

# AUDIT COMMITTEE

## Public Sector Internal Audit Standards

### Peer Review Report

23 May 2018

## Report of the Internal Audit and Assurance Manager

### PURPOSE OF REPORT

To inform the Committee of the report from the external review of Internal Audit against the Public Sector Internal Audit Standards (PSIAS).

**This report is public**

### RECOMMENDATIONS

1. **That the Committee considers the report and the comments on the planned actions.**
- 1.0 **Introduction**
  - 1.1 The PSIAS were first introduced as required internal audit practices in 2013. Annually Internal Audit is required to comment on its compliance with the standards and at least once every five years the compliance must be externally assessed. The external assessment was undertaken in January 2018 by the Head of Internal Audit from Allerdale Borough Council and the Senior Auditor from Burnley Borough Council.
  - 1.2 The assessment team were provided with a variety of evidence and were given access to a number of key officers across the organisation, namely; the Chief Executive Officer, Monitoring Officer, Section 151 Officer, Chief Officers, Senior Auditor and a sample of auditees. The Chair of the Audit Committee was also interviewed.
- 2.0 **Proposal Details**
  - 2.1 Although overall compliance was achieved, there were 4 points for consideration made. The proposed actions have been presented to Management Team and the final action plan developed from those responses is attached at Appendix A.
- 3.0 **Details of consultation**
  - 3.1 No specific consultation has been undertaken in compiling this report.
- 4.0 **Options and options analysis (including risk assessment)**
  - 4.1 No alternative options were identified. The need to carry out an external assessment of compliance to the PSIAS is a statutory requirement.

## 5.0 Conclusion

- 5.1 Overall the Council's Internal Audit Section is fully compliant with the PSIAS with only 4 points for consideration made of which an action plan has been approved to address these. This compliance has been reported in the Annual Audit Opinion and in the Annual Governance Statement for 2017/18.

### **CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

This report has no direct impact on these areas.

### **FINANCIAL IMPLICATIONS**

None arising directly from this report.

### **SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments.

### **LEGAL IMPLICATIONS**

None arising directly from this report.

### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

### **BACKGROUND PAPERS**

Public Sector Internal Audit Standards

Local government application note for the UK  
Public Sector Internal Audit Standards

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**Lancaster City Council**

**PEER REVIEW OF INTERNAL AUDIT AGAINST THE UK  
PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

**March 2018**

**Review Team**

Emma Thompson, Assurance Risk and Audit Manager, Allerdale Borough  
Council

Nadeem Ukadia, Senior Auditor, Burnley Council

## 1 Introduction

- 1.1 All principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2015 (amended), the Accounts and Audit (Wales) regulations 2005, section 95 of the Local Government (Scotland) Act 1973 and the Amendment to the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS) as well as the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.2 A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
- 1.3 The PSIAS require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
- 1.4 The Lancashire Districts Chief Auditor Group (LDCAG) has established a 'peer-review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self-assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of Lancaster City Council.
- 1.5 "An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs." This review has been carried out by the Head of Internal Audit at Allerdale Borough Council and the Senior Auditor at Burnley Council. Their 'pen pictures', outlining background experience and qualifications, are included at Appendix 1.

## 2 Approach/Methodology

- 2.1 The LDCAG has agreed a detailed Memorandum of Understanding (MoU) that outlines the broad methodology for the conduct of this review. A copy of the MoU is available upon request. However, in summary, the key elements of the process are:
  - The peer review is undertaken in three stages: pre-review; on-site review; post-review and covers audit activity during the period covered in the latest Head of Internal Audit Annual Report and Opinion. For example, reviews commencing after 1 July 2016 will cover the audit year 1 April 2015 to 31 March 2016.
  - Lancaster City Council has completed and shared its self-evaluation of the Internal Audit service together with any relevant supporting evidence/documentation in advance of on-site review commencement. The LDCAG has agreed that the self-assessment will use the **CIPFA Local Government Application Note (LGAN)** questionnaire. Typically, supporting evidence will include the Internal Audit Plan & Charter, the

Head of Internal Audit Annual Report and Opinion, Quality Assurance and Improvement Programme and examples of final audit reports.

- To support the on-site review, a customer survey form was issued and completed by key personnel within Lancaster City Council.
- The review itself comprises a combination of ‘desktop’ and ‘actual on-site’ review.
- The review cannot reasonably consider all elements of the LGAN self-assessment and the review team must use the ‘desktop’ period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. Lancaster City Council has been assessed against the four broad themes of: Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.
- Upon conclusion, the Review team offers a ‘true and fair’ judgement and it is proposed that each Authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** against each thematic area of the LGAN, from which an aggregation of the four themed scores gives an overall Authority score.

### 3 Summary Findings

3.1 Following a detailed examination process, the review team has concluded the following judgements:

Area of Focus	Judgement
Purpose & Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Impact	Conforms
<b>Overall Judgement</b>	<b>Conforms</b>

Assessment against the individual elements of each area of focus is included in the table at Appendix 2.

3.2 The peer review at Lancaster City council was very positive. The majority of the feedback received from the Chief Officers and Managers during interview made clear reference to the added value the Internal Audit Team bring to the organisations governance and systems of internal control. A shared arrangement is in place with Wyre Council for the Internal Audit and Assurance Manager Role this started in May 2017. Feedback provided on this

arrangement highlighted the positive impact the Manager is having on the development of the team members in Internal Audit and the service delivery.

- 3.3 **Significant Observations** (leading to a 'does not conform' judgement)  
There are no significant observations.
- 3.4 **Minor Observations** (i.e areas for improvement/development, minor elements of non-conformance, gaps in 'good practice' statement) Actions are included at Appendix 3.
- 3.4.1 The Audit Committee (Board) have a fundamental role in good organisational governance. Performing this independent oversight function requires a specific skill set (as defined in the CIPFA Practical Guidance for Audit Committees in Local Authorities) to ensure these governance responsibilities are delivered effectively. To provide assurance that the Audit Committee at Lancaster City Council is contributing to the governance framework as expected a review of the Audit Committee effectiveness should be completed (Appendix D to the CIPFA guidance). The outcomes from this review should be addressed by senior management.
- 3.4.2 The Internal Audit Team produce an annual risk based plan to provide assurance over risk management, control and governance processes at Lancaster City Council. Due to the shortage of information provided by Senior Management relating to draft Corporate Priorities and Corporate Risks at the time of the review, this risk based plan is based on Internal Audits professional knowledge and judgement. The Council is in the process of reviewing responsibilities regarding risk management as well as updating the Risk Management Policy and Strategy and once reviewed it is understood this will be presented to the Audit Committee for approval. Although work is underway to strengthen the management and reporting of the key risks linked to the draft Council Plan, work is still required across the council to embed the strategy and ensure the Council's practices are transparent when considering and documenting both strategic and operational risks. In the meantime, Internal Audit will continue to develop operational service risk registers to help prioritise work and develop the audit plan.
- 3.4.3 It would be beneficial to raise awareness of the skills, knowledge and experience of the Internal Audit Service throughout Lancaster City Council. Excellent feedback was provided by areas who regularly request assurance reviews and these Managers truly see the value of proactive engagement with Internal Audit. Unfortunately this awareness of the value added is inconsistent across the Chief Officers which means opportunities for services to benefit from Internal Audits work could be missed. The Leaders and Managers who speak so highly of the support received by Internal Audit should contribute to this exercise by providing this positive feedback to their peers on a regular basis.
- 3.4.4 The Internal Audit and Assurance Manager currently presents all audit reports to the Management Team as well as these being presented as part of the Audit Committee draft circulation. To maintain organisational independence the Standards require the Internal Audit activity to be free from interference in determining the scope of internal auditing, performing work and communicating results. This activity is also time consuming (the Manager works one day per week), the value added is minimal and is considered to be duplication. The

Senior Management Team would see more value from Internal Audit work if they engaged more proactively at the annual planning stage, to ensure their priorities and key corporate risks were considered in the planning process.

## Review Team

### **Emma Thompson**

I am the Assurance Risk and Audit Manager at Allerdale Borough Council and have worked here in Audit for 11 years. I obtained my PIIA with the Chartered Institute of Internal Auditors (CIIA) in 2010 and went on to win the national CIIA Internal Audit Champion award in 2015. I became a Certified with IIA Global in 2016.

### **Nadeem Ukadia**

I am a Senior Auditor at Burnley Council and have worked in the Internal Audit department for 12 years. I became a chartered accountant in 2007 and have extensive experience in both Internal Audit and final accounts preparation.



# Detailed Assessment

		Does not conform	Partially conforms	conforms	Comments
<b>Purpose &amp; positioning</b>					
•	• Remit			X	
•	• Reporting lines			X	
•	• Independence			X	See 3.4.1
•	• Other assurance providers			X	
•	• Risk based plan			X	See 3.4.2
<b>Structure &amp; resources</b>					
•	• Competencies			X	
•	• Technical training & development			X	
•	• Resourcing			X	See 3.4.3
•	• Performance management			X	
•	• Knowledge management			X	
<b>Audit execution</b>					
•	• Management of the IA function			X	
•	• Engagement planning			X	
•	• Engagement delivery			X	
•	• Reporting			X	3.4.4
		Do not agree	Partially agree	Fully agree	Comments
<b>Impact</b>					
•	• Standing and reputation of internal audit			X	See 3.4.3 above
•	• Impact on organisational delivery			X	See 3.4.3
•	• Impact on Governance, Risk, and Control			X	See 3.4.2 and 3.4.4

Conforms	X	Partially Conforms		Does Not Conform	
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PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1110 Independence	3.4.1	Although the Internal Audit function comply with the PSIAS in relation to their interactions with the Board (Audit Committee) a review of Board effectiveness would be beneficial to provide assurance that any work completed by the Board conforms with the PSIAS.	Joanne Billington Internal Audit and Assurance Manager	CIPFA are in the process of reviewing guidance for the Audit Committee in relation to demonstrating effectiveness. It is expected that the guidance will be available early April. A review of the Committee's effectiveness will be completed following the issue of this guidance.
2010 Risk Based Planning	3.4.2	The organisation should develop a framework of Enterprise Wide Risk Management to support the Council Plan when this is finalised. This will allow the Internal Audit Team to deliver a risk based plan based on organisational priorities and key risks.	Management Team	The Council is in the progress of updating its Risk Management Policy and Strategy, which once completed will be reviewed and submitted to the Audit Committee for approval. Work is underway to strengthen the management and reporting of its key risks which are linked to the draft Council Plan. In the meantime, Internal Audit will continue to develop operational service risk registers, to prioritise work and develop the audit plan.
	3.4.3	The Internal Audit Team and management should raise awareness of the value added by Internal Audit. This should include clarity across the organisation	Joanne Billington Internal Audit and Assurance Manager	Internal Audit will continue to raise its profile through continued consultation with Chief Officers and

<p><b>N/A Identified by Interviews</b></p>		<p>about their role as business partners, independent assurance providers and the responsibilities they have in the delivery of the Annual Governance Statement.</p>		<p>Senior Managers in development of the Internal Audit Plan.</p>
	<p>3.4.4</p>	<p>The Management Team should review the current process for Audit Report presentation at Management Team to ensure this adds value. Consideration should be given to instead having more proactive engagement at the annual audit planning stage, this would improve the lines of governance and add value at the most appropriate time.</p>	<p>Joanne Billington Internal Audit and Assurance Manager</p>	<p>All internal audit reports will continue to go through the standard report clearance procedure which includes obtaining both S151 Officer and Monitoring Officer comments, with the exception of the PSIAS review and the Annual Governance Statement, which will be presented to Management Team.</p>