



Audit and Standards Committee Report

Report of: Linda Hunter, Senior Finance Manager (Internal Audit)

Date: 10th June 2021

Subject: External Assessment – Peer Review Terms of Reference

Author of Report: Linda Hunter

Summary:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment to be conducted of the Internal Audit Service. This requirement specifies the assessment should be undertaken at least once every five years by a qualified, independent reviewer from outside of the organisation as part of an ongoing quality assurance and improvement programme.

The Terms of Reference outlines the approach and programme of work for the external assessment peer review.

Recommendations:

In order to comply with best professional practice (including PSIAS) it is recommended that Members endorse the attached Terms of Reference programme of work.

That Members agree and endorse that the external assessment has an appropriate sponsor, the Deputy Section 151 Officer.

Background Papers:

Category of Report: Open

* Delete as appropriate

Statutory and Council Policy Checklist

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| Financial Implications |
| No Cleared by: Linda Hunter |
| Legal Implications |
| NO Cleared by: |
| Equality of Opportunity Implications |
| NO Cleared by: |
| Tackling Health Inequalities Implications |
| NO |
| Human rights Implications |
| NO: |
| Environmental and Sustainability implications |
| NO |
| Economic impact |
| NO |
| Community safety implications |
| NO |
| Human resources implications |
| NO |
| Property implications |
| NO |
| Area(s) affected |
| Corporate |
| Relevant Scrutiny Committee if decision called in |
| Not applicable |
| Is the item a matter which is reserved for approval by the City Council? |
| NO |
| Press release |
| NO |

Core Cities Chief Internal Auditor Group
External Assessment – Peer Review
Terms of Reference

Background Information

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment to be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation as part of an ongoing quality assurance and improvement programme.

There are two possible approaches to external assessments outlined in the standard: a full external assessment; or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- possess a recognised professional qualification;
- have appropriate experience of internal audit within the public sector / local government;
- have detailed knowledge of leading practices in internal audit; and
- have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Senior Finance Manager, Internal Audit has discussed the proposed form of the external assessment with their line manager (Deputy Section 151 Officer) prior to making the recommendation below to the Audit and Standards Committee regarding the nature of the assessment.

It should be noted that the scope of the external assessment should have an appropriate sponsor. It is recommended that the Audit and Standards Committee members endorse the decision that this role is performed by the Deputy Section 151 Officer.

The Senior Finance Manager, Internal Audit will report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to Audit and Standards Committee, the Executive Director of Resources and the Deputy Section 151 Officer. Who will monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to the provision of service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Proposed Approach

Similar to the last assessment, members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external peer reviewer. The key benefit to this approach is cost. The Chartered Institute of Public Finance (CIPFA) offer a service to provide external assessments and can undertake a full quality assessment at an approximate cost of £30K. The Chartered Institute of Internal Auditors (CIIA) also offer a similar service at an approximate cost of £14k. They also provide a validated assessment, similar to the approach agreed by the Core Cities group, which takes around 5 working days and costs approximately £12.5k

(costs based on quotes obtained for PSIAS reviews at Birmingham City Council).

There are clear financial savings to members of the Core Cities group by adopting a peer review approach. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority has to determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** to the PSIAS.

Independence and Objectivity

Prior to the assessments taking place all parties have agreed the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

The Assessment Process and Indicative Timescales

Completion of the Checklist:

The Senior Finance Manager, Internal Audit has completed the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain:

- relevant background information to gain an understanding of the service. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit and Standards Committee and senior executives);
 - details of responsibilities, resources, structure and activities;
 - details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required;
 - the completed self-assessment and supporting evidence; and
 - evidence of how quality is maintained, and performance measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
 - Evaluate all documentation supporting the self-assessment prior to the assessment phase.

Assessment Phase (remotely) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.
- Interview key staff (via Teams) and stakeholders to confirm audit procedures and process.
- Undertake an exit meeting with the Senior Finance Manager, Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Senior Finance Manager, Internal Audit.
- Issue of draft final report and agreed actions to the Senior Finance Manager, Internal Audit to confirm accuracy.
- Issue final report to the Senior Finance Manager, Internal Audit and Sponsor.
- Senior Finance Manager, Internal Audit / Sponsor to report outcomes to the Audit and Standards Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should take approximately 5 days in total.

Agreed schedule

Manchester review Birmingham

Bristol review Liverpool

Birmingham review Sheffield

Glasgow review Leeds

Leeds review Manchester

Sheffield review Nottingham

Nottingham review Bristol

Liverpool review Glasgow