

Report of the Director of Finance and IT to the meeting of the Governance and Audit Committee to be held on 14 July 2022

Subject:

Public Sector Internal Audit Standards - Proposals for Undertaking an External Review of Internal Audit

Summary statement:

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).

EQUALITY & DIVERSITY:

An effective Internal Audit Service provides assurance that the appropriate governance and accountability arrangements are in place which allows Service Objectives to be delivered in accordance with the Council's equality policies

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Portfolio:

Corporate
Improvement Area:

Corporate

1. SUMMARY

- 1.1 To outline the benefits of, and seek Governance and Audit Committee's (GAC) 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 (IA) function which operates in accordance with best professional practice. Compliance with the Public Sector Internal Audit Standards (PSIAS) is acknowledged as adhering to best practice.
- 2.2 One of the requirements is the need for an external assessment of the IA 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 The options for the assessment include:

- A peer review to be carried out by another Head of Internal Audit
- A review from a professional body, e.g. The Institute of Internal Auditors (IIA) or Chartered Institute of Public Finance and Accountancy (CIPFA)
- Buying in the service from another suitably qualified and experienced individual / firm
- Provision of the function via the appointed external auditor

- 2.4 In 2018 the last time an external assessment was carried out the Governance and Audit Committee took the Peer Review Option which was undertaken by the Internal Audit Team from Doncaster Metropolitan Council. That assessment was that Bradford Council's Internal Audit Service **Partially Conforms** with the Standards. Deviations from the Standards were highlighted but these did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

- 2.5 The main reasons for this assessment were

- The service had a low level of resources, which restricted the programme of work performed.
- Only 46% of the mainstream Bradford Council block of the overall audit programme was completed by January 2018. It is noted that other blocks of the overall audit programme – i.e. Schools, Grants, Pension Fund were much further progressed and, when taking these into account, the progress in

completing the overall audit programme was 62%.

- The Head of Internal Audit had other responsibilities which accounted for 50% of their time.
- Some documentation needed updating and some reporting requirements were not met.
- The annual audit opinion given by the HoIA did not explicitly include a conclusion on risk management or governance arrangements.

2.6 In response to this report a service improvement plan was adopted by the s151 post holder. This saw the recruitment of four additional Senior Auditors to support the team and a number of updates to working practices were initiated.

3. OTHER CONSIDERATIONS

3.1 Options Appraisal

The following table details the advantages and disadvantages of the options for the external assessment of Bradford Council's Internal Audit Service

Option		Advantages	Disadvantages
1	Peer reviews to be carried out by Heads of Internal Audit across the West / South Yorkshire Group;	Understanding of Council Business and Pressures Potentially least Costly	Method used last time Perceived lack of independence Potential demand for return services
2	Buying in the function from a professional body, e.g. The Institute of Internal Auditors or CIPFA	Alternative independent perspective Professional Internal Audit view Different approach to last review Consistent with recent approach taken by peers If using a service that other authorities have recently used then opportunity for comparison and benchmarking	Cost Text Book Approach May lack recent practical experience /detailed sector knowledge Unlikely to be a local supplier
3	Buying in the service from another suitably qualified and experienced individual / firm;	Increased flexibility to appoint local supplier Different approach to last review Perceived independence	Cost Need to verify expertise Lack of Supporting Architecture Text Book Approach May lack recent practical experience /detailed sector knowledge Dependent on Service Availability. Lengthy Procurement Process
4	Provision of the function via the appointed external auditor	Understanding of the Council's business Professional Expertise Different approach to last review	Potential Lack of Independence/conflict of interest Potentially Costly External Audit have ongoing resourcing issues Circular Assurance mapping risk

4. FINANCIAL & RESOURCE APPRAISAL

4.1 The cost of an external review will be in the region of £5k to £10k.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

5.1 The external assessment provides assurance that Internal Audit is focused on the risk management, internal control and proper governance arrangements which operate within the Council.

6. LEGAL APPRAISAL

6.1 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

7. OTHER IMPLICATIONS

7.1 SUSTAINABILITY IMPLICATIONS

➤ There are no direct sustainability implications.

7.2 GREENHOUSE GAS EMISSIONS IMPACTS

➤ There are no direct impacts on Gas Emissions

7.3 COMMUNITY SAFETY IMPLICATIONS

➤ There are no direct community safety implications.

7.4 HUMAN RIGHTS ACT

➤ There are no direct Human Rights Act implications.

7.5 TRADE UNION

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

7.6 WARD IMPLICATIONS

➤ There are no Ward Implications

7.7 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE

➤ None

7.8 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

None

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

9.1 As detailed in Section 3

10. RECOMMENDATIONS

10.1 That Option 2 (the appointment of an independent assessor which is buying in the review from a professional body such as CIPFA or IIA) be agreed as 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).

11. APPENDICES

None

12. BACKGROUND DOCUMENTS

Public Sector Internal Audit Standards 2017
Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards CIPFA 2019