



# HALTON BOROUGH COUNCIL

PEER REVIEW OF INTERNAL AUDIT SERVICE AGAINST THE  
UK PUBLIC INTERNAL AUDIT STANDARDS

**CARRIED OUT BY:**

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UNCLASSIFIED

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# Halton Borough Council

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

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### 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 Northwest 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 This review has been carried out by the Head of Internal Audit at Cheshire West and Chester and Deputy Head of Audit at Salford City Council. Their 'pen pictures', outlining their 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.

2.2 In summary, the key elements of the process were:

- The peer review was undertaken in three stages: pre-review; review (desktop); post-review and covers audit activity during the period covered in the latest Head of Internal Audit Opinion.
- Halton Borough Council was 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 agreed that the self-assessment used the **CIPFA Local Government Application Note (LGAN)** questionnaire. Supporting evidence included the Internal Audit Plan & Charter, the Head of Internal Audit Opinion, Quality Assurance & Improvement Programme and examples of final audit reports.
- To support the desktop review, a customer survey form was issued to key personnel within the authority.
- The review cannot reasonably consider all elements of the LGAN self-assessment, and the review team used the ‘desktop’ period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself was risk-based, timely and added real value.
- Halton Borough Council was assessed against the three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution; together with a view on the impact that the Internal Audit service has within the organisation.
- Upon conclusion, the review team offered a ‘true and fair’ judgement against each thematic area of the LGAN, from which an aggregation of the three themed scores gives an overall Authority score.
- In addition to this, an evaluation of the impact of Internal Audit within the organisation was also made primarily on the customer survey forms, and online interviews with various levels of management within the Authority.

### 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
<b>Overall Judgement</b>	<b>Conforms</b>

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 / LAGN 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.
- 3.4 The peer review focus on conformity with the 2017 Public Sector Internal Audit Standards. In January 2024 new Global Internal Audit Standards were published but only become effective from January 2025.

# Detailed Findings

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## 4 Observations and Recommendations

As indicated in 3.1, the Council's internal audit function conforms to the current Standards. The following section details many positive observations and good practice. It also includes a variety of recommendations that are intended to add value by strengthening the existing good arrangements further and sharing good practice. Mindful of the new Standards that become effective in 2025, many of the recommendations will help the audit function's preparations.

### 4.1 Attribute Standards

#### 1000 Purpose, Authority and Responsibility

- 4.1.1 Our discussions with members of the internal audit service and senior leaders highlighted the strong support and understanding for the work of the auditors. It is evident that the role of audit is well understood and appreciated, and that auditors receive the backing of senior leaders when required.
- 4.1.2 The Internal Audit Charter clearly sets out the purpose, authority, and responsibility of Internal Audit, and is consistent with the PSIAS in defining those elements and others, including the role of the Audit and Governance Board (audit committee) and roles of key officers in the council's management team as regards internal audit.
- 4.1.3 Internal audit is positioned within the Finance Department. The Divisional Manager – Audit, Procurement & Operational Finance (the head of audit) reports administratively to the Operational Director – Finance (S151 Officer), who is a member of the council's leadership team. The Divisional Manager – Audit, Procurement & Operational Finance reports functionally to the Audit and Governance Board.

#### 1100 Independence and Objectivity

- 4.1.4 The Internal Audit Charter establishes the Divisional Manager – Audit, Procurement & Operational Finance's free and unfettered access to the Audit and Governance Board's Chair, the council's Chief Executive, and any other officers as/when required. The Divisional Manager attends and contributes the Audit and Governance Board's meetings. Arrangements to manage threats of objectivity and independence are embedded, both structurally and with regards to individual auditor practice. The Divisional Manager confirms to the board annually that the internal audit activity is organisationally independent.

#### 1200 Proficiency and Due Professional Care

- 4.1.5 The Divisional Manager is professionally qualified, with extensive experience working within internal audit and Halton Borough Council. Collectively, the mix of qualifications, competencies, skills, and experience running through the team enables it to fulfil its role effectively. Job descriptions and person specifications for the roles on the team are up to date.
- 4.1.6 The team maintains a log of each auditor's continuing professional development. To compliment this, a competency framework has been developed and completed by team members in order to highlight training and development needs. An induction programme has been established for the team's most recent recruits to ensure they each receive the requisite training for their role.
- 4.1.7 The existing skills and experience of the auditor and supervisor are considered when allocating work, alongside development opportunities. The team has access to specialist skills when required, including individuals on the team that are proficient in the use of data interrogation tools and counter fraud. Where the team does not have the skills in-house, it has commissioned external support (digital/IT audit).

#### 1300 Quality Assurance and Improvement Programme (QAIP)

- 4.1.8 The Divisional Manager has developed and maintained a Quality Assurance and Improvement Programme (QAIP) through which conformance with the PSIAS assessed and includes an action plan supporting continuous improvement. The results of the QAIP are reported to the Audit & Governance Board by the Divisional Manger as part of the Internal Audit Annual Report.
- 4.1.9 The QAIP includes the requirement for both self-assessment and 5-yearly external assessment of conformity with the PSIAS.
- 4.1.10 As part of the QAIP, the auditors request completion of a satisfaction questionnaire following completion of each audit. The responses received are predominantly positive and the outcomes are included within the annual report.

#### **4.2 Performance Standards**

##### 2000 Managing the Internal Audit Activity

- 4.2.1 The Divisional Manager has determined the priorities of the internal audit activity in a risk-based plan, designed to deliver sufficient assurance work to inform his annual head of audit opinion. In developing the plan, the Divisional Manager considers the Council's strategic risks and consults with senior leaders across the organisation. Our interviews with senior leaders highlighted a high degree of, and unanimous, confidence that the plan focused on key risks to the organisation and matters of significance, relevant to the Council's objectives. However, the current planning approach is heavily reliant on the knowledge and experience of the Divisional manager

and is not documented. In addition, there is no visible 'golden thread' within the published plan linking it to specific corporate objectives or strategic risks. The link would only be evident to those with a deep understanding of Halton Borough Council.

#### **Recommendation R01**

The planning approach / methodology should be documented within the audit manual and/or methodology manual. [PSIAS 2010]

#### **Recommendation R02**

The annual plan should be enhanced to make linkage to the organisation's risks and strategic objectives more overt. In redesigning the plan report, it would be worthwhile reflecting upon the requirements of the new Standards which mandate inclusion of a strategy, inclusive of internal audit's objectives and vision, from January 2025 onwards. It's acknowledged that the Council's is currently reviewing its corporate objectives, and there are interdependences between this recommendation and the progress of that work programme. [PSIAS 2010]

#### **Recommendation R03**

The Standard's require that internal audit activity's plan of engagements must be based on a documented risk assessment. Planning records should be retained that demonstrate this, including the outcomes of discussions and meetings held, email correspondence, risks considered, etc in developing the plan. [PSIAS 2010]

- 4.2.3 The annual internal audit plan sets out the approach to placing reliance on other sources of assurance. To date, this has generally been in relation to the work of the external auditor. However, there is an opportunity consider the work of other independent assurance providers in forming the annual "Head of Audit's Opinion", complimenting the work of internal audit. This may include Care Quality Commission (CQC) and Ofsted reports, in relation to the council services or council funded service providers.

#### **Recommendation R04**

The PSIAS state that: *"The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process."*

Planning records should be retained that demonstrate the assessment, including the outcomes of discussions and meetings held, email correspondence, risks considered, etc in developing the plan. [PSIAS 2010]

- 4.2.4 The internal audit plan sets out the resource available and how it will be deployed, includes estimated budgets for each planned engagement. The optimal timing of individual engagements is discussed with management aiming to minimise disruption



to the services being audited whilst delivering the agreed plan of work and meeting the organisation's assurance needs. The audit team structure and capacity were reviewed in 2022 and posts recruited to. It's recognised by the Divisional Manager and senior stakeholders that a delicate balance has been reached with the resource base, and it's recognised that the team's ability to deliver the plan would be at risk in the event of long-term sickness or a leaver.

- 4.2.5 The Audit and Governance Board received regular updates on progress against the internal audit plan, inclusive of any significant changes, emergent work, or resourcing implications. Papers prepared for the Board, including the annual plan, annual report, and quarterly progress reports, are circulated to members of the council's leadership team, ensuring a good level of awareness is maintained.

#### 2100 Nature of Work

- 4.2.6 It is evident from the sample of audit work observed as part of our review that due consideration is given to governance, risk management, and internal control as part of the audit work completed. The audit process / methodology is controlled through the use of audit software.

#### 2200 Engagement Planning

- 4.2.7 Individual audit engagements are well planned and executed. A Terms of Reference is produced for each audit assignment, setting out transparently the objectives, scope, timing, and resource allocated. The audit methodology is consistently applied, and in part controlled using the team's Pentana software alongside the audit manual and methodology manual. The software helps ensure key working papers are maintained on file and good audit trails demonstrating supervision and sign-off at key stages of the work.

#### 2300 Performing the Engagement

- 4.2.8 Our review of a sample of audit work demonstrates that appropriate information is identified and retained to support their results and conclusions. Quality assurance procedures help to ensure that a prudent, informed person would likely reach the same conclusions as the auditor from the evidence that has been recorded.

#### 2400 Communicating Results

- 4.2.9 Audit communications are effective. Audit reports are produced following each standard engagement, setting out the objectives, scope, conclusions, and where required an action plan to address any identified weaknesses. The action plan is codesigned with management to ensure the action requires is achievable, responsibility assigned, and timescales realistic. Finalised reports are circulated to leaders, including the Chief Finance Officer and direct chain of management up to the

chief executive. The Audit and Governance Board also receive summary reports for each audit completed.

- 4.2.10 Each engagement report provides an overall opinion, supported by a narrative rationale and evidence-based findings. Arrangements for follow-up reviews are well established and the results reported.

#### 2450 Overall Opinion

- 4.2.11 The individual engagement opinions are relied upon by the Divisional Manager in forming his annual Head of Audit Opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report details the completed work relied upon by the Divisional Director but does not provide a comparison of work carried out with the planned work not completed.

#### **Recommendation R05**

We acknowledge progress against the audit plan is clear within the Board's regular progress reports. However, for completeness, consideration should be given to including within the annual report a more transparent indication of the planned work not completed, i.e., not available as planned to inform the head of audit opinion. [PSIAS 2450]

### **4.3 Other Points for Consideration**

#### 1000 Purpose, Authority and Responsibility

- 4.3.1 The role and responsibilities of the Audit and Governance Board is defined within its Terms of Reference and reviewed annually; however, the Terms of Reference differ substantially to the best practice model provided by CIPFA. In contrast, the Board's Terms of Reference contains just 4 points specifically on internal audit, whilst the CIPFA model has 13 specific points. Matters not covered include their fundamental role in relation to the Internal Audit Charter, the Quality and Improvement Plan, the external review of the effectiveness of internal audit and ensuring unfettered access of the 'head of internal audit' to the Chair.

#### **Recommendation R06 (point for consideration)**

The Audit and Governance Board's Terms of Reference is inconsistent with CIPFA's 'best practice' model. We recommend considering aligning its content with that suggested by CIPFA when the TOR is next reviewed (annual review of the constitution). [PSIAS 1000]

### 1100 Independence and Objectivity

- 4.3.2 In addition to his 'head of audit' role, the Divisional Manger is responsible for several different financial services. It has been agreed that internal audits of these non-audit responsibilities are overseen by the Divisional Manager's line manager, to mitigate against risks, or perception of risks, to the independence of the audit work.
- 4.3.3 Each member of the internal audit team completes an annual 'Code of Ethics and Declarations of Interest Statement' declarations of interests and ethics forms. It was noted that a small number of the team have declared relatives or close associates who are employed by the Council, however, there is no documented strategy in place to manage these conflicts of interest. Verbal assurances were obtained regarding how the conflicts of interest are managed but the process could be strengthened.

#### **Recommendation R07 (point for consideration)**

The Code of Ethics and Declarations of Interest Statement could be adapted to include a space for a conflict-of-interest management strategy and manager sign-off. [PSIAS 1100]

### 1300 Quality Assurance & Improvement Programme

- 4.3.4 The QAIP Action Plan indicates the need to update the QAIP and the Audit Manual / Methodology Manual to reflect changes to the team since the documents were last updated. This work has not yet been completed.

#### **Recommendation R08 (point for consideration)**

The QAIP Action Plan indicates the need to update the QAIP and the Audit Manual / Methodology Manual to reflect changes to the team since the documents were last updated. This work should be completed as intended but the exercise should now be widened to reflect upon changes required by the new Global Standards. [PSIAS 1300]

- 4.3.5 The only self-assessment against the PSIAS since the last external assessment was undertaken as part of the organisation's preparation for this external assessment. Whilst greater frequency of self-assessment may be prudent, it is not currently mandated.
- 4.3.6 Relatively few survey responses are received each year. Halton is not unique in this respect, but it is worthwhile exploring options to improve the volume of feedback received. Furthermore, surveys undertaken currently exclude grant audits, which form a significant portion of the annual workplan.

**Recommendation R09 (*point for consideration*)**

Consideration should be given to how the level of feedback can be improved; this may include a) directors more actively encouraging their managers to respond to audit satisfaction questionnaires; b) developing a questionnaire for the recipient/s of grant audits; c) sending an annual questionnaire to directors. [PSIAS 1300]

2400 Communicating Results

- 4.3.7 Following completion of follow-up work, a revised audit opinion (assurance level) is provided but whilst the reports are clear that the work focused on confirming the action taken, it may be prudent to include a caveat that the revised opinion assumes that other controls have not changed.

**Recommendation R10 (*point for consideration*)**

When revised audit opinions (level of assurance) are provided in follow-up reports, include a caveat that this opinion assumes nothing else in the control framework has changed since the original review. [PSIAS 2400]

# Review Team

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## Detailed Assessment

PSIAS Ref	Standard	Conforms			Comments
		Yes	Partial	No	
<b>Purpose &amp; Positioning</b>					
2	Code of Ethics	✓			
1000	Purpose, Authority and Responsibility	✓			See recommendations R06
1100	Independence and Objectivity	✓			See recommendations R07
2010	Planning		✓		See recommendations R01, R02, R03, & R04
2050	Coordination	✓			See recommendation R03
2110	Governance	✓			
2120	Risk Management	✓			
2130	Control	✓			
<b>Structure &amp; Resources</b>					
1210	Proficiency	✓			
1220	Due Professional Care	✓			
1230	Continuing Professional Development	✓			
2030	Resource Management	✓			
<b>Audit Execution</b>					
1300	Quality Assurance & Improvement Programme	✓			See recommendations R08 & R09
2000	Management of the Internal Audit Activity	✓			
2100	Nature of Work	✓			
2200	Engagement Planning	✓			
2300	Performing the Engagement	✓			
2400	Communicating Results	✓			See recommendation R10
2450	Overall Opinion	✓			See recommendations R05

## PSIAS Action Table

The following actions arising from the review undertaken are required to develop the Internal Audit Function and ensure compliance with PSIAS:

PSIAS Ref	Rec No.	Action Required	Responsible	Action
<b>Performance Standards</b>				
<b>2010</b>	R01	The planning approach / methodology should be documented within the audit manual and/or methodology manual.	Head of Audit, Procurement & Operational Finance	The planning approach / methodology will be documented in the Audit Manual.
<b>2010</b>	R02	The annual plan should be enhanced to make linkage to the organisation's risks and strategic objectives more overt. In redesigning the plan report, it would be worthwhile reflecting upon the requirements of the new Standards which mandate inclusion of a strategy, inclusive of internal audit's objectives and vision, from January 2025 onwards. It's acknowledged that the Council's is currently reviewing its corporate objectives, and there are interdependences between this recommendation and the progress of that work programme.	Head of Audit, Procurement & Operational Finance	Linkage to the corporate risk register was made more explicit in the 2024/25 audit plan. Future years' plans will also make more explicit reference to the Council's strategic objectives now that the new Corporate Plan has been produced.

PSIAS Ref	Rec No.	Action Required	Responsible	Action
2010	R03	<p>The PSIAS state that: <i>“2010.A1 The internal audit activity’s plan of engagements <u>must</u> be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.”</i></p> <p>Planning records should be retained that demonstrate the assessment, including the outcomes of discussions and meetings held, email correspondence, risks considered, etc in developing the plan. [PSIAS 2010]</p>	Head of Audit, Procurement & Operational Finance	<p>The annual plan is based on an assessment of risk and knowledge of the organisation, and is also informed through consultation with senior management and the Audit and Governance Board. This process works well and is considered proportionate given the limited internal audit resources available.</p> <p>Records relating to discussions regarding proposed coverage will be retained.</p>
2450	R04	When producing the annual audit report and head of audit opinion, consider drawing upon the results of assurance work undertaken by other independent professionals, including CQC and Ofsted.	Head of Audit, Procurement & Operational Finance	Already actioned - Reference has been made in the 2023/24 annual report to significant issues raised by other assurance providers.
2450	R05	We acknowledge progress against the audit plan is clear within the Board’s regular progress reports. However, for completeness, consideration should be given to including within the annual report a more transparent indication of the planned work not completed, i.e., not available as planned to inform the head of audit opinion.	Head of Audit, Procurement & Operational Finance	Already actioned - Reference to work not completed was included in the 2023/24 annual report.



## 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
<b>Attribute Standards</b>				
<b>1000</b>	R06	The Audit and Governance Board's Terms of Reference is inconsistent with CIPFA's 'best practice' model. We recommend considering aligning its content with that suggested by CIPFA when the Terms of Reference is next reviewed (annual review of the constitution).	Finance Director	The terms of reference for the Audit and Governance Board will be reviewed as part of the 2024/25 update of the Constitution.
<b>1100</b>	R07	The Code of Ethics and Declarations of Interest Statement could be adapted to include a space for a conflict-of-interest management strategy and manager sign-off.	Head of Audit, Procurement & Operational Finance	To be implemented as per suggestion.

PSIAS Ref	Rec No.	Points for Consideration	Responsible	Action
1300	R08	The QAIP Action Plan indicates the need to update the QAIP and the Audit Manual / Methodology Manual to reflect changes to the team since the documents were last updated. This work should be completed as intended but the exercise should now be widened to reflect upon changes required by the new Global Standards.	Head of Audit, Procurement & Operational Finance	Work is already underway updating the Audit Manual / Methodology Manual. The update will take account of all relevant new developments and guidance.
1300	R09	Consideration should be given to how the level of feedback can be improved; this could include: a) directors more actively encouraging their managers to respond to audit satisfaction questionnaires. b) developing a questionnaire for the recipient/s of grant audits. c) sending an annual questionnaire to directors.	Head of Audit, Procurement & Operational Finance	Already actioned - The post audit survey process has been reviewed. Revised arrangements have been implemented.
<b>Performance Standards</b>				
2400	R10	When revised audit opinions (level of assurance) are provided in follow-up reports, include a caveat that this opinion assumes nothing else in the control framework has changed since the original review.	Head of Audit, Procurement & Operational Finance	The follow up report template will be reviewed in line with the suggestion.