

Internal Audit

LEEDS CITY COUNCIL

Public Sector Internal Audit
Standards – External Quality
Assessment

Final Report

December 2021



1 Introduction

1.1 The Public Sector Internal Audit Standards (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.

1.2 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 nineteen attribute and thirty-three 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.

1.3 The main areas covered by the PSIAS are:



1.4 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.

1.5 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 Leeds City Council's Internal Audit function against the requirements of the Standards was completed by the Head of Audit, assisted by the Principal Audit Manager, using the pro-forma contained within the LAGN.

1.6 In line with the agreed Terms of Reference (Appendix 1), the external review was undertaken by the Head of Audit and Inspection and Senior Audit Manager from Glasgow 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.

1.7 The self-assessment was independently validated by reviewing a sample of supporting documentation; interviewing key stakeholders (Appendix 2); viewing recordings of Corporate Governance and Audit Committee meetings; and conducting a survey of a sample of directors and service heads to capture an organisational perspective on the delivery and value of internal audit services. The independent validation exercise included audit services provided on behalf of the Council and external organisations.

1.8 Due to COVID-19 restrictions, the review was undertaken remotely, using video conferencing for interviews.

2 Audit Opinion

- 2.1 Our independent review and sample testing has confirmed that Leeds City Council's Internal Audit Function conforms with the requirements of the Public Sector Internal Audit Standards.
- 2.2 The function is appropriately positioned within the organisation; independent and objective; trusted; highly regarded by stakeholders; and makes a positive contribution to the systems of governance, risk management and internal control.

3 Summary of Findings

- 3.1 Leeds Internal Audit Service provides a range of assurance and investigation services to the Council and other external organisations. The 2020/21 audit plan contained approximately 2,270 days excluding external work. The Service is accredited against the International Standard ISO9001:2015 for quality management.
- 3.2 Leeds City Council's first external assessment against the PSIAS took place in 2016. The five recommendations arising from this review have been reported as complete to the Corporate Governance and Audit Committee. In line with the agreed terms of reference a further independent 'peer-review' has been completed by Glasgow City Council to validate current compliance.
- 3.3 The self-assessment against the standards, completed by the Head of Audit, did not identify any areas of non-conformance and confirmed compliance with the PSIAS. This position has been reported to the Corporate Governance and Audit Committee. Our review of the self-assessment and supporting evidence confirmed this conclusion.
- 3.4 The Head of Audit reports on an organisational basis through the Chief Financial Services Officer but has direct access to the Chief Executive; Corporate Leadership Team; and Chair of the Corporate Governance and Audit Committee. Based on the requirements of PSIAS and guidance contained within LGAN internal audit activity is sufficiently independent and has the appropriate status within the organisation. This was echoed within the stakeholder feedback where the objectivity of the service was clearly valued by all. It was noted that the Head of Audit has recently taken on operational responsibility for Insurance however arrangements are in place to ensure there is no impact upon the Head of Audit's independence.
- 3.5 The stakeholder interviews / surveys confirmed that:
- the advice and assurance provided by Internal Audit is valued and trusted;
 - the Internal Audit team is adaptable and respond well to change and emerging risks;
 - Internal Audit has a positive impact on the systems of governance, risk and internal control;
 - the function is seen as independent and objective; and
 - senior managers are consulted and able to feed into the annual audit plan.

One minor comment was raised, highlighting the challenge for Internal Audit going forward in accommodating and managing audits when resources in departments are reducing and their capacity for responding to audit may be reduced.

3.6 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:

- Regular scheduled meetings with the Chief Executive;
- Specific referencing in all reports confirming compliance with the PSIAS; and
- The format of reporting to the Corporate Governance and Audit Committee.

3.7 We would like to thank all those involved in this review for their cooperation and assistance.

4 Action Plan

No.	Observation	Recommendation	Management Response
PSIAS Requirement: Independence and Objectivity – the Chief Audit Executive has free and unfettered access to, as well as communicate effectively with, the Chief Executive and the Chair of the Audit Committee			
1	Although the Head of Audit has unrestricted access to the Chief Executive, there are no scheduled meetings in the diary for the Head of Audit to meet with the Chief Executive routinely, it is done on an ad-hoc basis.	Formal meetings are scheduled with the Chief Executive, ideally every quarter. This will provide an opportunity to brief the Chief Executive on key audit activity and obtain information on any emerging areas of risk or concern.	<p>Response:</p> <p>Routine meetings would be normal practice but due to Covid it was difficult to establish a regularly scheduled meeting, particularly due to the Chief Executive taking up a role on the national test and trace system.</p> <p>Regular meetings are now diarised.</p> <p>Officer Responsible for Implementation:</p> <p>Head of Audit and Insurance</p> <p>Timescales for Implementation:</p> <p>Implemented</p>

4 Action Plan (continued)

No.	Observation	Recommendation	Management Response
PSIAS Requirement: Communicating Results - Internal Audit report that engagements are 'conducted in conformance with the PSIAS'			
2	Currently the Internal Audit team report on compliance with the Public Sector Internal Audit Standards through the Annual Report and Opinion. There is no mention of compliance on a more regular basis.	Consideration should be given to including reference to Internal Audit work being undertaken in compliance with the Public Sector Internal Audit Standards in all assurance reports.	<p data-bbox="1449 488 1615 515">Response:</p> <p data-bbox="1449 539 2024 679">We are currently requesting feedback on the format of our audit reports, we agree to include this reference within our revised reports.</p> <p data-bbox="1449 703 1800 770">Officer Responsible for Implementation:</p> <p data-bbox="1449 794 1854 821">Head of Audit and Insurance</p> <p data-bbox="1449 898 1928 925">Timescales for Implementation:</p> <p data-bbox="1449 949 1592 981">April 2022</p>

4 Action Plan (continued)

No.	Observation	Recommendation	Management Response
PSIAS Requirement: Communicating Results – Internal Audit communicate the results of engagements in an appropriate way			
3	Currently the information provided to the Corporate Governance and Audit Committee is in summary form. Whilst the PSIAS are not specific on the form that reporting should take, this should be kept under review to ensure it continues to meet the needs of all members of the Corporate Governance and Audit Committee.	The Head of Audit should consider the reporting arrangements to the Corporate Governance and Audit Committee at regular intervals to ensure that they meet members' needs.	<p>Response:</p> <p>We consider this to be a continuous process. We ask Members to provide feedback on an ongoing basis and will continue to do so.</p> <p>Officer Responsible for Implementation:</p> <p>Head of Audit and Insurance</p> <p>Timescales for Implementation:</p> <p>Implemented</p>

Appendix One

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.

2.1.1 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.

2.1.2 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

Chief Executive
Director of Resources
S151 Officer
Chair of the Corporate Governance and Audit Committee
Previous Chair of Corporate Governance and Audit Committee
Independent member of Corporate Governance and Audit Committee

Stakeholders Surveyed

Chief Executive
Deputy S151 Officer
Director of Adults and Health
Director of Children and Families
Director of Communities, Environment and Housing
Director of City Development
Senior Head of Finance – People
Senior Head of Finance – Place
Chief Officer Resources and Strategy – Children and Families
Chief Officer Resources and Strategy – Adults

From the 10 questionnaires issued, 5 were returned (50%)