



STOCKPORT METROPOLITAN BOROUGH COUNCIL

PEER REVIEW OF INTERNAL AUDIT SERVICE AGAINST THE
UK PUBLIC INTERNAL AUDIT STANDARDS

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FINAL REPORT DATE: 13 March 2023

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Stockport 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 be conducted 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 conducted on behalf of Stockport 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 conducted by the Chief Internal Auditor at Knowsley Metropolitan Borough Council and Audit Manager for Bolton Council. Their 'pen pictures,' outlining their 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.
- 2.2 In summary, the key elements of the process were:

- The peer review was undertaken in three stages: pre-review; on-site review (desktop); post-review and covers audit activity during the period covered in the latest Head of Internal Audit Opinion.
- Stockport Metropolitan Borough Council was 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 agreed that the self-assessment used the CIPFA Local Government Application Note (LGAN) questionnaire. Supporting evidence included the Internal Audit Plan & Charter, the Head of Internal Audit Opinion, Quality Assurance & Improvement Programme, and examples of final audit reports.
- To support the desktop review, a customer survey form was issued to key personnel within the authority.
- The review cannot 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 was risk-based, timely and added real value.
- Stockport Metropolitan Borough Council was assessed against the three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution; together with a view on the impact that the Internal Audit service has within the organisation.
- Upon conclusion, the review team offered a 'true and fair' judgement against each thematic area of the LGAN, from which an aggregation of the three themed scores gives an overall Authority score.
- In addition to this, an evaluation of the impact of Internal Audit within the organisation was also made primarily on the customer survey forms, and online interviews with various levels of management within the Authority.

3 Summary Findings

- 3.1 The review enabled the assessment team to gain a good understanding of the work of the Internal Audit Service. The team has mixture of experienced and relatively inexperienced staff in the team who collectively have a wide range of knowledge and skills.
- 3.2 It was clear from interviews held with stakeholders that the service was valued across the Council. The profile of the service has been increased by the promotion of the service manager to the Head of Service - Internal Audit, Risk, and Insurance. This means that the Head of Service now attends CSS Senior Management Team, continues to attend Corporate Leadership Team and other management teams across the Council and is therefore aware of the key issues affecting the Council.

3.3 There was strong evidence of compliance with the fundamental requirements of the standards. Where recommendations have been made, they have been suggested to strengthen existing systems. It should be noted that there were no significant consulting activities undertaken during the period of the review, therefore assessors were unable to evaluate some aspects of the standards during this review.

3.4 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

3.5 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**.

3.6 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.

Detailed Findings

4 Observations and Recommendations

4.1 Attribute Standards

1000 Purpose, Authority and Responsibility

- 4.1.1 From interviews conducted with several senior officers including the Chief Executive, Deputy Chief Executive (and Section 151 officer), Monitoring Officer, previous and current Chair of the Audit Committee, and several senior officers from client departments it was evident the contribution of the Internal Audit service is proactively sought on key service developments and projects. Both officers and Members understand the purpose, authority, and responsibility of the service. The advice from the team is valued at every stage of projects from new system developments to post implementation reviews. There is good engagement with senior officers across the Council.
- 4.1.2 The Internal Audit Charter reinforces the understanding of the purpose, authority, and responsibility of the service. It clearly sets out how the service is managed and its position within the authority.
- 4.1.3 One of the Local Government Application Notes (LGAN) relating to this standard requires that “the responsibility of the board and the role of the statutory officers (such as the Chief Financial Officer, the Monitoring Officer, and the Head of Paid Service) is documented in the Internal Audit Charter with regards to internal audit. Section 8 of the Internal Audit Charter refers to the statutory role of the Section 151 officer in relation to Internal Audit but does not explain that other officers have no direct responsibility in the Council’s Constitution. However, during onsite interviews, it was explained that the Monitoring Officer and Chief Executive may have roles that assist with Internal Audit activity (e.g., Membership of the fraud/irregularities panel, membership of the Corporate Governance Group etc. The Head of Service also meets regularly with the Monitoring officer and now meets with Corporate Leadership Team (including the Chief Executive).

Recommendation 1

The Internal Audit Charter should be updated to reflect Internal Audit’s relationship with statutory officers such as the Monitoring Officer and Head of Paid Service/Chief Executive.

- 4.1.4 The Internal Audit Charter 6.2 states that Internal Audit is independent of all activities of the Council except for its support to management in relation to risk management, counter fraud, and investigatory work. The Internal Audit Strategy states that internal audit is “independent of all activities for which it is responsible for auditing.” The Deputy Chief Executive and Head of Service confirmed that arrangements are in place when audits of Risk Management, Insurance or Counter-fraud are undertaken. It was explained that the Head of Service would not be involved in the audits. The Deputy Audit Manager would manage the work and report directly to the Deputy Chief Executive/Section 151 officer. The Deputy Chief Executive confirmed that he considers that these systems are more effective when managed jointly with Internal Audit. The Internal Audit Charter does not specifically reference non- audit work and the arrangements for avoiding organisational conflict of interest in these circumstances. (NB The potential for individual auditor conflicts of interest is adequately referenced).
- 4.1.5 The Head of Service explained that during the Covid-19 pandemic the team were also involved in different work which had the potential to threaten independence and objectivity. This was in line with most Local Council Audit teams at the time and in line with Cipfa guidance issued. However, now that normal circumstances have resumed, auditors have re-established a mindset of maintaining independence and objectivity when conducting their work.

Recommendation 2

The Internal Audit Charter should be strengthened to reflect the arrangements in place to manage audit work that falls within the responsibility of the Head of Service – Internal Audit, Risk Management, and Insurance. Consideration should also be given to evaluating the merits of operating alternative arrangements for providing assurance (i.e., peer review etc)

1100 Independence and Objectivity

- 4.1.6 The Head of Service reports to level within the organisation that allows internal audit activity to fulfil its responsibilities as it reports directly into Corporate Leadership Team (CLT) and the Audit committee. The Head of Service’s position in the management structure has also been strengthened by his recent promotion. The Head of Service drafts and presents internal audit activity reports at the relevant meeting. However, reports are presented in the name of the Deputy Chief Executive and not the Head of Service. This is a corporate process and applies to all reports presented to committees and not just audit reports.

Recommendation 3

As the Head of Service drafts and presents reports to Audit Committee and CLT, a review should be undertaken to determine whether is appropriate for the Head of Service to report in his own name.

It was confirmed during interviews with the Head of Service and other stakeholders that there are clear reporting lines for Internal Audit within the organisational structure. On a day-to-day basis the reporting line is to the Strategic Head of Finance (and Deputy Section 151 Officer) with oversight from the Deputy Chief Executive (and Section 151 Officer) when necessary. There are clearly established relationships with the Head of Service and key officers and Members. There is direct and unrestricted access to the Deputy Chief Executive/Section 151 Officer, Monitoring Officer, Chief Executive and Chair of the Audit committee as required. It is noted that Financial Procedure Rules 18.6 also provides for direct access to the Portfolio holder for Internal Audit. The Head of Service can meet with any of these officers/Members.

- 4.1.7 The Council has a Performance Development Review process which is followed by the Internal Audit Service. The Head of Service's performance is assessed by his line manager, the Strategic Head of Finance. Feedback is obtained from key clients such as the Chief Executive and the Corporate Directors on an annual basis. The Head of Service can request input from the Chair of the Audit committee if required but this is not part of the routine process.

Recommendation 4

A formal process should be established to request input from the Chief Executive and Chair of the Audit committee to the annual performance appraisal of the Head of Service.

1130 – Impairment to Independence or Objectivity

- 4.1.8 The standards require evidence of how internal auditors comply with the Bribery Act 2010. The Head of Service explained that there has been no evidence of non-compliance within the team and any non-compliance would be investigated under the Anti-Fraud, Bribery and Corruption Policy. As there is currently a mix of experienced and relatively new members of the team, additional training should be provided to adequately demonstrate and evidence the team's awareness of the policy. This could be provided as part of the ongoing training to support new starters and would also raise the awareness of fraud risks.

Recommendation 5

To support new starters within the audit team, training should be arranged to raise awareness of the internal audit policies such as the Anti-Fraud, Bribery and Corruption Policy. This is also an area where periodic refresher training would be useful for the whole team.

1210 Proficiency and Due Professional Care

- 4.1.9 All internal auditors from senior auditor level are qualified in either CMIIA, CCAB or AAT, and these auditors have at least several years post qualification experience. Auditors conduct a self-assessment of their general skills and knowledge on an annual basis. Stockport's competency framework is applied to the Internal Audit team but

there is no assessment of development needs against any specific audit competencies (e.g., CIPFA Excellent Auditor).

Recommendation 6

The Head of Service should develop a Skills Matrix that addresses the specific competencies that are required by internal auditors. This could supplement the established competencies within the corporate competency framework.

- 4.1.10 Auditors have knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques. One member of the IA team is the designated IDEA (Data Analytics software) specialist and is responsible for writing the data scripts to support the Continuous Auditing Model. The remaining members of the team used to have access to IDEA file interrogation software to analyse data where appropriate on specific audits. However, this changed during the Covid-19 pandemic. The Head of Service acknowledged that IDEA software needs to be installed across the service so that all auditors have access to it.

1311 Quality Assurance and Improvement Programme (QAIP) – Internal Assessments

- 4.1.11 The key performance indicators and targets for the service were agreed with the Deputy Chief Executive/Section 151 Officer and approved by the Audit Committee in July 2019. Monitoring of performance indicators is undertaken by the Audit Manager and reported in the progress reports and annual audit report to the Audit Committee. However, since the Covid-19 pandemic in March 2020, a decision was made to stop monitoring performance indicators as the operational procedures were very unsettled, and the team were facing new ways of working. A decision was taken to reinstate the performance monitoring process from April 2022. An update paper was provided to the team to reconfirm the approach.
- 4.1.12 The performance report was reviewed during the assessment. It was noted that whilst performance indicators were approved by the Audit committee, the targets were not. However, the targets were shown in the performance report. The Audit committee should be involved in the setting of targets and should monitor whether these have been achieved through the year.

Recommendation 7

The Audit Committee should approve performance targets to track the progress of each performance indicator and to demonstrate continuous improvement of the internal audit service.

- 4.1.13 A customer satisfaction survey is issued at the end of each audit assignment although the team often struggle to obtain feedback. This was an improvement area identified in the 202/21 QAIP. The survey has been reviewed to ensure that it is user friendly. Consideration is also being given to issuing the survey as the beginning of the audit process to allow more time for completion when the client is still actively engaged with the audit.

1312 - Quality Assurance and Improvement Programme (QAIP) – External Assessments

- 4.1.14 In January 2016, the Audit committee agreed the approach to meeting the requirement for an external assessment of the Internal Audit service every five years. Most members of the Audit committee had participated in the original decision to join the peer review process and were aware of the history/context of the review. From discussions with the Chair of the Audit committee, it was clear that he was supportive of the process. The Head of Service confirmed that he had discussed the approach that would be taken for the 2022 review at a recent Audit committee meeting, but this discussion and agreement was not formally minuted.

Recommendation 8

The Head of Service should formally request the Audit committee's agreement to the scope and proposed format of the external assessment process each time the assessment is due.

4.2 Performance Standards

2120 Risk Management

- 4.2.1 The standards require internal audit to evaluate the effectiveness of the organisation's risk management process. The Head of Internal Audit explained that risks are considered on every audit. Generic objectives around organisational arrangements are considered as part of the scope for each engagement. However, he did acknowledge that there have been no recent audits of the Councils' corporate risk management arrangements. The previous audit work was conducted more than five years ago. (Paragraph 4.1.4 above explains the process in place to audit the Council's Risk Management systems as this service is also the responsibility of the Head of Internal Audit). A process needs to be developed to ensure that the Head of Internal Audit and the Audit committee have the necessary assurance that the risk management process is effective.

Recommendation 9

As part of the audit planning process, an assessment should be undertaken to determine whether independent assurance of the Council's Risk Management systems assurance is required. Even if the current systems are assessed as adequate, more regular in-house reviews should be built into the audit planning processes.

2450 Overall Opinion

- 4.2.2 The Head of Internal Audit annual opinion has been included in the Annual Report to the Audit Committee. The report summarises the work delivered by Internal Audit,

categorised by “type of work.” It is requirement of the standards that a comparison be provided of work conducted against the work originally planned. This would provide further assurance to the Audit committee that planned work has been conducted as intended. If there were any issues affecting the team’s ability to conduct planned work, this could be noted in the report.

Recommendation 10

Further details should be added to the Annual Report to provide a comparison of work conducted during the year compared to the work planned.

4.3 Other Points for Consideration

Code of Ethics

- 4.3.1 Members of the audit team are required to complete and sign code of ethics document on an annual basis. It was explained that staff need to inform managers of any interests they have, although it was not clear where interests are declared. The Head of Service explained that his declaration of interest is sent through to his managers and there is an escalation process if necessary. There is also a wider corporate system of declarations in place for officers and Members.

Recommendation 11

Consideration could be given to providing additional guidance on the process for recording interests and the actions that will be taken when auditors declare that they have a potential conflict of interests.

Appendix 1

Review Team

Karen Walls Hogan, Chief Internal Auditor, Knowsley MBC

Karen has been the Chief Internal Auditor at Knowsley MBC since April 2009 and is CIPFA qualified. She currently has responsibility for the management and development of a team Internal Auditors and a matrix management responsibility for the Counter Fraud Team at Knowsley. She has experience in dealing with a wide range of audit and counter fraud issues across a range of service areas. She has also previously worked in other accountancy and audit roles at Knowsley.

Prior to working in Knowsley, she was employed at Hugh Baird College in Bootle, overseeing the financial and administrative systems that supported European funding schemes across the faculties. Earlier in her career, she has also worked at Sefton MBC and St Helens MBC.

Her experience enables her to demonstrate a good understanding of how local government operates and how internal audit can add value to the systems of governance, risk management and internal control.

Andrew Wright, Audit Manager, Bolton Council

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 Bolton Council's internal audit function, reporting to the Head of Audit and Risk Management for Bolton and Manchester City Councils.

Appendix 2

Detailed Assessment

PSIAS Ref	Standard	Conforms			Comments
		Yes	Partial	No	
Purpose & Positioning					
2	Code of Ethics	✓			See Recommendation 11
1000	Purpose, Authority and Responsibility	✓			See Recommendation 1&2
1100	Independence and Objectivity		✓		See Recommendations 3 & 5
2010	Planning	✓			
2050	Coordination	✓			
2110	Governance	✓			
2120	Risk Management	✓			
2130	Control	✓			
Structure & Resources					
1210	Proficiency	✓			See Recommendation 6
1220	Due Professional Care	✓			
1230	Continuing Professional Development	✓			
2030	Resource Management	✓			
Audit Execution					
1300	Quality Assurance & Improvement Programme	✓			See Recommendation 7&8
2000	Management of the Internal Audit Activity	✓			
2100	Nature of Work		✓		See Recommendation 9
2200	Engagement Planning	✓			
2300	Performing the Engagement	✓			
2400	Communicating Results	✓			
2450	Overall Opinion	✓			See Recommendation 10

Appendix 3

PSIAS Action Table

The following actions arising from the review undertaken are required to develop the Internal Audit Function and ensure compliance with PSIAS:

PSIAS Ref	Rec No.	Action Required	Responsible	Action
1000	1	The Internal Audit Charter should be updated to reflect Internal Audit's relationship with statutory officers such as the Monitoring Officer and Head of Paid Service/Chief Executive.	Head of Internal Audit, Risk, and Insurance/Audit Manager	The current Charter does reflect the relationship between Internal Audit and statutory officers. This will be reviewed to consider any changes required and highlighted in this report.
1000	2	The Internal Audit Charter should be strengthened to reflect the arrangements in place to manage audit work that falls within the responsibility of the Head of Service – Internal Audit, Risk Management, and Insurance. Consideration should also be given to evaluating the merits of operating alternative arrangements for providing assurance (i.e., peer review etc)	Head of Internal Audit, Risk, and Insurance/Audit Manager	The Charter will be reviewed and updated where relevant. However, it is important to note that Stockport Audit were the first LA in the Northwest Group to undertake a reciprocal peer review with Warrington Audit on RM arrangements and have another one planned in for 2023/24 (deferred due to covid). This was agreed with Warrington prior to the PSIAS review.

PSIAS Ref	Rec No.	Action Required	Responsible	Action
1100	3	As the Head of Service drafts and presents reports to Audit Committee and CLT, a review should be undertaken to determine whether is appropriate for the Head of Service to report in his own name.	Head of Internal Audit, Risk, and Insurance	<p>The corporate standard is for all reports to committee level to go in the name of the relevant Director - this applies to all reports to Cabinet, Scrutiny, Planning, Licensing, Area Committees etc as well as Audit Committee.</p> <p>The HoIA will discuss this with the Monitoring Officer and Deputy Chief Executive.</p>
1110	3	A formal process should be established to request input from the Chief Executive and Chair of the Audit committee to the annual performance appraisal of the Head of Service.	Head of Internal Audit, Risk, and Insurance	<p>This will be reviewed as part of the PDR process of the HoIA.</p> <p>However, the performance of the HoIA is currently reviewed by both the Chair and the Deputy Chief Executive on an informal basis and the Deputy Section 151 Officer as part of the formal PDR process.</p>

PSIAS Ref	Rec No.	Action Required	Responsible	Action
1130	5	To support new starters within the audit team, training should be arranged to raise awareness of the internal audit policies such as the Anti-Fraud, Bribery and Corruption Policy. This is also an area where periodic refresher training would be useful for the whole team.	Head of Internal Audit, Risk, and Insurance/Audit Manager	<p>Formal training is always provided to new starters, and this was undertaken recently with two new starters on the team. This included an overview of all related policies including the Anti-Fraud, Bribery and Corruption Policy.</p> <p>Refresher training is undertaken on an ad hoc basis as part of team meetings as and when new relevant requirements and legislation require.</p> <p>For example, in the last financial year the service rolled out new Fraud Awareness Training via the Council's Learning Pool. All auditors were given an overview of this training and were required to undertake the online session.</p>
1210	6	The Head of Service should develop a Skills Matrix that addresses the specific competencies that are required by internal auditors. This could supplement the established competencies within the corporate competency framework.	Head of Internal Audit, Risk, and Insurance/Audit Manager	A skills matrix will be developed as part of the annual review of the service's comprehensive competency framework.

PSIAS Ref	Rec No.	Action Required	Responsible	Action
1311	7	The Audit Committee should approve performance targets to track the progress of each performance indicator and to demonstrate continuous improvement of the internal audit service	Head of Internal Audit, Risk, and Insurance	This will be considered when performance indicators are next reviewed for the service.

PSIAS Ref	Rec No.	Action Required	Responsible	Action
1312	8	The Head of Service should formally request the Audit committee's agreement to the scope and proposed format of the external assessment process each time the assessment is due.	Head of Internal Audit, Risk, and Insurance	<p>An agenda item was presented, discussed, and agreed at Audit Committee on 16th March 2022, which highlighted:-</p> <p>“the proposed basis that the Head of Internal Audit, Risk and Insurance will use for the external assessment of the Council’s internal audit function, which is required under the PSIAS.</p> <p>“it is a requirement that an external assessment of public sector internal audit functions be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation, which complies with the required quality assurance standard.</p> <p>Decisions on future external assessments will be brought to the Audit Committee when appropriate.</p>

PSIAS Ref	Rec No.	Action Required	Responsible	Action
Performance Standards				
2120	9	As part of the audit planning process, an assessment should be undertaken to determine whether independent assurance of the Council's Risk Management systems assurance is required. Even if the current systems are assessed as adequate, more regular in-house reviews should be built into the audit planning processes.	Head of Internal Audit, Risk, and Insurance	Although this is currently done on an informal basis it will formally be incorporated at part of the planning process in future years.
2450	10	Further details should be added to the Annual Report to provide a comparison of work conducted during the year compared to the work planned.	Head of Internal Audit, Risk, and Insurance	This will be incorporated into this year's report and referenced to all relevant updates provided to Audit Committee in the previous year on changes to (and approval of) any changes to the Audit Plan.

Appendix 4

Additional Development Action Table

During the review, the following additional points for consideration were discussed with the Head of Service. 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:

PSIAS Ref	Rec No.	Points for Consideration	Responsible	Action
Code of Ethics				
2	11	Consideration could be given to providing additional guidance on the process for recording interests and the actions that will be taken when auditors declare that they have a potential conflict of interests.		This is discussed at team meetings and particularly around the time when the forms are reviewed and updated by all staff on an annual basis. It is also covered as part of the induction process for new starters. I feel that the above current procedures are sufficient to mitigate any risks in this area.
Attribute Standards				