

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

**OVERALL SUMMARY FOR THE NORTH WEST CHIEF AUDIT
EXECUTIVE GROUP 2016-18**

Peer Review Sub-Group

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Peer Review of Internal Audit against the UK Public Sector Internal Audit Standards Overall Summary 2016-18

1. Introduction

- 1.1. All principal local authorities and other relevant bodies subject to the Accounts and Audit 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) 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". This approach brings the advantages of ensuring that the knowledge, experience and learning points arising from the reviews is more easily retained and shared across the constituent authorities. Whilst it requires an investment of time from Chief Internal Auditors and other senior Internal Audit staff to fulfil, the peer review approach also avoids the potential for significant fees which may arise from external assessments.
- 1.5. **This report presents the summary findings of the reviews carried out from 2016 to 2018 on 17 local authorities/ organisations which form part of the NWCAE Group and which subscribed to this peer review process (see Appendix 2). Whilst this report is issued initially to Chief Internal Auditors for all the relevant organisations, consideration should be given to sharing this further with senior management and Audit Committee members.**

2. Approach /Methodology

- 2.1. The NWCAE Group has a detailed Memorandum of Understanding (MoU) that outlines the broad methodology for the conduct of the peer review. 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 Annual Report and Opinion.
 - 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 agreed that the self-assessment will use the CIPFA Local Government Application Note (LGAN) questionnaire.
 - To support the on-site review, stakeholder questionnaires and interviews are also undertaken.
 - 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 the 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 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 offers a “true and fair” judgement and each Authority is appraised as **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. Summary Findings

3.1. The Peer Review teams concluded the following judgements for the 17 organisations subject to evaluation:

Judgement	Number of local authorities/ organisations
Conforms	14
Partially conforms	3
Does not conform	0

3.2. An overall summary of the assessments against the individual elements of each area of focus is included in the table at Appendix 1. An outline of some of the common themes and findings is set out within section 4 below.

4. Common Themes and Findings

Positive Feedback

- 4.1. Some common themes amongst the many positive outcomes arising from the peer reviews include the following:
- Very good feedback and professional respect for the Internal Audit service and the Chief Internal Auditor role which add significant value to the organisation;
 - The Internal Audit service has a high profile within the organisation;
 - Staff surveys have provided positive feedback on the Internal Audit service;
 - Internal Audit maintains an effective relationship with the audit committee;
 - Audit plans and the planning process in general is comprehensive and risk focused;
 - The levels of supervision and review of audit assignments is generally adequate and effective;
 - Client feedback is requested and evidenced at the end of audit assignments;
 - Strong relationships are maintained between Internal and external audit;
 - The Quality Assurance and Improvement Programme is generally professional and effective; and
 - There has been a lot of positive feedback about the peer review process from both Members and management within the respective organisations.

Areas of Improvement

- 4.2. Some common areas requiring improvement highlighted by the peer reviews are set out below, analysed to align with the three core theme areas for which a summary of outcomes is set out in Appendix 1.

Purpose and Positioning

(Remit, Reporting lines, Independence, Risk based plan, Other assurance providers)

- 4.3. Key outcomes included ensuring:
- The Audit Charter is up to date, approved and fully aligned with the PSIAS, including clear definitions of roles and responsibilities for key roles;
 - Audit staff have full awareness and formal sign off of the Code of Ethics together with annual declarations of interest;
 - Feedback is sought from the Chair of Audit Committee and/ or Chief Executive to inform the annual appraisal of the Chief Internal Auditor;
 - The Strategic or Annual Audit Plan is linked with the organisation's core objectives and risks, particularly the Corporate Risk Register, and risk priorities are applied to assignments within the Audit Plan;
 - Clarity over the nature of any significant consulting and assurance services provided by Internal Audit is included within the Audit Plan;
 - The Audit Plan accounts for all the available resource within the Internal Audit team (including the Chief Internal Auditor) and includes such as consultancy reviews and services, corporate governance and risk work, attendance at Committees, and counter fraud activity, thereby ensuring that audit committee have proper oversight of the work performed;
 - Assurance mapping is fully developed to capture the outcomes from all other assurances, both internal and external, including external audit, external inspectorates and other agencies, consultants and peer reviews, all of which will inform the annual audit opinion, more especially when reliance is placed on other work;
 - The nature and scope of any operational responsibilities of the Chief Internal Auditor are clarified, together with confirmation as to how independent assurance will be gained over such areas, e.g. through the use of external peer reviews; and
 - An engagement plan/ terms of reference are agreed at the start of all audit assignments to confirm the scope, focus and timing of each piece of work and how it links in with corporate or service based objectives.

Structure and Resources

(Competencies, Technical training and development, Resourcing, Performance management, Knowledge management)

- 4.4. Key outcomes included ensuring:
- The Quality Assurance and Improvement Programme (QAIP) should be formalised and subject to regular reviews and updates to both senior management and Members, together with supporting evidence where appropriate;
 - The QAIP includes performance evaluations by the Chair of Audit Committee, Chief Executive and Corporate Directors as considered appropriate;
 - Performance monitoring arrangements include evidence of supervisory review and post audit assignment evaluations to feed into the staff appraisal process;

- Job descriptions and person specifications are up to date, reflecting current roles and responsibilities, and are supported by competency matrices at each level, underpinning regular staff performance reviews;
- Training is formally logged to support staff development and Continuing Professional Development requirements where appropriate; and
- Appropriate resources are directed towards fraud prevention and detection, also ensuring Members are kept up to date with progress and outcomes.

Audit Execution

(Quality Assurance and Improvement Programme, Management of the Internal Audit function, Engagement planning/ delivery, Reporting/ Overall opinion)

4.5. Key outcomes included ensuring:

- Timescales from commencement of assignments to final reporting are minimised wherever possible to enhance efficiency;
- Updates are provided to Members on agreed actions that remain outstanding beyond agreed dates;
- Use of interrogation software is optimised to enhance overall levels of assurance;
- Working papers are clear and cross-referenced to provide evidence in support of audit conclusions;
- Quarterly progress reports are produced for Members and senior management to increase visibility and organisational understanding of the Internal Audit function, and also to allow any changes to the Audit Plan to be approved;
- The Annual Internal Audit Report includes sufficient detail to support the overall audit opinion including:
 - Consideration of the impact of audit outcomes on strategic risks;
 - The materiality or organisational impact of audit findings;
 - Outcomes from investigative or irregularity related work and any associated control weaknesses identified;
 - Outcomes from other assurance providers or external assessments;
 - Details of reviews associated with governance and risk management arrangements; and
 - Confirmation of the independence of Internal Audit;
- A clear link is conveyed between any significant audit outcomes and the Annual Governance Statement;
- Summary reports are produced at the conclusion of each investigation;
- Consideration is always given to the practicality and commerciality of audit recommendations; and
- A clear and consistent report distribution protocol is established for both draft and final reports.

Summary of outcomes for the core themes

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
	Purpose and positioning	Number of organisations			
1000	• Remit	14	3		
1000	• Reporting lines	12	5		
1110	• Independence	8	9		
2010	• Risk based plan	9	7	1	
2050	• Other assurance providers	5	12		
	Structure & resources				
1210	• Competencies	14	3		
1230	• Technical training and development	14	3		
1230	• Resourcing	14	3		
1230	• Performance management	12	4	1	
1230	• Knowledge management	16		1	
	Audit execution				
1300	• Quality Assurance and Improvement Programme	13	3	1	
2000	• Management of the Internal Audit function	14	3		
2200	• Engagement planning	14	3		
2300	• Engagement delivery	15	2		
2400	• Reporting	17			
2450	• Overall opinion	8	9		

Authorities/ organisations participating in the peer review process 2016-18

Blackburn with Darwen BC
Blackpool BC
Bolton BC
Bury MBC
Cheshire East BC
Cheshire West & Chester BC
Halton BC
Knowsley MBC
Merseytravel
Rochdale BC
Salford City Council
St Helens MBC
Stockport MBC
Tameside MBC
Warrington BC
Wigan MBC
Wirral MBC