



SHEFFIELD CITY COUNCIL

Chief Executive's Directorate

REPORT TO AUDIT COMMITTEE

DATE
14th April 2016

REPORT OF Senior Finance Manager, Internal Audit

ITEM

SUBJECT Public Sector Internal Audit Standards (PSIAS) –
External Assessment Process 2016/17

SUMMARY The report presents the proposed approach to the PSIAS requirement for an external assessment of the internal audit service.

RECOMMENDATIONS

To approve participation by Sheffield City Council in the peer review process developed by the Core Cities Chief Internal Auditors group which will address the requirement for an external assessment.

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
17

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

K Inman

TEL NO.
273 4435

AREA(S) AFFECTED

**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: K Inman
Legal implications
YES /NO Cleared by:
Equality of Opportunity implications
YES /NO Cleared by:
Tackling Health Inequalities implications
YES /NO
Human rights implications
YES /NO :
Environmental and Sustainability implications
YES /NO
Economic impact
YES /NO
Community safety implications
YES /NO
Human resources implications
YES /NO
Property implications
YES /NO
Area(s) affected
Corporate
Relevant Scrutiny Board if decision called in
Is the item a matter which is reserved for approval by the City Council? YES/NO
Press release
YES /NO

REPORT TO SHEFFIELD CITY COUNCIL AUDIT COMMITTEE
14th April 2016

Senior Finance Manager Report

Purpose of the Report

1. The Public Sector Internal Audit Standards (PSIAS) requires 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.
2. The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded.
3. The purpose of this report is to seek approval for the method by which the external assessment will be undertaken at the council.

Background

4. There are two possible approaches to external assessments outlined in the standard; either a full external assessment or an internal self-assessment which is validated by an external reviewer.
5. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments; however quotations received were in the region of £11-15k.
6. There are financial savings to members of the core cities group by adopting the peer review approach outlined within this paper. In addition, the approach is in keeping with the promotion of collaborative working arrangements.
7. Whilst participating in the peer review process would incur no direct costs, there would be a time commitment for the audit team to become a reviewer for another authority. An allocation of 5 days has been made to perform the review of Nottingham City Council.
8. The Senior Finance Manager (SFM) is satisfied that the other organisations involved in the peer review have the appropriate qualifications and independence to undertake the review. Subject to agreement of the approach, Leeds City Council will undertake the review of SCC's internal audit service.

Review Process

9. Detailed terms of reference have been devised by the core cities group to explain the principles and approach to be taken. These are attached at appendix 1.
10. Prior to the external assessments taking place, the SFM, Internal Audit will undertake a self-assessment of the Internal Audit service against the PSIAS, which will be evidenced with reference to a range of internal and published documentation.
11. The peer review process will involve a pre-review element where the self-assessment and supporting documentation, produced by the SFM, will be evaluated by the peer review team. In addition, a questionnaire will be issued to key stakeholders at the council to obtain feedback.
12. An on-site visit will then take place and the council will be assessed against the four main areas of the standard:
 - Definition of internal auditing
 - Code of ethics
 - Attribute standards
 - Performance standards
13. A report will then be issued which states whether the internal audit team conforms, partially conforms or does not conform to the standards. This report will be presented to the Audit Committee and will form part of the Internal Audit team's Quality Assurance and Improvement Programme.

FINANCIAL IMPLICATIONS

14. There are no direct financial implications arising from the report.

EQUAL OPPORTUNITIES IMPLICATIONS

15. There are no equal opportunities implications arising from the report.

CONCLUSION

16. It is considered that a validation of the self-assessment by an external body would be the most efficient and cost effective use of resources.

RECOMMENDATION

17. To approve participation by Sheffield City Council in the peer review process developed by the Core Cities Chief Internal Auditors group which will address the requirement for an external assessment using a validated self-assessment approach.

Core Cities Chief Internal Auditor Group

External Assessment – Peer Review

Terms of Reference

Purpose of the Paper

At the meeting of the Core Cities Chief Internal Auditor (CIA) group held on the 3rd September 2014 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to undertaking the assessments.

It was agreed that the external assessment process should be undertaken as a peer review whereby one authority would undertake a peer assessment of a different authority within the group. It was also agreed that reciprocal reviews would not be undertaken.

Background Information

Members of the peer group:

Sheffield City Council, Leeds City Council, Liverpool City Council, Birmingham City Council, Nottingham City Council, Bristol City Council, Newcastle City Council, Manchester City Council and Glasgow City Council.

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The two possible approaches to external assessments outlined in the standard include either 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
- 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 provision of the 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 reviewer. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment with an approximate cost of £15K (based on a quote obtained for the Internal Audit service at Sheffield City Council). They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes approx. 5 working days and costs approx. £11k.

There are financial savings to members of the Core Cities group by adopting the peer review approach outlined within this paper. 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.

A standard template will be devised for the purposes of reporting conformance. A moderation process will be developed to ensure consistency in the severity of issues being reported.

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

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 require
 - the completed self-assessment and supporting evidence; and
 - Obtain evidence of how quality is maintained and performance is 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) (1 day):

- 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 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 take 5 days in total.

Proposed schedule

Liverpool review Manchester (50mins, direct)

Bristol review Birmingham (1.5hrs, direct)

Manchester review Glasgow (already underway)

Glasgow review Liverpool (3.5 hrs, 1 train change)

Leeds review Sheffield (1hr, direct)

Sheffield review Nottingham (1hr, direct)

Nottingham review Bristol (3hrs, 1 change)

Birmingham review Leeds (2hrs, direct)