

Birmingham Audit

Final Report

Public Sector Internal Audit Standards – External Quality Assessment

Peer Review

Sheffield City Council

17th November 2021

Sarah Dunlavy
Assistant Director Audit and Risk Management
Sarah.Dunlavy@birmingham.gov.uk
07927 665715

Information is gathered on a confidential basis and should not be released in response to an FOI request without prior consultation

Our Values We put citizens first We are true to our word We act courageously We achieve Excellence



Contents

*Executive
Summary*

1

*Background &
Scope*

2

Findings

3

Recommendations

4

Page 274

Appendices

One: Agreed Terms of Reference

Two: Stakeholders Interviewed / Surveyed

Distribution List

For acceptance: Head of Strategic Finance (Deputy Section 151 Officer)

For action: Senior Finance Manager (Internal Audit)

To be presented to Audit and Standards Committee on 16/12/21

1. Executive Summary

Top Issues for Management

- 1 Our independent review and sample testing have confirmed that Sheffield City Council's Internal Audit Function 'conforms' with the requirements of the Public Sector Internal Audit Standards in line with the Local Government Application Note.
- 2 The function is seen as independent and objective; trusted; highly regarded by stakeholders; making a positive contribution to the systems of governance, risk management and internal control.

Summary of findings

- Page 275
- 1.1 Sheffield's Internal Audit Service provides a range of assurance, investigation, and Business Partner advisory services to the Council. The 2021/22 audit plan contains 1739 days of planned activity.
 - 1.2 The Public Sector Internal Audit Standards (PSIAS) apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The Standards introduced a requirement for an external assessment of an organisation's internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
 - 1.3 Sheffield's first external assessment against the PSIAS took place in March 2017. In line with the agreed terms of reference a further independent 'peer-review' has been completed by Birmingham City Council to validate current compliance.
 - 1.4 The self-assessment against the standards was completed by the Senior Finance Manager (Internal Audit) using the 'Checklist for Assessing Conformance with the PSIAS and Local Government Application Note' published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
 - 1.5 Our review of this self-assessment and evidence provided confirmed that Sheffield's Internal Audit Service 'conforms' with the standards. Interviews with key stakeholders, together with the survey responses, indicate that Sheffield's Internal Audit Service is valued; and makes a positive contribution to the systems of governance, risk management and internal control.

2. Background and Scope

- 2.1 In April 2013, a new set of PSIAS became effective. PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. They seek to secure ‘a professional, independent and objective internal audit’ that makes an effective contribution to governance arrangements. Guidance on the interpretation of the Standards is set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Local Government Application Note (LAGN) 2019.
- 2.2 The PSIAS sets out the Mission and definition of Internal Auditing; the core principles for professional practice; together with a Code of Ethics. These seek to capture the characteristics of effective internal audit functions. Whilst specific attribute and performance standards provide guidance on how internal auditing should be carried out and the function managed. The Standards also introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
- 2.3 The Core Cities Chief Internal Auditors group has established a ‘peer-review’ process. This process addresses the requirement of external assessment by ‘self-assessment with independent external validation’. The self-assessment of Sheffield City Council’s Internal Audit function against the requirements of the Standards and Application Note was completed by the Senior Finance Manager (Internal Audit), using the checklist contained within the LAGN.
- 2.4 In line with the agreed Terms of Reference, Appendix One, the external review was undertaken by the Assistant Director of Audit and Risk Management, and Principal Group Auditor, from Birmingham City Council. Both are senior members of staff; qualified members of CIPFA; hold appropriate experience of internal audit within the public sector; and have an in-depth knowledge of the Definition, Code of Ethics, and the International Standards for Internal Audit. No conflict of interests, that would limit the independence of the review, have been identified.
- 2.5 The self- assessment checklist was independently validated by reviewing a sample of supporting documentation; interviewing key stakeholders, Appendix Two; viewing recordings of Audit and Standards Committee meetings; and examining the result of the recent Internal Audit director survey in order to capture an organisational perspective on the delivery and value of internal audit services.
- 2.6 Due to COVID restrictions, the review was undertaken remotely.

3. Findings

3.1 An effective internal audit service should:

- understand the whole organisation, its needs and objective;
- understand its position with respect to the organisation's other sources of assurance and plan its work accordingly;
- be seen as a catalyst for improvement at the heart of the organisation;
- add value and assist the organisation in achieving its objectives; and
- be forward-looking, knowing where the organisation wishes to be and aware of the national agenda and its impact.

3.2 Compliance with the PSIAS and LGAN provides the foundations for an effective internal audit service.

3.3 It is clear from the review and stakeholder / survey feedback that Sheffield's Internal Audit Service aspires to accomplish the mission of Internal Audit set out by the International Professional Practices Framework (IPPF) and adopted by PSIAS. The role of Internal Audit is understood across the senior management team and the assurance and advice provided is trusted.

3.4 A proportion of the audit plan is set aside to support business partnering activities. This has enabled Internal Audit to provide insight and value over and above its assurance and fraud related service by offering pro-active advice and guidance and assisting services with change projects, system and process reviews, and value for money exercises.

3.5 PSIAS consists of nineteen attribute standards, that address the organisational characteristics of internal audit services and thirty-three performance standards, that describe the nature of internal audit services and the criteria against which performance should be measured. From the 115 questions contained within the self-assessment checklist completed by the Senior Finance Manager (Internal Audit); 89 were assessed as 'conforms', 14 as 'partial conforms', and 12 as 'not applicable'. Based on our review of the self-assessment checklist; the documentation evidence; explanations provided; and interviews with key stakeholders, we consider that overall the service 'conforms' with the standards set out. Whilst the self-assessment did identify a number of 'partial conforms' these were considered to have arisen due to the need to align audit practices with the organisation or not sufficiently significant to prevent achievement of the overriding standard.

- 3.6 The Senior Finance Manager (Internal Audit) is the designated Chief Audit Executive under the standards reporting through to the Head of Strategic Finance (deputy Section 151 officer). The Senior Finance Manager (Internal Audit) does not report on an administration basis at an organisation level equal or higher to the corporate management team as required under standard 1110 Organisational Independence. However, the Senior Finance Manager (Internal Audit) has unfettered access to, and is able to report in her own name, to the Chief Executive, Executive Director of Resources, and Audit and Standards Committee. We therefore consider the objective of the standard, i.e. sufficient status and independence, to be satisfied.
- 3.7 Quality review processes are well established and embedded into operational procedures. An established risk-based planning process is in place. This planning process will be linked to corporate plans as they are developed.
- 3.9 The stakeholder interviews / results of the recent director survey conducted by Internal Audit confirmed that:
- the advice and guidance provided is trusted and valued;
 - strong and effective professional relationships have been established;
 - the function is seen as independent and objective;
 - Internal Audit respond to change and emerging risks;
 - recommendations are discussed, are practical and support improvement;
 - senior managers are consulted and able to feed into the annual audit plan; and
 - internal Audit have a positive impact on the systems of governance, risk and internal control.
- 3.10 We have identified a number of minor recommendations for consideration that seek to further strengthen the positive position of Internal Audit and help it to continue to drive forward, these include:
- reviewing the Audit Charter and considering incorporating within it the Mission for Internal Audit;
 - reviewing the definition of consultancy services;
 - reviewing and updating the declaration of endorsements;
 - developing a training strategy;
 - consolidating and reporting the results from the Quality Assurance and Improvement Programme (QAIP) to the Board;
 - reviewing and finalising the External Audit joint working protocol;
 - developing a governance and ethics audit universe; and
 - reviewing Terms of Reference (TOR) template and considering the inclusion of auditor's responsibilities in relation to fraud and value for money;
- 3.11 We would like to thank all colleagues from Sheffield City Council involved in the review for their co-operation and assistance.

4. Recommendations

01. PSIAS 1000 Purpose, Authority and Responsibility

PSIAS Requirement

The Chief Audit Executive (CAE) to produce and periodically review the internal audit charter and present it to senior management and the board for approval.

Matters Arising

Sheffield's Internal Audit Services Audit Charter is dated March 2019 and covers the key criteria laid out within the Standards.

Action Plan

Recommendation 01:

Review the Audit Charter and present it to the Audit and Standards Committee for approval.

Consider including the Mission of Internal Audit, as defined by the Standards, within the Charter.

Management Response:

Agreed – to review the Audit Charter and include the Mission of Internal Audit. The Audit Charter will then be appended to the 21/22 Annual Audit Opinion Report and presented to the September 2022 Audit and Standards Committee.

Officer Responsible: Senior Finance Manager (Internal Audit)

Agreed Implementation date: Sept 22

4. Recommendations

02. PSIAS 1000 Purpose, Authority and Responsibility

PSIAS Requirement

The Internal Audit Charter sets out the scope and nature of internal audit activity.

Matters Arising

The Audit Charter implies that consultancy activity is provided through earmarked resources for business partnering activity.

Action Plan

Recommendation 02:

Review and agree a definition of consultancy services, update the Audit Charter and PSIAS self-assessment checklist in line with the agreed definition.

Management Response:

Agreed – Business Partnering activity is and will be defined as consultancy services (as per the Audit Charter) and the PSIAS self-assessment checklist will be amended to reflect this.

Officer Responsible: Senior Finance Manager (Internal Audit)

Agreed Implementation date: 31.12.21

4. Recommendations

03. PSIAS 1110 Organisational Independence

PSIAS Requirement

The CAE reports to an organisational level equal or higher to the corporate management team.

Matters Arising

The CAE does not report on an organisational level equal or higher to the corporate management team. However, the CAE has unfettered access to the Chief Executive, Executive Director of Resources, and Audit and Standards Committee and reports in her own name. A Declaration of Endorsement is in place to confirm that key stakeholders are satisfied that adequate arrangements are in place to protect the independence of the CAE.

Action Plan

Recommendation 03:

Review and update the Declaration of Endorsement.

Once reviewed the Declaration should be signed by the new Chief Executive and re-signed by the Executive Director of Resources.

Management Response:

Agreed – to review and update the Declaration of Endorsement and then get the Chief Executive and Executive Director of Resources certification.

Officer Responsible: Senior Finance Manager (Internal Audit)

Agreed Implementation date: 31.12.21

4. Recommendations

04. PSIAS 1200 Proficiency and Due Professional Care

PSIAS Requirement

The CAE to define the skills and competencies for each level of auditor and periodically assess individual auditors against these.

Matters Arising

Whilst formal job descriptions and person specifications are in place that define key competency areas for each grade, an overall training strategy, that identifies future skill requirements, has not been developed.

Action Plan

Recommendation 04:

Consider developing a training strategy that sets out the current and future skills; together with delivery options; required to fulfil the Mission of Internal Audit and support the Council in delivering its strategic objectives and priorities.

Management Response:

Agreed – this is a positive approach to map out and identify current and future skills along with staff competencies. A Training Strategy will be developed.

Officer Responsible: Senior Finance Manager (Internal Audit)

Agreed Implementation date: 31.3.22

Page 182

4. Recommendations

05. PSIAS 1320 Quality Assurance and Improvement Programme

PSIAS Requirement

The CAE communicates the results of the Quality Assurance Improvement Programme (QAIP) to senior management and the Board.

Matters Arising

A QAIP is established and embedded into operational processes. The structure of the programme, together with achievements against performance targets, is reported to the Board. A summary of the overall results from the QAIP, or quality improvement initiatives, are not reported.

Action Plan

Recommendation 05:

Consolidate and report the wider results from the QAIP to the Board together with any improvement actions plans.

Management Response:

Agreed – the results from the QAIP will be reported in the 21/22 Annual Audit Opinion Report and presented to the September 2022 Audit and Standards Committee.

Officer Responsible: Senior Finance Manager (Internal Audit)

Agreed Implementation date: Sept 22

4. Recommendations

06. PSIAS 2050 Coordination

PSIAS Requirement

The CAE to make arrangements to share information and coordinate activities with other internal and external providers of assurance.

Matters Arising

A protocol, dated 2015, for liaison between the Council's Internal and External Auditors is in place

Action Plan

Recommendation 06:

Review, update, and finalise the joint working protocol for liaison between Internal and External Audit.

Management Response:

Agreed – this protocol is out of date and will be reviewed and updated.

Officer Responsible: Senior Finance Manager (Internal Audit)

Agreed Implementation date: 31.3.22

4. Recommendations

07. PSIAS 2110 Governance

PSIAS Requirement

Internal audit should evaluate the design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.

Matters Arising

Elements of ethics have been subject to review.

Action Plan

Recommendation 07:

Consideration be given to the development of an governance and ethics audit universe. Available sources of assurance could be mapped to this universe to inform the Internal Audit planning process.

Management Response:

Agreed – we need to further consider how Internal Audit can assess appropriate ethics and values within the organisation. Elements of ethics have been subject to audit review in the past few years (for example, review of the officer and members constitution and code of conduct ensuring they meet the Nolan principles, audit review of the declaration of interests, gifts and hospitality and health and safety reviews) and it is accepted the audit universe for this area should be reviewed and updated as part of the 22/23 audit planning process. We will also consult with Core Cities about ethics audits.

Officer Responsible: Senior Finance Manager (Internal Audit)

Agreed Implementation date: 31.3.22

4. Recommendations

08. PSIAS 2200 Engagement Planning

PSIAS Requirement

Internal auditors to have regard to resource requirements, fraud and value for money concerns when planning engagements.

Matters Arising

Guidance on producing Terms of Reference (TOR) and standard templates are in place; these seek to ensure that a standard approach is adopted, and key areas are addressed.

Action Plan

Recommendation 08:

Consider reviewing the standard TOR template to include internal auditors' responsibilities in relation to fraud and value for money.

Management Response:

Agreed – a standard paragraph will be included in the TOR template.

Officer Responsible: Senior Finance Manager (Internal Audit)

Agreed Implementation date: 31.12.21

Appendix One

Core Cities Peer Review Terms of Reference

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 Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should 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

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 will 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 will agree 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:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

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 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 on-site visit.

Assessment Phase (on-site visit) (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 and stakeholders to confirm audit procedures and process.
- Undertake an exit meeting with the Head of 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 Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor.
- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

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

Proposed schedule

Manchester review Birmingham
Bristol review Liverpool
Birmingham review Sheffield
Glasgow review Leeds
Leeds review Manchester
Sheffield review Nottingham
Nottingham review Bristol
Birmingham review Glasgow

Appendix Two

Stakeholders Interviewed / Surveyed

Stakeholders Interviewed

- Chief Executive
- Executive Director for Resources
- Chair of Audit Committee

Survey

Reliance placed on results from the director survey which had recently been undertaken by the Senior Finance Manager (Internal Audit)

This page is intentionally left blank