

**4 OTHER CONSIDERATIONS**

- 4.1 There are no other considerations.

**5. OPTIONS**

**6. FINANCIAL AND RESOURCE APPRAISAL**

6.1 There are no specific financial implications associated with the recommendation within this report. Costs associated with the proposed external assessment process will be met from existing resources.

**7. RISK MANAGEMENT**

7.1 The work undertaken within Internal Audit is primarily concerned with examining risks within various systems of the Council and making recommendations to mitigate those risks.

**8. LEGAL APPRAISAL**

8.1 The Committee must satisfy itself that it has fulfilled its obligations as set out in the 2015 Regulations, which were drawn up to set out provisions on financial management, annual accounts and audit procedures applying to local authorities. Carrying out an external review of Internal Audit as proposed in this report contributes to adhering to the best practice professional auditing standards as required by the regulations.

**9. OTHER IMPLICATIONS**

**9.1 Equal Rights**

Internal Audit seeks assurance that the Council fulfils its responsibilities in accordance with its statutory responsibilities and its own internal guidelines. When carrying out its work Internal Audit reviews the delivery of services to ensure that they are provided in accordance with the formal decision making process of the Council.

**9.2 Sustainability Implications**

When reviewing Council Business Internal Audit examines the sustainability of the activity and ensures that mechanisms are in place so that services are provided within the resources available.

**9.3 Greenhouse Gas Emissions Impacts**

There are no impacts on Gas Emissions.

**9.4 Community Safety Implications**

There are no direct community safety implications.

**9.5 Human Rights Act**

There are no direct Human Rights Act implications.

**9.6 Trade Union**

There are no implications for the Trade Unions arising from the report.

**9.7 Ward Implications**

Internal Audit will undertake specific audits through the year which will ensure that the decisions of council are properly carried out.

**10 NOT FOR PUBLICATION DOCUMENTS**

10.1 None.

**11. RECOMMENDATIONS**

11.1 That the proposed arrangements for a peer review undertaken by Doncaster Council's Internal Audit Service are accepted by the Committee as appropriate to meet the requirements of the PSIAS and to provide the necessary external assurances on the effectiveness of Bradford Council's Internal Audit Service.

**12. APPENDICES**

Appendix 1 West & South Yorkshire Heads of Internal Audit Group, External Assessment – Peer Review, Briefing Paper / Terms of Reference

**13. BACKGROUND DOCUMENTS**

13.1 Accounts and Audit Regulations 2015.

13.2 Public Sector Internal Audit Standards 2013.

## APPENDIX 1

### West & South Yorkshire Heads of Internal Audit Group

#### External Assessment – Peer Review

#### Briefing Paper / Terms of Reference

##### Purpose of the Paper

At the meeting of the West and South Yorkshire Heads of Internal Audit (HoIA) Group held on the 20<sup>th</sup> November 2013 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to be taken to undertaking such assessments.

It was agreed at this meeting that the external assessment process should be undertaken as a peer review whereby one Authority would undertake a peer assessment of a different Authority within the group. This approach forms the basis of this paper which provides background information regarding the requirements of the Public Sector Internal Audit Standards (PSIAS) in so far as they apply to external assessments along with details of the process to be followed by members of the group.

##### Background Information

Members of the Peer Group:

West Yorkshire: Wakefield Metropolitan District Council; Bradford City Council; Calderdale Council; Kirklees Metropolitan Council; Leeds City Council

South Yorkshire: Sheffield City Council; Rotherham Metropolitan Borough Council; Doncaster Metropolitan Borough Council; Barnsley Metropolitan Borough Council

External Assessments:

The purpose of the external assessment is to help improve delivery of the audit service to an organisation. The assessment should be a supportive process that identifies opportunities for development which ultimately helps to enhance the value of the audit function to an Authority.

External assessments must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The HoIA should involve their Audit Committee and Section 151 Officer in determining the frequency, timing and scope of their external assessments as well as the selection of who will conduct the review and terms of reference for the review.

The two possible approaches to external assessments include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification
- Have appropriate experience of internal audit - at least five years at manager level within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The HoIA should discuss the proposed form of the external assessment with their Line Manager (where relevant) and Audit Committee or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Board (this is usually the Audit Committee) regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The HoIA should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Members of the West and South Yorkshire HoIA Group have elected to adopt the latter of the 2 approaches; that is to first carry out an internal assessment, with another member of the West and South Yorkshire Internal Group undertaking an external validation of this. The key benefit of this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment which takes around 8 days at a minimum cost of £10K. They also provide a validated assessment, similar to the approach agreed by the West and South Yorkshire Internal Audit Group, which takes 6-8 working days and costs between £6K and £9K. Reviews at the higher end of the scale would include interviews with the senior team and the Audit Committee chair.

There are obvious financial savings to Members of the peer group by adopting the agreed approach as outlined within this paper. In addition, such an approach is in keeping with the promotion of collaborative working arrangements.

One of the risks identified by the group in respect of this form of peer review approach relates to the potential negative impact on professional relationships in the event of adverse findings. The terms of reference outlined within this paper would aim to mitigate against such a risk / issue. The CIIA have been consulted in terms of this form of peer assessment and are supportive of the approach. At the CIPFA audit update meeting held during November 2013, such an approach was cited as a good example of best practice in obtaining best value. In addition, there have been examples of groups similar to the South and West Yorkshire Group proposing to adopt a similar approach i.e. Greater London Authorities, South West Audit Group, Core Cities.

### **Independence and Objectivity**

Prior to the commencement of the assessments taking place all parties should agree the programme of peer reviews and an appropriate timetable. It is important to ensure the independence of the Auditor undertaking the peer assessment. Any known or perceived conflicts of interest should therefore be disclosed. It should be acknowledged at the outset that all West and South Yorkshire Internal Audit services have some knowledge of each other.

### **Agreeing the Assessment Process**

West and South Yorkshire colleagues should agree a programme of assessments taking into account the requirement noted above regarding independence and objectivity. In addition, colleagues should agree the number of days to be assigned to undertaking assessments, along with the sponsor for each review.

### **The Assessment Process**

Completion of the Checklist:

Each HoIA must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment.

#### **Pre Assessment Phase:**

- Confirm the terms of reference for the review, timescales and dates for the review.
- Obtain background information in order to obtain an appreciation of the function. This should include the IA Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives).
- Obtain details of responsibilities, resources, structure and activity.
- Obtain details of any external client organisations e.g. YPO, Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required.
- Obtain the completed self assessment which has been sign posted to the supporting evidence.

- Obtain evidence of how quality is maintained and how performance is measured and reported.

**Assessment Phase:**

- Review documentation provided in support of the standards / checklist.
- Examine a sample of audit engagements according to the PSIAS and procedures.
- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the HoIA.

**Post Assessment Phase:**

The review should conclude with a detailed report providing an opinion on the Internal Audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards highlighting any areas of partial conformance or areas which do not conform along with recommendations for improvement, where appropriate.

**Reporting Phase:**

- Discussion of the draft report with the HoIA and Sponsor.
- Issue of final report and agreed actions to the HoIA and Sponsor to confirm accuracy.
- Issue final report to the HoIA and Sponsor
- HoIA / Sponsor to issue final report to their Audit Committee which includes an action plan and implementation dates.

In order for each Authority to obtain maximum benefit from the peer assessment approach each HoIA should share a synopsis of their respective outputs / report with members of the West and South Yorkshire HoIA group.

It is envisaged that each phase of the assessment process should take no longer than 1 day i.e. 4 days in total.