

FYLDE BOROUGH COUNCIL

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

DATE DECEMBER 2016

Review Team

Gordon Brown – Chief Internal Auditor

Dawn Highton – Operational Head of Audit

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 Lancashire Districts Chief Auditor Group (LDCAG) 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 Fylde 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 operational Heads of Internal Audit at Preston City Council & Chorley and South Ribble Borough Councils. Their 'pen pictures', outlining background experience and qualifications, are included at **Appendix A**.

2 Approach/Methodology

- 2.1 The LDCAG 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 and Opinion. For example, reviews commencing after 1 July 2016 will cover the audit year 1 April 2015 to 31 March 2016.
 - 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 LDCAG has agreed that the self-assessment will use the **CIPFA Local Government Application Note (LGAN)** checklist. Typically, supporting evidence will include the Internal Audit Plan & Charter, The

Head of Internal Audit Annual Report and Opinion, Quality Assurance and Improvement Programme and examples of final audit reports.

- To support the on-site review, a customer survey form will be issued to key personnel within the authority being reviewed.
- 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 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.
- Upon conclusion, the Review team offers a 'true and fair' judgement and it is proposed that each Authority will be 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 Following a detailed examination process, the review team has concluded the following judgements:

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

Assessment against the individual elements of each area of focus is included in the table at **Appendix B**.

3.2 Positive Observations

- The Head of Internal Audit is viewed as professional and is well respected.
- There is an excellent relationship with both the Chair and members of the Audit and Standards Committee.
- Senior management have the opportunity to contribute to the annual Internal Audit Plan.
- There was universal acknowledgement that Internal Audit raises significant control issues at an appropriate level within the organisation.

- Internal Audit is seen as promoting appropriate ethics and values throughout the organisation.
- Comprehensive documentation exists in relation to Internal Audit's role and responsibilities.

3.3 Significant Observations

None identified.

3.4 Minor Observations

The underlying theme in the following observations is one of a traditional approach which has been adopted by Internal Audit, which has contributed to the Service conforming with the standards. The subsequent action points at **Appendix C**, whilst cross referencing to relevant standards, however, are aimed at assisting the section to develop further and raising its profile as a key strategic partner within the organisation.

PSIAS 2000

Although, there is evidence of agreed actions and customer feedback that demonstrate value added to the organisation, responses from surveys and interviews highlighted a incomplete appreciation of the value that the service can bring to the organisation. – Point for Consideration 1

PSIAS 2010 / 2050

- a) It is unclear from the documentation how sources of assurance have informed the risk based annual plan. – Point for Consideration 2
- b) There is no reference within the Internal Audit Strategy as to how the Internal Audit Service will be developed. – Point for Consideration 3
- c) Although liaison does take place with External Audit there is no evidence that internal and external plans are co-ordinated. – Point for Consideration 4

PSIAS 2200 / 2210

It is unclear from the documentation how the identified risks to the service are being addressed as audit programmes primarily comprise standard key controls. - Point for Consideration 5

PSIAS 2120

There is a clear framework of measures in place to manage the risk of fraud at the corporate level, however, there is no evidence from the documentation to indicate how fraud risks are identified and managed at service level. – Point for Consideration 6

- 3.5** Additional advisory 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 D** of the report for information and consideration only.

Review Team

Gordon Brown CPFA , BA (hons)

Gordon is a Chartered Public Finance Accountant and is currently Chief Internal Auditor at Preston City Council. He has 31 years experience in internal auditing, including 21 years as Head of Service and has worked in 5 other local authorities as well as a housing association during his career.

Dawn Highton MIIA

Dawn is a fully qualified member of the Chartered Institute of Internal Auditors and is currently the Operational Head of Audit for the South Ribble Borough Council and Chorley Council Shared Assurance Service. Dawn has 15 years experience in internal audit having previously worked in finance within the leisure industry

Detailed Assessment

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
Purpose & positioning					
1000	• Remit				
1000	• Reporting lines	X			
1110	• Independence	X			
2010	• Risk based plan	X			
2050	• Other assurance providers		X		
Structure & resources					
1200	• Competencies				
1210	• Technical training & development	X			
1220	• Resourcing	X			
1230	• Performance management	X			
1230	• Knowledge management	X			
Audit execution					
1300	• Quality Assurance & Improvement Programme	X			
2000	• Management of the IA function	X			
2200	• Engagement planning	X			
2300	• Engagement delivery	X			
2400	• Reporting	X			
2450	• Overall opinion	X			

Conforms

X

Partially
ConformsDoes Not
Conform

Fylde Borough Council Internal Audit Service – PSIAS Action Table

Appendix C

The following points for consideration, whilst relating to the Standards will help to develop the Internal Audit Service. Some of these also reflect the views expressed during the interviews conducted with Chief Officers at Fylde Borough Council during the course of the assessment:

PSIAS Ref		Point For Consideration	Responsible	Action
Minor obs/ 2000	1	Internal Audit should consider the need for a flexible, more embracing stance in relation to wider ranging corporate issues This will require communication with senior management to enhance their understanding of the value that Internal Audit can add outside of its main assurance work.	Head of Internal Audit	Internal Audit has always been positively engaged in developing an approach to wider corporate issues. In recent times constraints on resources have led to a greater focus on core assurance work. However, in communicating with senior management we will ensure that our key skills are recognised and actively seek opportunities for adding greater value.
2010 2050	2	In developing an assurance framework, each of the various sources of assurance for each audit activity should be identified in order to help inform the audit planning process.	Head of Internal Audit	We are currently developing the assurance framework along with management, which encompasses the identification of the various sources of assurance for each audit activity.
2010 2050	3	Consider expanding the opportunities to develop and improve the delivery of the internal audit service in the Internal Audit Strategy, by including such things as wider networking, relevant courses, CIPFA benchmarking etc.	Head of Internal Audit	The relevant section of the Internal Audit Strategy will be expanded to more properly reflect the range of developmental opportunities available to and utilised by internal auditors.

2010 2050	4	Consider a more co-ordinated approach between External Audit and Internal Audit at the audit planning stage to share thoughts and ideas as to the content of their respective plans to ensure that maximum benefit from both audit functions is achieved.	Head of Internal Audit	This was a standard feature of internal/external audit relations until fairly recent times, although we do continue to supply all our reports to external audit. We will seek to re-establish a consistent process for sharing plans to ensure proper coverage and minimise duplication of efforts.
	5	When risks are identified at the scoping stage, these should be prioritised according to severity. In addition, the associated controls should also be identified and these should be tested in preference to standard key controls in order to ensure assurance is provided on current business risks providing added value to the service manager.	Head of Internal Audit	We have now adopted the approach of prioritising risks identified at the scoping stage by severity in order to focus on areas of greatest risk. We will identify and test associated controls in order to ensure assurance is provided on current business risks.
	6	<p>Fraud risks should be identified and recorded at the scoping stage, the controls identified and then tested in order to provide assurance that the risk of fraud is being effectively mitigated.</p> <p>At the corporate level, consideration could be given to including the risk of fraud within the strategic risk register.</p> <p>Both actions 5 & 6 will be facilitated by the implementation of service risk registers which in turn will benefit Internal Audit in developing its approach. (see below)</p>	Head of Internal Audit	<p>Internal audit always takes fraud risk into consideration for every relevant audit undertaken. We will identify and record these at the scoping stage and test the controls identified.</p> <p>In order to facilitate actions 5 & 6 we will seek the development of service risk registers as part of the development of the risk management framework.</p>

Fylde Council Internal Audit Service – Additional Advisory Points for Consideration Action Table**Appendix D**

During the review, the following additional advisory points were identified. Whilst these are outside of the 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 further consideration.

	Point For Consideration	Responsible	Action
Additional comment	Consider closer working between Internal Audit and the BPR team in order to ensure that controls are considered at the outset of any new process re-design and the initiative works effectively.	Senior Management	Through communication with senior management and as part of our approach to adding greater value outside our core assurance work, we will seek closer working with the BPR team to ensure controls are properly incorporated into new process re-design activities.
Additional comment	Further development of the risk management framework within the organisation, specifically the development of service risk registers which would enable the internal audit service to more easily adopt a modern risk based approach in line with good practice and could facilitate a more directed assessment of assurance which is better linked to the current risks facing the organisation.	Senior Management	In co-operation with senior management we will seek the development of service risk registers as part of the development of the risk management framework.

Additional comment	From observations and feedback, Internal Audit should always aim to ensure that its proposals for actions are relevant, material and risk focused.	Head of Internal Audit	No action necessary. All proposed actions following audit reviews are already determined by and agreed with managers. High and Medium priority concerns are always relevant, material and risk-focused. Matters that are good practice items only are only included with the manager's agreement.
Additional comment	At the closure meetings, consideration could be given to a single auditor attending in order to avoid a duplication of time and effort, and provide a means of developing the skills of the Audit team members.	Head of Internal Audit	Not a material issue. However, we will consider this in appropriate cases.
Additional comment	Consideration could be given to reviewing the extent of narrative in the introduction within audit reports to streamline this into a more concise, focused report.	Head of Internal Audit	Not a material issue. However, we are currently intending to revise our reports and will take account of this comment.
Additional comment	Consideration should be given to ensuring that the recipients of the reports are those referred to in the Audit Notification and that the quality review process ensures that all material findings are reflected within the proposed actions.	Head of Internal Audit	No action necessary. It is already the case that recipients of reports are referred to in the Audit Notification.
Additional comment	Consider putting the criterion of "the need for auditors to be aware of any	Head of Internal Audit	No action necessary. We will consider this.

	possible areas of concern” within the Procedures Manual rather than the Internal Audit Charter.		
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