

**Chorley Borough Council and South Ribble Borough
Council Shared Audit Service**

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

22 May 2018

Review Team

Joanne Billington, Head of Audit / Governance, Wyre Borough Council

*Lorraine Farrow, Principal Auditor / Deputy Internal Audit and Assurance
Manager, Lancaster City Council*

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 the Shared Audit Service (SAS) at Chorley Borough Council (CBC) and South Ribble Borough Council (SRBC).
- 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 Head of Internal Audit at Wyre Council and the Principal Auditor / Deputy Head of Audit at Lancaster City Council. 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.
 - The SAS has completed its self-evaluation of the 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) questionnaire. Typically, supporting evidence will include the Internal Audit Plan and Internal Audit 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 reviews, a customer survey form has been issued to key personnel within the authority being reviewed.
- The review itself comprised a combination of ‘desktop’ and ‘actual on-site’ reviews.
- The review cannot reasonably consider all elements of the LGAN self-assessment and the review team used 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. The SAS has been assessed against the three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution. Impact is considered an overarching theme within these areas.
- Upon conclusion, the Review team offers a ‘true and fair’ judgement and 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 overall observations

Overall, the peer review of the SAS across CBC and SRBC was very positive indeed. It was very clear from interviewing the officers and the Governance Committee members across both organisations that the SAS is highly regarded. The service is seen as a key part of the governance framework in both Councils and excellent feedback was given on the recent work SAS had completed in respect of rolling out the new GRACE risk management system as well as the 'MyProjects' database at CBC which has been utilized to assist the follow up of audit recommendations.

Managing a shared service is extremely complex and it is important that whilst the objective is to mirror practices, ensure consistency and obtain value for money, each organisation is completely different and requires a certain amount of flexibility when carrying out work and implementing practices. It was clear that the SAS strives to achieve this and the Head of Shared Assurance Services and Principal Auditor have worked hard to ensure both councils get the service that they require whilst working consistently and applying the PSIAS.

Of the 327 questions in the CIPFA LGAN checklist, the last self-assessment completed in March 2018 identified an overall significant level of compliance. There were no instances of non-compliance and only 3 instances of partial compliance reported. Following our independent validation of the self-assessment, the peer review team can confirm it accurately reflects the internal audit shared service.

3.3 Significant Observations

There were no significant observations made during the course of the review.

3.4 Minor Observations

A few minor observations were made during the review. The peer review team would ask that consideration is given to the areas detailed in 3.4.1 to 3.4.3 below.

Purpose and Positioning – Independence & Reporting Lines

- 3.4.1** It should be noted that at the time of the review the SAS was included in management restructuring proposals at both councils. SRBC was in the process of a senior management re-structure and the reporting line for SAS had yet to be finalised. However, both Chief Executives gave the assurance that the role of internal audit is key to each council's governance frameworks, therefore its reporting line, when decided, would enable it to continue to work independently, add value and feed into the each Council's governance frameworks as before.

Audit Execution – Reporting

3.4.2 A common theme raised across both Councils was that in some instances the recommendations made were not always seen by the auditees as practical and in some instances were found to be quite rigid, not allowing managers to acknowledge and accept their own service risks. To ensure managers are more accountable for their own service risks and actions, it is suggested that SAS consider changing the reporting format to report the findings and then allow the auditees to state what action they will be taking to address any weaknesses and mitigate any risks identified. It is accepted that in some instances, findings may not and cannot be always addressed as expected, however SAS must use their judgement to decide if the auditee response is appropriate. By changing the process in this way, it will give managers the opportunity to inform the auditor about any service pressures or reasons why identified risks are not being addressed as well as making the follow-up process more efficient.

Communicating the acceptance of risks

3.4.3 SAS have recently rolled out the GRACE system and updated the Risk Management Frameworks at both councils. Extensive officer training has been provided and a member learning hour has been delivered at SRBC. It is recommended that member learning is similarly undertaken at CBC and as GRACE continues to be rolled out at SRBC, this is supplemented by additional generic risk management training for officers.

3.5 PSIAS Action Table

This details suggested actions to improve the service, its status, execution and quality of the service provided. The points raised in 3.4 above are contained in this action table at **Appendix C**.

Review Team

Joanne Billington

Joanne has been Head of Audit for Wyre Council for 9 years but has over 15 years audit experience. She has a wealth of experience in the management and operation of internal audit functions at both County and District councils. She is a fully qualified member of the Chartered Institute of Internal Auditors (MIIA) and holds a Qualification in Internal Audit Leaderships (QIAL). Joanne also sits on CIPFA's North West Audit and Governance Group.

Lorraine Farrow

Lorraine is currently the Principal Auditor / Deputy Head of Audit at Lancaster City Council and has worked with Lancaster's Internal Audit Team for over 30 years gaining a variety of experience during that time. She is a fully qualified member of the Association of Chartered Certified Accountants and is at present studying to become a Certified Internal Auditor (PIIA).

Detailed Assessment

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
	Purpose & positioning				
1000	<ul style="list-style-type: none"> Purpose, Authority & Responsibility 	X			
1110	<ul style="list-style-type: none"> Independence & Objectivity 	X			See 3.4.1
2010	<ul style="list-style-type: none"> Risk based plan 	X			
2050	<ul style="list-style-type: none"> Other assurance providers 	X			
	Structure & resources				
1200	<ul style="list-style-type: none"> Competencies 	X			
1210	<ul style="list-style-type: none"> Technical training & development 	X			
1220	<ul style="list-style-type: none"> Resourcing 	X			
1230	<ul style="list-style-type: none"> Performance management 	X			
1230	<ul style="list-style-type: none"> Knowledge management 	X			
	Audit execution				
1300	<ul style="list-style-type: none"> Quality Assurance & Improvement Programme 	X			
2000	<ul style="list-style-type: none"> Management of the IA function 	X			
2200	<ul style="list-style-type: none"> Engagement planning 	X			
2300	<ul style="list-style-type: none"> Engagement delivery 	X			
2400	<ul style="list-style-type: none"> Communicating the results 	X			See 3.4.2
2500	<ul style="list-style-type: none"> Monitoring progress 	X			
2600	<ul style="list-style-type: none"> Communicating the acceptance of risks 	X			See 3.4.3

Conforms	X	Partially Conforms		Does Not Conform	
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Chorley and South Ribble Shared Internal Audit Service – PSIAS Action Table

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1100 Independence and Objectivity	3.4.1	The CEOs should ensure that when deciding the future reporting line of the SAS, the team can continue to work independently, add value and feed into the each Council's governance frameworks as before.		
2400 Communicating Results	3.4.2	SAS should consider changing the reporting format to report the findings only and then allow the auditees to state what action they will be taking to address any weaknesses and mitigate any risks identified. This will give managers the opportunity to inform the auditor about any service pressures or reasons why identified risks cannot be addressed as expected as well as making the follow-up process more efficient.		
2600 Communicating the acceptance of risks	3.4.3	Member learning on updated Risk Management Framework should be undertaken at CBC and as GRACE continues to be rolled out at SRBC, this is supplemented by additional generic risk management training for officers.		