

TAMESIDE METROPOLITAN BOROUGH COUNCIL

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

CARRIED OUT BY

Tracy Greenhalgh – Blackpool Council
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SUPPORTED BY

Gary Smith – Blackpool Council

ASSESSMENT DATES: 12 - 14 March 2018
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Tameside Metropolitan Borough Council

Peer Review of Internal Audit against the UK Public Sector Internal Audit Standards

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 North West Chief Audit Executives' Group (NWCAE) 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 Tameside Metropolitan 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 Heads of Audit and Risk at Blackpool Council and the Audit Manager at Bolton Council and was supported by the Audit Manager at Blackpool Council. Their 'pen pictures', outlining background experience and qualifications, are included at **Appendix 1**.

2 Approach/Methodology

- 2.1 The NWCAE Group 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 & 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 NWCAE Group has agreed that the self-assessment will use the CIPFA Local Government Application Note (LGAN) questionnaire. Typically, supporting evidence will include the Internal Audit Plan & Charter, the Head of Internal Audit Annual Report & Opinion, Quality Assurance & 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 four 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 moderation 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

- 3.2 Assessment against the individual elements of each area of focus is included in the table at **Appendix 2** and a summary of the areas for consideration to improve / develop the service is identified within the action table at **Appendix 3**.
- 3.3 Additional points for consideration identified during the review that are out of scope of the Standards / LAGN requirements but are contributory to the overall effectiveness and efficiency of the internal audit service are presented in the table at **Appendix 4** of the report for information and consideration only.

4 Observations and Recommendations

4.1 Standards

1000 Purpose, Authority and Responsibility

- 4.1.1 It was identified as part of the interviews and questionnaires completed that the internal audit service are valued for how responsive they are to requests to provide advice and support. A recurrent theme was the transformation programme underway at the Council and how internal audit will need to ensure that they are appropriately skilled and flexible to effectively operate in the 'new world' and continue to add value in the future. Overall, the impression was of a well-regarded internal audit service with a good profile and communications within the business.

1110 Organisational Independence

- 4.1.2 No formal process exists for formal feedback to be sought from the Chief Executive or the Chair of Audit Panel to inform the annual appraisal or performance review of the Head of Risk Management and Audit. Whilst we established that informal communications channels exist, a more formal process would facilitate positive feedback as well as any concerns, which are currently only raised on an ad-hoc basis (**Recommendation 1**).

1130 Impairment to Independence or Objectivity

- 4.1.3 A management decision was taken to give the Head of Risk Management and Audit the role of the Senior Information Risk Owner (SIRO). As the nominated SIRO the Head of

Risk Management and Audit owns information governance risks for the Council which impairs the independence required to provide assurance of this function **(Recommendation 2)**.

- 4.1.4 The Head of Risk Management and Audit has operational responsibility for a number of areas including risk management, insurance and fraud. When an audit of these areas is required a procedure is documented to ensure that the Head of Risk Management and Audit maintains independence from the audit process by reporting through the Assistant Director of Finance (Deputy S151 Officer). When interviewed the Assistant Director of Finance (Deputy S151 Officer) had not considered this arrangement as no such audits had taken place in 2017/18. As part of the 2018/19 planning process we have been advised that the Assistant Director of Finance (Deputy Section 151 Officer) has been informed of the process as a number of audits are planned which fall under the remit of the Head of Risk Management and Audit therefore assuring appropriate independence.

2010 Planning

- 4.1.5 There is an extensive risk assessment process within the audit universe section of Galileo which is undertaken to produce the audit plan. As part of the process, Principal Auditors discuss risks with senior managers. However, the audit plan does not:

- Make reference to the corporate risk register nor illustrate how corporate risks drive the audit plan (including the consideration of local and national risks).
- Does not link into the overall assurance framework.
- Demonstrate how the internal audit service links to the Council's objectives and priorities.
- Outline the priorities of each assignment.

To demonstrate that risk based audit planning is undertaken there would be benefits in further developing the internal audit plan to take account of the above bullet points **(Recommendation 3)**.

- 4.1.6 As is common in the local government sector, resource available for the internal audit plan is driven by the number of staff available, not the number of staff required to deliver the overall level of work. Whilst it is accepted that this is the case the audit plan could be more specific to outline what an optimum level of staff would be able to deliver. This would enable the Audit Panel and Senior Management Team to make an informed assessment of the adequacy of staffing levels **(Recommendation 4)**.

1300 Quality Assurance and Improvement Programme

- 4.1.7 A Quality Assurance and Improvement Programme (QAIP) is in place which is updated on an annual basis and presented to Audit Panel in line with the standards. It was noted that no improvement action plan was linked to this to highlight what actions had been identified to drive improvement and enable Audit Panel to monitor the achievement of these **(Recommendation 5)**.

- 4.1.8 Performance indicators are only reported to Audit Panel at year end and it may be beneficial to report these on a more frequent basis to ensure that the Audit Panel are aware of any potential underperforming areas and seek assurance that remedial action is being taken. We understand this has been discussed with the Audit Panel previously and it has been agreed that performance data should continue to be reported annually as mid-year / quarterly reporting can be misleading due to timing issues. We acknowledge that the audit team monitor performance on a much more frequent basis.

Review Team

Andrew Wright (CMIIA / CIPFA)

Andrew is a qualified Chartered Internal Auditor (CMIIA) and Chartered Public Finance Accountant (CPFA). In his career at Bolton Council he has managed the planning and delivery of audit services across the whole range of council services, and has managed the provision of internal audit services to an external housing association client.

In his current role, Andrew is responsible for managing the council's internal audit function, reporting to the Head of Audit and Risk Management for Bolton Council, Manchester City Council and the Greater Manchester Combined Authority.

Tracy Greenhalgh (CMIIA / MSc Audit Management and Consultancy / MSc Counter Fraud and Counter Corruption)

Tracy is a fully qualified member of the Chartered Institute of Internal Auditors and received a commendation in her MSc in Audit Management and Consultancy and a merit in her MSc Counter Fraud and Counter Corruption. Tracy has nineteen years internal audit experience in the local government sector and is currently Head of Audit and Risk at Blackpool Council.

Tracy's oversees the delivery of the audit plans across the full range of Council services and five wholly owned companies. Her wider portfolio includes responsibility for corporate fraud, risk management, insurance, business continuity, emergency planning, health and safety and equality and diversity.

Detailed Assessment

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
	Purpose and Positioning				
1000	Remit	X			
1000	Reporting lines	X			
1110 / 1130	Independence		X		Paragraph 4.1.2, Recommendation 1 Paragraph 4.1.3 Recommendation 2
2010	Risk based plan		X		Paragraph 4.1.5, Recommendation 3 Paragraph 4.1.6, Recommendation 4
2050	Other assurance providers	X			
	Structure and Resources				
1200	Competencies	X			
1210	Technical training and development	X			
1220	Resourcing	X			
1230	Performance management	X			
1230	Knowledge management	X			
	Audit Execution				
1300	Quality Assurance and Improvement Programme		X		Paragraph 4.1.7, Recommendation 5
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 Conforms		Does Not Conform	
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Appendix 3

Tameside Metropolitan Borough Council Internal Audit Service – PSIAS Action Table

The following points for action to develop the Audit Function arise from the review undertaken:

PSIAS Ref	Rec No.	Points for Consideration	Responsible	Action
1110	1	Consideration should be given to obtaining formal feedback from the Chief Executive and Chair of Audit Committee for the annual appraisal of the Head of Risk Management and Audit.	Director of Finance	The Annual Development Review for the Head of Risk Management and Audit will take on board the recommendation made.
1130	2	Consider allocating the formal SIRO designation to a chief officer, even if the internal audit team continues to support the SIRO function.	Director of Finance/Director of Governance and Resources	The roles relating to Information Governance are being discussed at a meeting on 9 May 2018.
2010	3	Consideration should be given to demonstrating how the audit plan and priorities align to the corporate risk register, assurance framework, link to the Council's objectives and priorities and the prioritisation of audit assignments.	Wendy Poole Head of Risk Management and Audit Services	The Audit Plan for 2018/19 will be presented taking on board this recommendation.
2010	4	The audit plan could be more specific to outline what an optimum level of staff would be able to deliver. This would enable the Audit Panel and Senior Management Team to make an informed assessment of the adequacy of staffing levels.	Wendy Poole Head of Risk Management and Audit Services	The planning process for 2018/19 and future years will incorporate the recommendation made.
1300	5	The Quality Assurance and Improvement Programme (QAIP) should include an action plan identifying steps which will be taken to continually improve the service and enable Audit Panel to monitor progress. The Quality Assurance and Improvement Programme should also be referenced in the Annual Report.	Wendy Poole Head of Risk Management and Audit Services	The Quality Assurance and Improvement Programme (QAIP) for 2018/19 will take on board the recommendation and detail the improvements included in this report as a minimum.

Tameside Metropolitan Borough Council Internal Audit Service – Additional Development Action Table

During the review the following additional points for consideration were identified. Whilst these specific points are out of 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 information and consideration only:

Rec No.	Points for Consideration	Responsible	Action
1	The Audit Plan and Progress reports to Audit Panel are described as reports of the AD Finance/Director of Finance with the Head of Risk Management and Audit also listed as a reporting officer. To ensure that audit retains its organisational independence we recommend that the reports go in the name of the Head of Risk Management and Audit.	Wendy Poole Head of Risk management and Audit Services	This will be discussed with the Director of Finance and Director of Governance and Pensions, as normal practice at the Council is for the Director to be listed then the reporting officer.
2	Consideration should be given to identifying the skills needs by the audit team to assist the Council with its current transformation programme and provide training and development opportunities to address any skills shortage.	Wendy Poole Head of Risk management and Audit Services	This will be discussed with the Director of Finance to ensure the appropriate skills are identified and training and development opportunities to address any skills shortage delivered.
3	Clearer guidance on the extent of post audit review work should be documented in line with the number and priority of recommendations. In addition, improved transparency could be achieved by including post audit reviews in the periodic progress reports to Audit Panel. Consideration should also be given to the process for agreeing extensions to target implementation dates and post audit review timings.	Wendy Poole Head of Risk management and Audit Services	Further enhancements to the progress reports to the Audit Panel were introduced during 2017/18 and the recommendation will be considered for the reporting process for 2018/19.