

BLACKPOOL COUNCIL

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

CARRIED OUT BY

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**ASSESSMENT DATES: 8 – 10 June 2016
FINAL REPORT DATE: 13th October 2016**

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Blackpool Council

Peer Review of Internal Audit against the 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) 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 through 'self-assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of Blackpool Council.
- 1.5 An independent assessor or review team is defined as 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.
- 1.6 This review has been carried out by the Heads of Internal Audit from Warrington Borough Council / Salford Council and Merseytravel / Liverpool City Region Combined Authority. Details of the reviewers' relevant 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 Head of Internal Audit Annual Report & Opinion.
- Each Authority is required to complete the PSIAS self-evaluation contained within the CIPFA Local Government Application Note (LGAN). The LGAN outlines the “sector-specific requirements for local government organisations” (para 1.13) and “has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self assessments” (page 23).
- The NWCAE Group has agreed that the validation will be based on the completed LGAN self-assessment. Typically, supporting evidence will include the Internal Audit Plan & Charter; The Head of Internal Audit Annual Report & Opinion; Quality Assurance & Improvement Programme; and examples of final audit reports and audit working papers.
- To support the on-site review, stakeholder questionnaires and interviews are also undertaken.
- The review comprises a combination of ‘desktop’ and “on-site’ review.
- The review cannot reasonably consider all elements of the LGAN self-assessment and the review team will use the ‘desktop’ review 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 reviewed against three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution.
- Upon conclusion of the review, the review team offers a judgement on the validity of the self-assessment and an overall assessment as follows: **Conforms, Partially Conforms** or **Does Not Conform** against each

thematic area of the LGAN, from which an aggregation of the three themed scores gives an overall Authority score.

3 Conclusion

3.1 Following a detailed moderation process, the review team has concluded the following overall assessment:

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

3.2 Assessment against the individual elements of each area of focus is included in the Detailed Assessment 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 the 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.

3.4 As part of the self-assessment against the PSIAS a number of specific areas were noted as currently being partially compliant. However the review team confirmed that steps are in place to address each of these areas as part of the overall future development of the Service and none of these issues have any fundamental impact on the overall conformance of the Service with the PSIAS.

4 Observations and Recommendations

4.1 Code of Ethics

In accordance with the Standards, an internal Code of Ethics has been produced and is located within the Audit Manual.

However, although Internal Audit Staff are aware of the requirements of the Code of Ethics, and evidence of declarations of interest are retained, staff do not formally sign or confirm awareness on a periodic basis.

Recommendation 1.

4.2 Attribute Standards

4.2.1 1000 Purpose, Authority and Responsibility

Internal Audit Charter

The Internal Audit Charter is included within the Annual Plan, and thus can only be amended and updated through the amendment to the Annual Plan.

It was noted that some specific Charter requirements of the PSIAS were located in the Annual Plan and not in the Charter itself, as follows:

- Definition of Board, & Senior Management;
- Definition of and explanation of nature of Consultancy work and assurance work;
- Responsibility of Board and senior officers in relation to Internal Audit;
- Reference to the legislative framework (eg: Audit & Accounts Regulations 2015) and mandatory nature of the PSIAS / LGAN; and
- Confirmation of the arrangements for appropriate resourcing, including the role of Internal Audit in other activities such as Counter Fraud and Risk Management.

The Standards do not explicitly state that the Charter should be a discrete document, however the requirements of its content are clear.

Furthermore, following recent changes to the PSIAS (April 2016) it should be noted that the Charter will require update to reflect the revised PSIAS

requirement; namely the inclusion of the Internal Audit Mission Statement and Core Principles for the Professional Practice of Internal Auditing.

Recommendation 2.

4.2.2 1110 Organisational Independence

No formal process exists for formal feedback to be sought from the Chief Executive or Audit Committee Chair to inform the annual appraisal or performance review of the Chief Internal Auditor. Whilst we established that informal communication channels exist, a more formal process would facilitate positive feedback as well as concerns, which are currently only be raised on an *ad-hoc* basis.

Although not a requirement of the Standards, due to the positioning of Internal Audit in respect of organisational governance, for which the Monitoring Officer has overall responsibility, it would seem appropriate that feedback is also sought from the Monitoring Officer. ***Recommendation 3.***

4.2.3 1130 Impairment to Independence or Objectivity

The Standards require that where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, approval should be sought from the Audit Committee before the engagement is accepted. However as no provision for consultancy services is made within the initial plan, it could not be demonstrated that the Audit Committee had proper oversight of the nature, or amount of consultancy work undertaken. **Recommendations 6&7** below address this finding.

4.2.4 1300 Quality Assurance and Improvement Programme (QAIP)

In accordance with the requirements of the Standards, a comprehensive QAIP has been produced and is located within the three-year Strategic Audit Plan. The Standards do not explicitly state that the QAIP should be a discrete document, but the practice of including the QAIP within a strategic document

compromises the ease with which the document can be maintained, reviewed and updated.

Such a review and update of the QAIP would be timely, following the new requirements of the revised Standards in April 2016, particularly in respect of the Core Principles. **Recommendation 4.**

4.3 Performance Standards

4.3.1 2010 Planning

Our review identified that there are no specific links to the organisation's objectives and risks within the strategic or annual audit plan, and that the relationship between the Corporate Risk Register and the nature and scope of planned audit work could be more clearly defined. **Recommendation 5.**

The use of Internal Audit resources are not clearly defined in the Annual Audit Plan, in particular at a senior level. There is no provision or allocation of resource in respect of the activities of the Chief Internal Auditor or Audit Manager. **Recommendation 6.**

Furthermore, consultancy reviews and services, corporate governance and risk work and counter fraud activity are not reflected in the plan. Days utilised on such activities are not reflected within the scope of the Annual Audit opinion, or outcomes reported formally, for example to the Audit Committee. **Recommendation 7.**

It was noted that Audit Reports are routinely produced at the conclusion of consultancy reviews and therefore include an Audit Opinion, as a matter of course. From discussions with officers during the review it was suggested that this can have a detrimental effect on the perception of the outcomes of such reviews. The Standards define Internal Audit as providing consulting activity to "add value and improve an organisation's operations", and when providing a support and advisory role, it may not always be appropriate to provide an audit opinion, where weaknesses were known prior to the request, or indeed

where the consultancy request was borne from a desire to acknowledge these and seek to improve. **Recommendation 8.**

In respect of assurance mapping, only external audit is taken into account and there is no consideration of other sources of assurance, such as external inspectorates and other agencies or consultants. **Recommendation 9.**

4.3.2 2450 Overall Opinion

The LGAN clearly defines the requirements of the Annual Report and Annual Audit opinion. However, whilst in the main the Annual Report was compliant with these requirements, it was noted that the specific link between the Annual Report and the Annual Governance Statement that it seeks to inform is not clearly made.

As, consultancy reviews and services, corporate governance and risk work and counter fraud activity are not reflected in the plan, there was little or no reference to this within the Annual Report. Discussions with the head of internal audit indicated that such reviews are considered when forming the overall Annual Audit opinion, however, the extent to which this work had informed the opinion could not be demonstrated. **Recommendation 10.**

Stephanie Donaldson MA (hons) CPFA

Stephanie is a Chartered Public Finance Accountant (CIPFA) and currently Head of Internal Audit at both Merseytravel (Passenger Transport Executive) and the Liverpool City Region Combined Authority (LCRCA).

Stephanie is also a member of the CIPFA NW Society Council and a CIPFA Technical Information Service (TIS) Editorial Board member, having previously been a member of the CIPFA NW Audit, Risk & Governance Group for a number of years.

Jean Gleave CMIIA

Jean is a fully qualified member of the Chartered Institute of Internal Auditors and is Chief Internal Auditor at Salford and Warrington Councils. Jean has 30 years' experience in Internal Audit in Central Government, the NHS and in the private sector with the Insurance industry. Jean is currently Chair of the North West Audit Risk & Governance Group.

Detailed Assessment

Appendix 2

PSIAS Ref		conforms	Partially conforms	Does not conform	Comments
Purpose & positioning					
	Code of Ethics				Appendix 2 Ref 1
1000	Remit	X			Appendix 2 Ref 2
1000	Reporting lines	X			
1110	Independence	X			Appendix 2 Ref 3
2010	Risk based plan		X		Appendix 2 Ref 5-8
2050	Other assurance providers		X		Appendix 2 Ref 9
Structure & resources					
1200	Competencies	X			
1210	Technical training & development	X			
1220	Resourcing	X			
1230	Performance management	X			
1230	Knowledge management	X			
Audit execution					
1300	Quality Assurance & Improvement Programme	X			Appendix 2 Ref 4
2000	Management of the IA function	X			
2200	Engagement Planning	X			
2300	Engagement delivery	X			
2400	Reporting	X			
2450	Overall opinion		X		Appendix 2 Ref 10

Conforms	X	Partially Conforms		Does Not Conform	
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Blackpool Council Internal Audit Service- PSIAS Action Table

Appendix 3

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

PSIAS Ref (Appendix 2)	Report ref	Point For Consideration	Responsible	Action
Code of Ethics 1000	1	Staff should formally acknowledge acceptance of the Internal Audit Code of Ethics periodically.	Audit Manager	Agreed. The Audit Manager will seek acceptance from the team on an annual basis.
1000	2	<p>Amendments to the Charter should be considered:</p> <ul style="list-style-type: none"> • Produce the Charter as a separate, strategic document which clearly reflects the requirements of the PSIAS / LGAN and can be reviewed and updated independently from the Annual Audit Plan. • Extend the Charter to include the requirements from the PSIAS (see para 4.2.1 of the report) • Update to the Charter is required to include revisions to the PSIAS which came into effect in April 2016. 	Chief Internal Auditor	Agreed.

PSIAS Ref (Appendix 2)	Report ref	Point For Consideration	Responsible	Action
1110	3	Mechanisms to obtain formal feedback from the Chief Executive, Audit Committee Chair and Monitoring Officer should be established to inform the appraisal of the Chief Internal Auditor.	Chief Internal Auditor	Agreed. The Chief Internal Auditor will raise this with the Director of Resources in preparation for the next round of IPAs.
1300	4	<p>Amendments to the QAIP should be considered:</p> <ul style="list-style-type: none"> • Consideration could be given to producing the Quality Assurance & Improvement Programme (QAIP) as a separate strategic document, which can be subject to review and update as required. • A review of the current QAIP is required to ensure that it reflects the requirements of the revised Public Sector Internal Audit Standards (April 2016). 	Chief Internal Auditor	Agreed.
2010	5	Clear links between the Corporate Risk Register and the nature and scope of planned audit work should be defined within the Strategic Audit Plan, Annual Audit Plan and / or the scope of specific reviews.	Chief Internal Auditor	Agreed.

PSIAS Ref (Appendix 2)	Report ref	Point For Consideration	Responsible	Action
2010	6	Consideration should be given to including the available audit days in respect of the capacity of the Chief Internal Auditor and Audit Manager within the Annual Audit Plan to fully reflect internal audit resource available and utilised.	Chief Internal Auditor	Agreed.
2010	7	An allocation in respect of consultancy reviews and services, corporate governance and risk work and counter fraud activity should be reflected in the Annual Audit Plan in order that outturn can be reported and significant deviations from the plan can be referred to the Audit Committee.	Chief Internal Auditor	Agreed.
2010	8	The scope of consultancy work should be clearly defined at the outset of each consultancy review and an Audit Opinion given at the conclusion of each review only if appropriate to do so.	Chief Internal Auditor / Audit Manager	Agreed. This will be considered at the outset of each assignment.
2050	9	All external sources of assurance should be taken into consideration as part of an assurance mapping exercise, to inform the Annual Audit opinion.	Chief Internal Auditor	Agreed.

PSIAS Ref (Appendix 2)	Report ref	Point For Consideration	Responsible	Action
	10	Consultancy reviews and services, corporate governance and risk work and counter fraud activity should be reflected in the Annual Report and included within the scope of the Annual Audit opinion.	Chief Internal Auditor	Agreed.

Blackpool Council Internal Audit Service – Additional Development Action Table

Appendix 4

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 (Appendix 2)		Point For Consideration	Responsible	Action
16	Additional Comment	Length of Internal Audit Reports – Reports routinely contain extensive and long narrative which is time consuming to produce - Could be leaner / streamlined	Chief Internal Auditor	The Chief Internal Auditor will discuss the potential of this with the Corporate Leadership Team.
16	Additional Comment	The allocation of Internal Audit days to individual reviews appears high (20 day reviews) which may be in part due to the allocation / involvement of two officers attending scoping and drafting meetings etc. A resource / skills analysis exercise may be beneficial in identifying areas which are unnecessarily labour intensive or skills gaps which need to be addressed through training and development. This would address weaknesses	Chief Internal Auditor / Audit Manager	This will be considered as part of Audit Planning and at the outset of each audit assignment.

		identified in succession planning within the section.		
16	Additional Comment	The FCATs approach to financial systems assurance is labour intensive. However, despite the significant resource expended on this, overview / strategic recommendations are not reported in a manner which maximises the process as a continuous improvement tool and demonstrates the value that it adds to the organisation.	Chief Internal Auditor	The suite of FCAT tests has recently been reviewed to ensure that they are focused on key controls. Progress will continue to be made in terms of raising the profile of audit findings for systems with devolved control, such as debtors and purchase cards, where the FCAT process is not yet demonstrating continuous improvement.