

Peterborough City Council

Public Sector Internal Audit Standards

External Quality Assessment

Draft Report v1.0

Report Distribution

For Action: Director of Audit
Group Auditor

For Information: Chief Finance Officer
Audit Committee

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1. Introduction & Background

Along with all other internal audit teams and contractors providing services to the public sector, Peterborough City Council Internal Audit Team is required to demonstrate compliance with the Public Sector Internal Audit Standards.

The Public Sector Internal Audit Standards cover a range of requirements as set out below.

Public Sector Internal Audit Standards	
<ul style="list-style-type: none"> • Definition of Internal Audit • Code of Ethics: Covering Integrity, Confidentiality, Objectivity and Competence 	
Attribute Standards	Performance Standards
<ul style="list-style-type: none"> • Purpose, Authority and Responsibility 	<ul style="list-style-type: none"> • Managing the Internal Audit Activity
<ul style="list-style-type: none"> • Independence and Objectivity 	<ul style="list-style-type: none"> • Nature of Work
<ul style="list-style-type: none"> • Proficiency and Due Professional Care 	<ul style="list-style-type: none"> • Engagement Planning
<ul style="list-style-type: none"> • Quality Assurance and Improvement Programme 	<ul style="list-style-type: none"> • Performing the Engagement
	<ul style="list-style-type: none"> • Communicating Results
	<ul style="list-style-type: none"> • Monitoring Progress
	<ul style="list-style-type: none"> • Communicating the Acceptance of Risks

Standard 1300 reinforces the importance of quality assurance in that “The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity”. The standards go on to state that:

“External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- *The form of external assessments.*
- *The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest”.*

Further details of the Standards are provided at [Appendix A](#).

London Audit Consortium (LAC) was commissioned to undertake an independent external quality assurance assessment to fulfil the requirements related to Standard 1300. The assessment has been completed by Derek Corbett, CPFA, Managing Director of London Audit Consortium (LAC).

Further details about the assessor and the London Audit Consortium are set out at [Appendix B](#) to this report.

Peterborough City Council Internal Audit Department is an in-house team directed by the Chief Internal Auditor and is operationally managed by two group auditors. The team sits within the Financial Services division which is part of the Directorate of Resources. The Council has established an Audit Committee. It approves the annual internal audit work programme, monitors delivery of the work programme, receives and considers finalised internal audit reports and monitors the implementation of internal audit recommendations.

The Internal Audit Department provides internal audit and advisory services as well as a counter fraud investigation service (incorporating Stage 2 corporate complaints). It provides some services to external parties.

The Chief Internal Auditor also directs the council's insurance function.

2. Objectives, Scope & Approach of this Review

The overall objective of this review was to provide an independent external assessment of the Internal Audit Department's compliance with the Public Sector Internal Audit Standards. Where possible, good practice opportunities have also been provided to the team.

The counter fraud service did not form part of this review. The effectiveness of the internal audit service provided to third parties was also out of scope and no assurance to third parties cannot be provided

The approach comprised:

1. The Internal Audit team's preparation of a self-assessment comprising explanatory text and supporting compliance evidence. The Internal Audit team chose to undertake a self-assessment based on a TIAN developed checklist that follows the PSIAS.
2. A structured desk top review by the independent assessor of the internal Audit team's self-assessment and compliance evidence.
3. Clarification interviews with the Group Auditors and Chief Internal Auditor.
4. An examination of a sample of audit project files relating to 2018/19 and discussions with Group Auditors who were asked to explain compliance with the relevant standards (2200 Engagement Planning, 2300 Performing the Engagement, 2400 Communicating the Results, 2600 Communicating the Acceptance of risks).
5. Wash-up meeting with officers identified in 3 above.
6. Draft report for discussion;
7. Presentation of final report.

Any information and documentation provided by the Internal Audit team to conduct this review will remain confidential and will not be used for any other purpose than the PSIAS review.

3. Findings, Conclusions and Recommendations

Based on a desk top review of evidence provided by the Internal Audit team, clarification meetings with the Chief Internal Auditor and Group Auditors and a review of a sample of audit projects (reports and working papers) relating to Peterborough City Council for the period 2018/19 it was found to be compliant in the design and application of its policies and procedures with regard to the definition of internal audit, Code of Ethics and Standards.

A summary of the compliance status for each of these aspects of the review is provided in [Table 1](#) below:

Table 1			
Standard	Review Method		Compliance Rating
Conformance with the definition of internal audit	A		Full
Conformance with the code of ethics			
Integrity	A		Full
Confidentiality	A		Full
Objectivity	A		Full
Competence	A		Full
Conformance with the attribute standards			
1000 Purpose, authority and responsibility	A		Full
1100 Independence and objectivity	A		Full
1200 Proficiency and due professional care	A		Full
1300 Quality assurance and improvement programme	A		Full
Conformance with the performance standards			
2000 Managing the internal audit activity	A		Full
2100 Nature of work	A		Full
2200 Engagement planning	A	B	Full
2300 Performing the engagement	A	B	Full
2400 Communicating results	A	B	Full
2500 Monitoring progress	A		Full
2600 Communicating the acceptance of risks	A	B	Full
Review Method Key:			
A = Independent review of evidence and discussions with senior staff.			
B = Independent selection and review of a sample of audit reports and working papers and discussion with managers/ auditors responsible for the projects.			

Twenty seven recommendations have been made to help support service improvements and strengthen the evidence of compliance with the PSIAS. Recommendations are prefixed (S) meaning recommendations that will improve compliance with the PSIAS Standards and (GP) where opportunities to adopt good practice have been identified.

The Conclusions and recommendations are detailed below. A recommendations implementation table is provided at [Appendix C](#).

1000 Purpose, Authority and Responsibility

Conclusion

The Audit Charter is broadly compliant with the PSIAS and is regularly reviewed and approved by the Audit Committee. Some areas of improvement have been identified. Recommendations have been made to improve compliance with the PSIAS.

Recommendations

R1 (S) – The Audit Charter should be updated and enlarged to include:

- specified response times for PCC managers to respond to draft IA project terms of reference;
- minimum notice periods the IA team should provide to PCC managers prior to commencing audits;
- the maximum time permitted to issue draft IA reports after field work is complete;
- detail the process to be followed in the event of PCC management disputing the findings, conclusions or recommendations of Internal Audit reports
- Management obligations to implement recommendations to the agreed timescale; and provide agreed evidence of implementation;
- internal audit's responsibilities to follow up all or a sample of internal audit recommendations;
- The process of determine IA staffing needs as part of the annual IA planning process.

R2 (S) - The HOIA Job Description should be updated to reflect current responsibilities

1100 Independence and Objectivity

Conclusion

Evidence has been provided to confirm the independence of Internal Audit. A recommendation has been provided to improve compliance with the PSIAS regarding reporting consultancy/ advisory work to the Audit Committee.

Recommendations

R3 (S) Audit Committee internal audit progress reports should more clearly state what consultancy/ advisory has been undertaken in the financial year.

1200 Proficiency and Due Professional Care

Conclusion

The CIA's qualification, staff training arrangements, staff supervision and control arrangements allow the PCC IA team to be broadly compliant with the PSIAS. Compliance could be further strengthened by developing more detailed standard operating procedures, evidencing annual assessments of required future staff skill sets and making some budgetary provision for ICT audit specialist work.

Recommendations

R4 (S) The Training Strategy should be updated and incorporated with the PCC Finance strategy during 2018 and subsequently maintained and updated on a more frequent basis. A biannual review would seem appropriate.

R5 (S) An annual assessment of required staff skill sets should be undertaken and recorded. This should be shared with the Audit Committee alongside the Audit Plan.

R6 (S) PCC should consider providing funds to allow technical specialists, (particularly an IT audit specialist) for technical aspects of the audit plan.

1300 Quality Assurance and Improvement Programme

Conclusion

Compliance with the PSIAS is set out in the Audit charter and Audit Strategy and processes have been identified that demonstrate that ongoing monitoring takes place in regard to project planning, field work and reporting. This is the core product of the service but monitoring could be extended to evidence compliance with all PSIAS requirements. Client feedback processes should make use of technology to drive up response rates. Evidence of service improvements have been noted although more formal documentation could be used to evidence progress.

Recommendations

R7 (S) The Charter should be revised to require a service development plan to be developed

R8 (S) The IA Annual Audit Opinion should be used to report compliance with PSIAS primarily through reporting progress with the quality and assurance programme and implementation of service improvements.

R9 (GP) Monitoring of emerging practice should be widened. To help launch this, LAC will provide details of its own sources of service development.

R10 (S) The quality system should be extended to incorporate all processes necessary to ensure compliance with the PSIAS.

R11 (S) The annual IA Head of IA Opinion should document quality review work undertaken and results.

R12 (GP) The CSQ should be restarted using a web based platform that clients can access from a link provided within an email. PCC should also set the tone from the top and require managers to give feedback. Performance should be monitored by the Audit Committee. Such an approach at an NHS organisation led to a 100% return rate for CSQs.

2000 Managing the Internal Audit Activity

Conclusion

The PCC IA team has an effective audit planning process that meets the PSIAS. PCC IA standard operating procedures need to be consolidated, expanded to cover all key duties and issued to staff using a version control process and supported by training on key changes,

Recommendations

R13 (BP) The PCC IA team should exchange audit universes with other local government providers to help improve the potential to identify necessary internal audit coverage.

R14 (S) The PCC IA SOPs should include details of working practices specific to consultancy work. This may simply require a statement that procedures will be the same as for assurance work.

R15 (S) Existing IA SOPs should be consolidated and expanded to cover all key processes. Version control should be employed and records should be kept of distribution of updates to staff and the training provided.

2100 Nature of Work

Conclusion

The PCC IA plan and working practices are compliant with this standard.

2200 Engagement Planning

Conclusion

Terms of reference are prepared for all IA work. Examples reviewed could provide greater detail to assist client sign off and delivery by internal auditors

Recommendation

R16 (S) Further detail should be provided in project Terms of Reference to improve clarity and avoid misunderstandings.

2300 Performing the Engagement

Conclusion

Document retention and control arrangements are satisfactory. Supervision and quality control arrangements are also satisfactory.

PCC IA SOP guidance concerning the preparation of working papers is limited and should be expanded to ensure all staff have a detailed understanding of requirements. This deficiency is offset to some degree by the experience of the team, the supervision arrangements in place and the framework provided by Pentana concerning audit evidence.

Recommendations

R17 (S) A control evaluation matrix should be adopted to improve evidence of analysis, support auditor analysis and improve the efficiency of QA.

R18 (S) PCC IA SOPs should detail the use of the internal control matrix.

R19 (S) PCCIA SOPs should be expanded to explain in more detail the QA process.

R20 (GP) The Pentana supervision and sign off functionality should be used consistently.

2400 Communicating Results

Conclusion

The communication arrangements for internal audit reports are compliant with PSIAS requirements. An overall annual opinion is provided in compliance with the PSIAS.

The appropriate use of memoranda instead of Internal Audit reports need to be clearly specified. The production of the annual governance statement (AGS) presently wrongly sits with Internal Audit. Some good practice opportunities exist around giving more detailed assurance ratings(for each control objective), indicating within reports when the Council's risk register has been updated to take account of the findings of the report and consideration needs to be given to making a disclosure in the AGS.

Recommendations

R21 (GP) Consideration should be given to exploring Pentana's ability to give assurance ratings by system element so as to improve the granularity of assurances and therefore the value and understanding of the report findings and recommendations.

R22 (GP) Consideration should be given to indicating in reports whether management should consider making a disclosure in the AGS or notifying regulatory bodies.

R23 (GP) PCC IA draft reports should be copied to PCC risk managers or the Risk Management Group with clear explanations of the findings IA consider should be considered for inclusion in the risk register. The final report should record details of risk register entries (Reference numbers, assigned risk ratings).

R24 (S) SOPs should be prepared to describe the appropriate use of memos as an alternative to Internal Audit reports and their minimum content.

R25 (S) PCC IA should pass across to management the responsibility for drafting the Annual Governance Statement.

R26 (GP) further metrics should be incorporated into the IA Annual Audit Opinion to improve the level of insight provided to PCC.

2500 Monitoring Progress

Conclusion

Internal audit recommendations are followed up using a priority based approach to determine the level of review. A tracker system could improve PCC monitoring of the status of recommendations and ensure performance in line with agreed implementation dates.

The CIA is able to escalate concerns regarding PCC management acceptance of risks

Recommendation

R27 (GP) A tracker system should be adopted and maintained by IA. Progress updates should be obtained from management regularly and reported to the Executive Team and the Audit Committee. Preferably, to reduce operating costs, an automated system should be used that automatically calls for updates and can be remotely accessed by PCC managers to upload status reports. In the first instance, the potential for Pentana to provide this facility should be explored.

2600 Communicating the Acceptance of Risk

Conclusion

PCC IA is compliant with this standard.

4. Acknowledgements

I would like to thank the Peterborough City Council Internal audit team for their cooperation and support during this review.

Derek Corbett, CPFA
Managing Director
London Audit Consortium

22 November 2018

Appendix A – The Public Sector Internal Audit Standards

The Relevant Internal Audit Standard Setters (Chartered Institute of Public Finance and Accountancy in respect of local government across the UK) have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The standards have subsequently been maintained up to date with the latest version being published in March 2017.

The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector.
- Set basic principles for carrying out internal audit in the UK public sector.
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing.
- Code of Ethics.
- International Standards for the Professional Practice of Internal Auditing (ISPPA).

The PSIAS comprise Attribute and Performance Standards.

- The Attribute Standards address the characteristics of organisations and parties performing internal audit activities.
- The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:
 - Assurance activities.
 - Consulting activities.

A summary of the PSIAS is set out in the table below.

Definition of Internal audit	
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.	
Mission of Internal audit	
To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.	
Code of Ethics	
Integrity	Confidentiality
Objectivity	Competency
Public Sector Internal Audit Attribute Standards	
1000 Purpose, Authority and Responsibility	1200 Proficiency and Due Professional Care
1100 Independence and Objectivity	1300 Quality Assurance and Improvement Programme
Public Sector Internal Audit Performance Standards	
2000 Managing the Internal Audit Activity	2400 Communicating Results
2100 Nature of Work	2500 Monitoring Progress
2200 Engagement Planning	2600 Communicating the Acceptance of Risks
2300 Performing the Engagement	

Appendix B - External Assessor

The assessment has been completed by Derek Corbett, CPFA, Managing Director of London Audit Consortium (LAC).

LAC is an NHS based internal audit consortium hosted by Barts Health NHS Trust. LAC provides internal audit, investigation services and consultancy services to a number of NHS and other public sector clients.

Derek Corbett, CPFA, is a qualified accountant with over 30 years' experience of directing internal audit services in public sector organisations. He has managed LAC since its formation in 2011 and previously directed London City Audit Consortium from 1997 until its merger with two other London NHS audit consortia to form LAC in 2008.

Derek has contributed to the development of the Public Sector Internal Audit Standards through his membership of two NHS national groups, HFMA Governance and Audit Committee and The Internal Audit Network (TIAN).

TIAN is a confederation of the 8 NHS internal audit consortia and two in house internal audit teams operating in England. Derek has chaired TIAN's executive committee since its inception in 2011.

Appendix C – Action Plan

Rec No	Recommendation	Rating (HML)	Agree/ Disagree	Management Action (SMART)	Action Lead/ Manager Responsible	Action Date
1	<p>R1 (S) – The Audit Charter should be updated and enlarged to include:</p> <ul style="list-style-type: none"> • specified response times for PCC managers to respond to draft IA project terms of reference; • minimum notice periods the IA team should provide to PCC managers prior to commencing audits; • the maximum time permitted to issue draft IA reports after field work is complete; • detail the process to be followed in the event of PCC management disputing the findings, conclusions or recommendations of Internal Audit reports • Management obligations to implement recommendations to the agreed timescale; and provide agreed evidence of implementation; • internal audit's responsibilities to follow up all or a sample of internal audit recommendations; • the process of determine IA staffing needs as part of the annual IA planning process. 	M	Agreed	Audit Charter to be reviewed/ updated to clarify and formalise working processes in place. This will be presented to Audit Committee at the Annual Plan approval meeting along with other strategy documents. March 2019	Group Auditor	March 2019
2	R2 (S) - The HOIA Job Description should be updated to reflect current responsibilities	M	Agreed	Discussions held with Acting Corporate Director of Resources as part of annual	Chief Internal Auditor	March 2019

				appraisal process to agree revised responsibilities		
3	R3 (S) Audit Committee internal audit progress reports should more clearly state what consultancy/ advisory has been undertaken in the financial year.	M	Agreed	Consultancy work to be clearly annotated within Audit Committee reports.	Group Auditor	June 2019
4	R4 (S) The Training Strategy should be updated and incorporated with the PCC Finance strategy during 2018 and subsequently maintained and updated on a more frequent basis. A biannual review would seem appropriate.	M	Agreed	Internal Audit Training Strategy (IATS) to be reviewed and updated in line with annual planning processes. Incorporation of IATS into Resources Training Plan/Strategy once it is developed.	Group Auditor	March 2019
5	R5 (S) An annual assessment of required staff skill sets should be undertaken and recorded. This should be shared with the Audit Committee alongside the Audit Plan.	M	Agreed	This process will formalised into the annual planning documentation that is reviewed and approved by members as part of the 2019/20 plan.	Group Auditor	March 2019
6	R6 (S) PCC should consider providing funds to allow technical specialists, (particularly an IT audit specialist) for technical aspects of the audit plan.	M	Agreed	Consideration will be given within the annual planning process in conjunction with the budgetary constraints faced by the business	Chief Internal Auditor	March 2019

7	R7 (S) The Charter should be revised to require a service development plan to be developed	M	Agreed	Incorporation within annual planning process for Charter review/revision	Group Auditor	March 2019
8	R8 (S) The IA Annual Audit Opinion should be used to report compliance with PSIAS primarily through reporting progress with the quality and assurance programme and implementation of service improvements.	M	Agreed	This approach will be reviewed, updated and included within the Audit Committee reporting timetable for the 2018/2019 Annual Audit Opinion to ensure all aspects are transparent.	Group Auditor	July 2019
9	R9 (GP) Monitoring of emerging practice should be widened. To help launch this, LAC will provide details of its own sources of service development.	M	Agreed	New and emerging practices considered as part of the audit planning and development processes to be clearly identified within AC reports and strategies.	Group Auditor / Chief Internal Auditor	March 2019
10	R10 (S) The quality system should be extended to incorporate all processes necessary to ensure compliance with the PSIAS.	H		The IA annual report extended to include areas such as declarations of interest to demonstrate ongoing compliance with PSIAS.	Group Auditor	July 2019
11	R11 (S) The annual IA Head of IA Opinion should document quality review work undertaken and results.	M	Agreed	The IA annual report will be extended to include additional areas where required.	Group Auditor	July 2019

12	R12 (GP) The CSQ should be restarted using a web based platform that clients can access from a link provided within an email. PCC should also set the tone from the top and require managers to give feedback. Performance should be monitored by the Audit Committee. Such an approach at an NHS organisation led to a 100% return rate for CSQs.	M	Agreed	An electronic post audit questionnaire to be developed during 2018/19.	Group Auditor	March 2019
13	R13 (BP) The PCC IA team should exchange audit universes with other local government providers to help improve the potential to identify necessary internal audit coverage.	M	Agreed	Explore willingness of other unitary authorities to collaborate and share audit universes within annual planning process.	Group Auditor	March 2019
14	R14 (S) The PCC IA SOPs should include details of working practices specific to consultancy work. This may simply require a statement that procedures will be the same as for assurance work.	M	Agreed	SOPs to be updated to reflect the one process for consultancy and assurance activities.	Group Auditor	March 2019
15	R15 (S) Existing IA SOPs should be consolidated and expanded to cover all key processes. Version control should be employed and records should be kept of distribution of updates to staff and the training provided.	H	Agreed	Incorporation of in-built Pentana processes into version controlled SOPs to include 'how to' detail.	Group Auditor	June 2019
16	R16 (S) Further detail should be provided in project Terms of Reference to improve clarity and avoid misunderstandings.	M	Agreed	In conjunction with annual planning and client consultation/requirements review how scope and	Group Auditor	April 2019

				objectives can be further clarified within TOR.		
17	R17 (S) A control evaluation matrix should be adopted to improve evidence of analysis, support auditor analysis and improve the efficiency of QA.	H	Agreed	Review the control evaluation process within Pentana to make best use of either a control matrix or auditor analysis to support the QA process.	Group Auditor	March 2019
18	R18 (S) PCC IA SOPs should detail the use of the internal control matrix.	H	Agreed	SOPs to be revised to incorporate control matrix processes.	Group Auditor	March 2019
19	R19 (S) PCCIA SOPs should be expanded to explain in more detail the QA process.	H	Agreed	Incorporation of expanded QA detail within revision of SOPs	Group Auditor	June 2019
20	R20 (GP) The Pentana supervision and sign off functionality should be used consistently.	H	Agreed	The revised SOP will clarify the supervision review and audit sign off process.	Group Auditor	June 2019
21	R21 (GP) Consideration should be given to exploring Pentana's ability to give assurance ratings by system element so as to improve the granularity of assurances and therefore the value and understanding of the report findings and recommendations.	M	Agreed	Explore the potential for system development to provide sub opinions and the associated benefit for doing this.	Group Auditor	June 2019
22	R22 (GP) Consideration should be given to indicating in reports whether management should consider making a disclosure in the AGS or notifying regulatory bodies.	M	Agreed	'Limited or No Assurance' audit reports to be evaluated and recommended for AGS declaration where appropriate.	Group Auditor	April 2019

23	R23 (GP) PCC IA draft reports should be copied to PCC risk managers or the Risk Management Group with clear explanations of the findings IA consider should be considered for inclusion in the risk register. The final report should record details of risk register entries (Reference numbers, assigned risk ratings).	M	Agreed	Explore the development of PENTANA to capture and report internal audit risks identified to the Strategic Risk Management Board.	Group Auditor / Chief Internal Auditor	June 2019
24	R24 (S) SOPs should be prepared to describe the appropriate use of memos as an alternative to Internal Audit reports and their minimum content.	H	Agreed	Enhance the SOP to reflect the use of memo templates and the decision making process for producing a memo rather than a report.	Group Auditor	March 2019
25	R25 (S) PCC IA should pass across to management the responsibility for drafting the Annual Governance Statement.	M	Agreed	CIA to agree with management who should undertake responsibility for AGS preparation and drafting.	Chief Internal Auditor	March 2019
26	R26 (GP) further metrics should be incorporated into the IA Annual Audit Opinion to improve the level of insight provided to PCC.	M	Agreed	Review of IA Annual AO report format to identify potential further metrics such as performance by directorate etc.	Group Auditor	June 2019
27	R27 (GP) A recommendations tracker system should be adopted and maintained by IA. Progress updates should be obtained from management regularly and reported to the Executive Team and the Audit Committee. Preferably, to reduce operating costs, an automated system should be used that automatically calls for updates and can be remotely accessed by PCC managers to upload		Agreed	Explore the logistics of implementing individual action tracking within PENTANA along with any licence/cost implications. Consideration for any other methods for improving	Group Auditor	June 2019

	status reports. In the first instance, the potential for Pentana to provide this facility should be explored.			action tracking where not viable.		
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