

HALTON BOROUGH COUNCIL

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

CARRIED OUT BY

**Barbara Aspinall
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ASSESSMENT DATES: 21st to 26th September 2017

DRAFT REPORT DATE: 27th October 2017

FINAL REPORT DATE: 4th December 2017

Halton Borough Council

Peer Review of Internal Audit against the UK Public Sector Internal Audit Standards

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 (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 North West Chief Audit Executives' Group (NWCAE) 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 Halton Borough 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 Heads of Internal Audit from St Helens Council and Blackburn with Darwen Borough Council. Their 'pen pictures', outlining background experience and qualifications, are included at **Appendix 1**.

2 Approach/Methodology

- 2.1 The NWCAE Group 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 Chief Internal Auditor's Internal Audit Annual Report related Opinion. For example, reviews commencing after 1 July 2017 will cover the audit year 1 April 2016 to 31 March 2017.

- Each authority is required to complete and share its self-evaluation of the Internal Audit service together with any relevant supporting evidence/documentation in advance of on-site review commencement. The NWCAE Group 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 and Charter, the Head of Internal Audit Annual Report and Opinion, Quality Assurance & Improvement Programme and examples of final audit reports.
- To support the on-site review, a customer survey form will be issued to key personnel within the authority being reviewed prior to the on-site visit.
- 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. Each authority will be 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 moderation process, the review team has concluded the following judgements:

Area of Focus	Judgement
Purpose & Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Overall Judgement	Conforms

3.2 Assessment against the individual elements of each area of focus is included in the table at **Appendix 2** and a summary of the areas for consideration to improve / develop the service is identified within the action table at **Appendix 3**.

3.3 Additional points for consideration identified during the review that are out of scope of the Standards / LGAN requirements but are contributory to the overall effectiveness and efficiency of the internal audit service are presented in the table at **Appendix 4** of the report for information and consideration only.

4 Observations and Recommendations

4.1 Attribute Standards

1000 Purpose, Authority and Responsibility

4.1.1 Positioning

From discussion with the Chief Executive, Strategic Director Enterprise, Community and Resources, Section 151 Officer and the Chair of the Business Efficiency Board, it was evident that Internal Audit are held in high regard within the Council. It was also clear that Internal Audit are perceived to add value to the effectiveness of the governance, internal control and risk management framework and this was supported by all stakeholder questionnaires.

4.1.2 Internal Audit Charter

An Internal Audit Charter is in place which conforms with most of the requirements under the PSIAS. However there are a number of areas where it could be improved to fully conform to the requirements of the Standards.

- Whilst we acknowledge that the Charter is included in the Constitution, which is reviewed and approved annually by full Council, there is no set review cycle for the Charter itself. In addition, it should be presented to the Business Efficiency Board (BEB) for formal approval, in its role as the Council's Audit Committee and its responsibility for overseeing the work of Internal Audit;
- The mandatory requirement for the Internal Audit function to comply with the requirements of the PSIAS should be explicitly stated;
- The role of the Council's statutory officers with regards to Internal Audit should be set out; and
- Whilst the Charter notes that the role of Internal Audit is set out in various Council documents in respect of fraud related matters, which are referenced in the Charter, it does not note the requirement for Internal Audit to be notified of all suspected or detected fraud, corruption or impropriety.

4.1.3 We therefore recommend that the Internal Audit Charter is updated to reflect the above requirements **(Recommendation 1)**.

1110 Organisational Independence

4.1.4 The Council has an annual Employee Development Review (EDR) process with regard to performance appraisal. We confirmed with the Section 151 Officer and the Chief Internal Auditor that although an EDR has not been undertaken, there are regular informal feedback channels in place. In the absence of an EDR, no formal process exists for formal feedback to be sought from the Chief Executive or the BEB Chair to inform an annual appraisal or performance review of the Chief Internal Auditor. A more formal process would facilitate positive feedback as well as allowing any concerns or areas for improvement identified to be recorded. **(Recommendation 2)**

1311 Internal Assessments

- 4.1.5 Performance in terms of the delivery of internal audit work is reported quarterly to the BEB. Whilst two general performance targets are included in the suite of finance performance indicators reported to the Corporate Policy and Performance Board, there are no specific performance targets in place with regard to audit activity. Customer satisfaction feedback is regularly obtained but only limited reference is made to this in the reports to the BEB.
- 4.1.6 We therefore recommend that appropriate performance targets are developed, including the results from stakeholder feedback, and agreed with the BEB. Performance against these should then be monitored and reported on in the Annual report as a minimum. In year performance and an explanation of any variances and actions, could also be included in the Internal Audit Progress Reports to the BEB.
- (Recommendation 3)**

4.2 Performance Standards

4.2.1 2040 Policies and Procedures

An Audit Methodology Manual and Methodology Overview have been documented, however, the documents are not dated and no review cycle has been determined. Therefore, there is no evidence of regular review and documents may not reflect changes in working practices and standards. **(Recommendation 4)**

2050 Coordination

- 4.2.2 The Internal Audit Plan notes that other sources of assurance may be taken into consideration in order to ensure the best use of audit resources in carrying out specific assignments, and the Chief Internal Auditor has confirmed that he does take account of these. However, no formal documented assurance mapping exercise has been carried out to evidence the overall approach to using other sources of assurance and any work that may be required to place reliance on those sources. Therefore an effective and comprehensive mapping exercise should be carried out.
- (Recommendation 5)**

2450 Overall Opinion

- 4.2.3 Confirmation in the Internal Audit Annual Report regarding any limitations placed on the work of internal audit, including any restrictions in the scope of work carried out during the year, is limited to the impact of any reduction in staff resources available during the year on the delivery of the planned number of days.
- 4.2.4 In addition, the Report does not include a comparison of the reviews actually carried out during the year relative to the original plan approved by the BEB.

4.2.5 We therefore recommend that the annual reporting arrangements are updated to include details of any restrictions placed on the scope of the audit work, or confirmation that none has occurred, and a comparison of planned audit reviews and activity against actual coverage achieved. **(Recommendation 6)**

Review Team

Barbara Aspinall (BA Hons / CIPFA DPA)

Barbara has the Chartered Institute of Public Finance and Accountancy Diploma in Public Audit and the Association of Accounting Technicians qualification. Barbara has over twenty five years internal audit experience in the local government sector and is currently Audit Manager at St Helens Council.

Colin Ferguson (BCom / FCCA)

Colin is a fully qualified member of the Association of Chartered Certified Accountant with 26 years' experience of internal audit in the local government sector. He is currently Head of Audit & Assurance for Blackburn with Darwen Borough Council. Colin started his finance career working for KPMG in external audit in the private sector. Prior to joining Blackburn Colin worked in internal audit with Lancashire County Council.

Detailed Assessment

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
	Purpose & positioning				
1000	Remit	X			Paragraph 4.1.2 Recommendation 1
1000	Reporting lines	X			
1110	Independence	X			Paragraph 4.1.3 Recommendation 2
2010	Risk based plan	X			
2050	Other assurance providers		X		Paragraph 4.2.2 Recommendation 5
	Structure & resources				
1200	Competencies	X			
1210	Technical training & development	X			
1220	Resourcing	X			
1230	Performance management		X		Paragraph 4.1.5 Recommendation 3
1230	Knowledge management	X			
	Audit execution				
1300	Quality Assurance & Improvement Programme	X			
2000	Management of the IA function	X			Paragraph 4.2.1 recommendation 4
2200	Engagement Planning	X			
2300	Engagement delivery	X			
2400	Reporting	X			
2450	Overall opinion	X			Paragraph 4.2.5 Recommendation 6

Conforms	x	Partially Conforms		Does Not Conform	
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Halton Borough Council Internal Audit Service – PSIAS Action Table

The following points for consideration to develop the Audit Function arise from the review undertaken:

PSIAS Ref	Rec No.	Points for Consideration	Responsible	Action
1000	1	<p>The Audit Charter should be updated and:</p> <ul style="list-style-type: none"> • Have a date for review identified; • Be formally presented to the BEB for approval; • Needs to make reference to the responsibility of Statutory Officers, with regards to Internal Audit; and • Needs to note the requirement for Internal Audit to be notified of any suspected or detected fraud, corruption or impropriety. 	Divisional Manager – Audit, Procurement & Operational Finance	<p>Internal Audit Charter to be updated as per recommendation. The updated document will be presented to the Business Efficiency Board.</p> <p>Date: February 2018</p>
1110	2	<p>The Chief Internal Auditor should have a formal, annual EDR with the Section 151 Officer and consideration should be given to obtaining formal feedback from the Chief Executive and BEB Chair to inform this process.</p>	Operational Director – Finance	<p>A formal annual EDR will be undertaken and feedback obtained from the Chair of the Business Efficiency Board and the Chief Executive.</p> <p>Date: September 2018</p>

1311	3	Comprehensive performance measures should be developed in consultation with appropriate parties. These should be used for monitoring and reporting to the BEB to inform it of Internal Audit performance, including activity relative to the plan.	Divisional Manager – Audit, Procurement & Operational Finance	Additional performance indicators to be developed and will be set out in the 2018/19 Audit Plan and reported against in the Head of Internal Audit Annual Report. Date: February 2018
2040	4	A review cycle should be established for the Internal Audit Methodology Manual and Methodology Overview and the date of the next review recorded on the relevant documentation.	Divisional Manager – Audit, Procurement & Operational Finance	Completed - Annual review process implemented.
2050	5	An assurance mapping exercise should be carried out and documented.	Divisional Manager – Audit, Procurement & Operational Finance	To be done as part of the preparation of the 2019/20 Audit Plan Date: February 2019

2450	6	<p>The Internal Audit Annual Report should include the following:</p> <ul style="list-style-type: none"> • The details of any limitations placed on Internal Audit during the year, including impairments in the performance of its work, or restrictions in the scope of any work undertaken, or confirmation that none have occurred; • A comparison of the actual reviews and audit activity carried out relative to the planned coverage and activity originally approved by the BEB at the start of the year; and • The Safeguarding Internal Audit Independence Report, presented to the BEB in June 2017, noted that there are external forms of assurance over the business areas for which the Chief Internal Auditor has management responsibility. However, apart from the results from the work of the external auditor, the results from these assurance processes are not presented to the BEB. The results of these assurances could also be referenced in the Head of Audit Annual Report to provide additional confirmation regarding the effectiveness of the operation of the risk, governance and control framework in place within the Council. 	Divisional Manager – Audit, Procurement & Operational Finance	<p>The content of the Head of Internal Audit Annual Report to be amended to incorporate the issues referred to in the recommendation.</p> <p>Date: July 2018</p>
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Halton Borough Council Internal Audit Service – Additional Development Action Table

During the review the following additional points for consideration were discussed with the Chief Internal Auditor. Whilst these specific points are out of scope of the Standards / LGAN requirements, they are nonetheless contributory to the overall effectiveness and efficiency of the Internal Audit service and are presented in this report for information and consideration only:

PSIAS Ref	Rec No.	Points for Consideration	Responsible	Action
1000	Additional Comment	The Internal Audit Plan, approved by the BEB in February, refers to the arrangements in place to mitigate any impairment to Internal Audit's independence and objectivity as a result of the Chief Internal Auditor's responsibility for other business functions. The Internal Audit Annual Report should include confirmation that the agreed arrangements have operated effectively during the previous year.	Divisional Manager – Audit, Procurement & Operational Finance	To be implemented as per recommendation Date: July 2018
1100	Additional Comment	Consider changing the Reporting Officer for the internal audit reports presented to the BEB from the Operational Director - Finance to the Divisional Manager – Audit, Procurement and Finance. This will highlight the status of his role as Chief Internal Auditor and make the independence of Internal Audit more transparent.	Divisional Manager – Audit, Procurement & Operational Finance	Already actioned

2040	Additional Comment	Sampling guidance should be developed, and communicated to staff, covering the approach to take and sample sizes that should be used for audit testing to ensure that there is consistency by staff across all audit work.	Divisional Manager – Audit, Procurement & Operational Finance	The approach to testing and sample sizes is agreed for each audit. However, additional guidance will be included in the Internal Audit Methodology Manual and Methodology Overview. Date: April 2018
2410	Additional Comment	Definitions of the three grades used for internal audit recommendations should be included in the Internal Audit Plan, Annual Report and individual review reports so that readers of the reports understand the distinction between the different categories.	Divisional Manager – Audit, Procurement & Operational Finance	Completed: Internal audit report template updated
2450	Additional Comment	The annual opinion should be reworded to make it clearer to the reader whether or not there are any qualifications to the opinion provided arising from the internal audit work carried out during the year, and whether or not there are any issues identified which the Chief Internal Auditor considers are relevant to the preparation of the Annual Governance Statement.	Divisional Manager – Audit, Procurement & Operational Finance	The wording will be reviewed as part of the preparation of the 2017/18 Annual Report. Date: July 2018