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Appendix B – Service Improvement Opportunities

Circulation:

Colin Earl, Head of Internal Audit

Steve Mawson, Chief Financial Officer & Assistant Director of Finance

Members of the Corporate Leadership Team

Director of Corporate Services, SLH

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1. Introduction

- 1.1 This report provides the Audit Committee, Head of Internal Audit, Chief Financial Officer and other key stakeholders with details of the recent external assessment of Doncaster Council's Internal Audit function against the Public Sector Internal Audit Standards (PSIAS). These standards require an external review of the Internal Audit function every five years, commencing April 2013.
- 1.2 The external assessment has been undertaken by the Head of Audit & Risk from Kirklees Metropolitan Borough Council's Internal Audit Service.
- 1.3 This report has been discussed and agreed with the Head of Internal Audit (HoIA). The results of this external review will be reported to Doncaster's Corporate Leadership Team on 20 March 2017 and to the Audit Committee on 6 April 2017.
- 1.4 The external assessment builds on the internal self-assessments of compliance which are reported to the Audit Committee in the HoIA's Annual Internal Audit Reports. The 2016 Self-Assessment showed full compliance with the Standards.
- 1.5 Doncaster's Internal Audit Service also provides the Internal Audit function for St. Ledger Homes (SLH). In addition to Doncaster Council this assessment is also to provide assurance to the SLH Board and Audit Committee, that Doncaster Internal Audit Service is professionally competent to meet their internal audit needs.

2. Scope and Methodology

- 2.1 Internal Audit is a statutory obligation for a local authority. This section of the report identifies the statutory requirements, how this review complies with the statutory responsibilities and the organisations this review covers.
 - **Accounts and Audit Regulations 2015**
Under the Accounts and Audit Regulations 2015 5.—(1)
“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”
 - **Public Sector Internal Audit Standards (PSIAS) (CIPFA Local Government Application Note)**
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, and
 - establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 2.2 The purpose of the review is to ensure that Internal Audit conforms to the PSIAS. This includes the requirements for a quality assurance and improvement programme which must include both internal and external assessments.

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The review was conducted in conformance with the PSIAS using a combination of enquiry, observation and sample testing techniques.

- 2.3 The review has been undertaken by Martin Dearnley (Head of Audit & Risk) and Simon Straker (Audit Manager) who are both CIPFA qualified accountants with over 40 years combined management experience in Internal Auditing.
- 2.4 The methodology for the external assessment was agreed by the West & South Yorkshire Heads of Internal Audit Group following the introduction of the PSIAS in April 2013 and includes an added value element of suggested areas for further development. The scope of the external assessment was subsequently agreed by Doncaster's Audit Committee.
- 2.5 The external assessment required an independent desktop review of Doncaster's own self-assessment against the PSIAS, structured interviews with key stakeholders of the services and a review of a representative sample of Internal Audit reports and files which were selected by the assessor. Appendix A provides a list of the interviewees along with details of the audit reports examined.

3 Conclusions

- 3.1 The evidence identified in the external assessment has confirmed the results arising from the HoIA's 2016 PSIAS self-assessment that Doncaster Internal Audit Service complies with the Standards and the treatment of a small number of areas as improvement opportunities rather than non-compliance issues. A decision has been taken to continue to not comply with one requirement, (the Audit Committee to approve decisions relating to the appointment and removal of the HoIA), as this does not currently reflect local government practice.
- 3.2 This assessment opinion enables the Audit Committee and SLH to have confidence that the annual opinion of the HoIA is supported by a professional and competent service and is evidenced based.
- 3.3 A small number of improvement opportunities and areas for development have been identified and are raised here for consideration, several of which have already been flagged up by the HoIA and are being addressed.

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4. Opinion as to Conformity to the PSIAS

Based on the findings and conclusions made in this report a “**Generally Conforms**” to the PSIAS & Code of Ethics opinion has been allocated, this is the best rating available.

The classifications suggested in Guidance issued are shown below.

Assurance Opinion	Definition
Generally Conforms	Internal audit activity has a Charter, policies and processes that are judged to be in conformance with the Standards.
Partially Conforms	Deficiencies in practice are noted that are judged to deviate from the Standards but these did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
Does not Conform	Deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities

This assessment opinion enables the Audit Committee to have confidence that the annual opinion of the HoIA is supported by a professional and competent service and is evidenced based.

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5 Key Findings

5.1 PSIAS are broken down into four areas and this assessment has reviewed Doncaster Internal Audit Service against each.

- **Definition of Internal Auditing**

Internal Audit activity is independent and objective being a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation.

The Internal Audit Service complies with this definition.

- **Code of Ethics**

The Standards require the Internal Audit service to have integrity, be objective and maintain confidentiality. Audit resources and training were also taken into account.

The external assessment and the interviews with key individuals undertaken have established that the Internal Audit Service abides by the Codes of Ethics of the Standard.

- **Attribute Standards**

The attribute standards include assessing the purpose, authority and responsibility of Internal Audit, its organisational independence, professionalism and how it attains quality assurance.

Compliance has been confirmed by reviewing the documentation that supports the operation of Internal Audit Services which is supported by the interviews with key staff.

- **Performance Standards**

The performance standards include assessing the: management of internal activity; the nature of work performed; engagement planning, performance and communication of results; monitoring progress of management actions to risks highlighted in audit work; and communication to senior management of any risks that are accepted that may not be appropriate for the Council.

From the external assessment and interviews held with key individuals, the Internal Audit Service was found to be PSIAS compliant in this area. There are some potential areas for improvement (rather than relating to compliance) which are raised in Appendix B, several of which have already been flagged up by the HoIA and are already being addressed.

The external assessment of the performance standards particularly focused on the review of a representative sample of 4 audit reports and supporting documentation, which assessed the audit reports as being professionally written, accurately reflecting the findings of the review, with the conclusion and audit opinion reached being consistent with the findings. Relevant recommendations were made in respect of control weaknesses identified,

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adequacy or application, which were appropriately classified. The recommendation classifications were reviewed as appropriate with the supervisor providing sound reasoning, demonstrating the application of professional judgement for selecting the relevant recommendation classification. A clear audit trail between the audit working papers and the audit report was evident.

The Internal Audit Service's planning and reporting cycle were also found to be effective and robust.

5.2 Level of Resources

The level of resources available to internal audit is a decision for the Audit Committee, the Council's Chief Financial Officer (Section 151) and the HoIA. The external assessment view on the level of resources supporting both the Council and SLH suggests that the current position is satisfactory. The Director of Finance and Corporate Services and the Chief Financial Officer have indicated a willingness to provide additional temporary resources should the need arise. Whilst there is the margin for a reduced level of resources to be deployed if circumstances were appropriate, the Council would have to be conscious that any substantial reduction in resources could present a risk that the service would be unable to carry out the minimum level of audit required to fulfil the statutory requirements identified in this report.

If the service was to lose its work with SLH, or the Council was to withdraw from any significant service areas then the resource position of the service would need to be reappraised.

5.3 Training

The HoIA and the supporting Audit Managers have the relevant qualifications and experience to manage and support the service. The current levels of qualification held, experience and knowledge enable the service to meet PSIAS requirements as evidenced by the internal audit work reviewed.

5.4 Based upon discussions with key stakeholders and appropriate documentary evidence, the following good practices were identified during the external assessment:

- (i) Sufficient and relevant expertise exists in order to effectively fulfil the roles and responsibilities of the Internal Audit Service.
- (ii) The HoIA is respected, professionally qualified and supportive. The audit team is also well respected within the organisation providing constructive, pro-active support to deliver improvements.
- (iii) The Internal Audit Service provides a high level of satisfaction based upon management interviews and individual audit review feedback forms.

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- (iv) The Internal Audit Service effectively contributes to the role of the Audit Committee by providing sufficient, reliable and timely information along with professional support.
- (v) The Internal Audit follow-up arrangements are valued by the Audit Committee and management and the arrangements were found to be robust and effective.

6. Service Improvement Opportunities

- 6.1 As part of the assessment, the review looked at the current practices adopted by the Internal Audit Service. This report identifies a small number of observations made that the Audit Committee, Corporate Leadership Team and the HoIA may wish to consider in terms of the future development of the service. These are outlined in the Appendix B. The HoIA has added the proposed actions in respect of each of the observations.
- 6.2 Any developments need to be considered in the context of how they will 'add value' with the available resources both to the Internal Audit Service and to the Council as a whole. It needs to be recognised that the approach taken is the responsibility and decision of the Audit Committee, the Corporate Leadership Team, the Chief Financial Officer and the HoIA along with the application of their professional judgement in accordance with the Council's strategic objectives.

7. Recommendations

- 7.1 It is recommended that:
 - (i) This report is presented to members of the Corporate Leadership Team and the Audit Committee.
 - (ii) The Chief Financial Officer along with the HoIA utilises the observations and actions to consider from the report and incorporate agreed actions into the HoIA Quality Assurance and Improvement Programme (QAIP) that is maintained as a live document.
 - (iii) The HoIA presents the QAIP to the Audit Committee and thereafter reported periodically to monitor progress and the continued development of the Internal Audit Service.

Appendices

- A Interviewees & Reports Examined
- B Service Improvement Areas

Acknowledgement

The assistance and co-operation of Colin Earl, Peter Jackson, Nici Frost-Wilson, Julie Lyon and the rest of the Audit team during this review is gratefully recognised.

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Appendix A

Interviewees:

Colin Earl, Head of Audit

Steve Mawson, Chief Financial Officer & Assistant Director of Finance

Simon Wiles, Director of Finance & Corporate Services

David Wilkinson, Assistant Director Trading Services & Assets

Leanne Hornsby, Assistant Director Learning & Achievement

Pat Higgs, Assistant Director Adult Social Care

Austen White, Chair of Audit Committee

Julie Crook, Director of Corporate Services, St Leger Homes

Linda Christon, Chair of Audit Committee, St Leger Homes

Internal Audit Reports Examined on Teammate:

School Recruitment

Debtors & Income Management

Markets Interim Update

Mutual Exchanges, St Leger Homes



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Summary of Key Documents Reviewed:

- Audit Strategy & Charter 2015/18
- PSIAS Self-assessment
- Annual Report of Internal Audit 2015/16
- Audit Resourcing Calculations 2016/17
- Audit Plan 2016/17
- Internal Audit Progress Reports 2016/17
- Head of Internal Audit Job Description
- Audit Quality Assurance Process
- Audit Team Development Plan
- Retention Policy

- St. Leger SLA for Internal Audit
- SLH Audit Committee Progress Reports 2016/17



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Appendix B

Ref	Observations	Actions to Consider	Management Response
1.	At present the Audit Committee does not receive oversight of the full audit universe to be able to consider and challenge audit coverage in all aspects of Council activity as part of the approval of the Audit Plan.	The audit planning process should be widened to include reporting of the audit universe to the Audit Committee. This change may dovetail with the assurance mapping exercise being co-ordinated by the HoIA, in terms of clarity concerning sources of assurance about key risk areas in any one year and identifying if there are any gaps that may need to be addressed.	Agreed – The audit universe and current assurance mapping will be presented to management and the Audit Committee alongside the draft Audit Plan 2017/18. Date 6 April 2017 Further development of assurance mapping is planned for 2017/18 as part of the Governance Group work plan
2.	Delivery of planned work is reported as a % figure to the Audit Committee in the Progress Reports of the HoIA. The calculation methodology includes account for work in progress. Examination of the profile of delivery and work carried forward into the following year suggests there can often be a time lag in the actual completion of planned work, partly due to the nature of unplanned work required.	The HoIA to add explanation to reporting arrangements of plan completion in the performance information section in Progress Reports. This would help management and Members monitor plan completion progress and to understand the implications of undertaking unplanned commissions and to consider the need to revise the annual plan.	Agreed. Information in the audit progress reports and annual report will be extended to include details of the calculation methodology and, where relevant, the implications of prior year and unplanned work. Date: from 6 April 2017
3.	Formal collaborative working with a neighbouring authority was undertaken for a period of years, partly to widen the opportunities to maintain and extend skills, knowledge and competencies of the Internal Audit Service. This arrangement	The need and scope for collaboration including any joint working arrangements should be reviewed on an ongoing basis.	Agreed. A team development plan already exists that is designed to ensure the service has the skills it needs to deliver current and future requirements. Personal



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	<p>has ceased, although established links and other mechanisms enable informal consultation and knowledge sharing to continue. The service also uses regional networks to keep up-to-date with and share good practice. In view of the ongoing pressures on audit services, all opportunities for collaboration should continue to be reviewed.</p> <p>This view was partly reinforced through discussions with SLH regarding opportunities for more horizon scanning and wider dissemination of best practice generally in areas under audit review, that may be gleaned from other authorities with landlord responsibilities, which they identified would be particularly welcome.</p>		<p>Development Plans are agreed each year and aim to achieve personal developments consistent with business requirements.</p> <p>Opportunities for collaboration, information sharing and service development are kept under review on an ongoing basis.</p> <p>A formal assessment of service needs will be completed during 2017/18, to inform the internal audit service provision from 2018/19. Date 31 December 2017</p> <p>A review step will be built into audit work to explicitly consider alternatives to assist services in their development, to add better value to the audits completed. Date: From April 2017</p>
4.	<p>Service management interviews raised the importance of the three current management staff in concluding the most complex assignments, and highlighted the need to consider resilience, continuity, and development issues on an ongoing basis and in particular how capacity could be addressed if any of the three were to leave in the short to medium term. Options would include developing and providing more opportunities and exposure to other staff within the team, mainly principal auditors.</p>	<p>The HoIA to monitor the position and tailor the team development plan to ensure, perhaps by way of coaching and exposure of principal auditors to working at this level, the service can continue to meet future requirements.</p>	<p>Agreed</p> <p>The completion of complex work and the enhanced involvement of other staff in finalising and reporting complex work will be considered through the 2017/18 Personal Targets and Development Planning Processes. Date 31 July 2017</p> <p>A formal assessment of service needs will be completed during 2017/18, to inform the internal audit service provision from 2018/19. Date 31 December 2017</p>



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<p>5.</p>	<p>The Standards require that the Audit Charter includes details of assurance services provided to parties external to the organisation. Internal Audit provides an audit service to SLH and ad hoc work to Drainage Boards.</p> <p>The details of the audit services provided to these external parties have been included within the Strategy but are not mentioned in the Charter, albeit that it forms an appendix to the Strategy. The Strategy has not been updated to reflect the end of the audit provision for the Children's Services Trust.</p> <p>The transparency of this information would help enable a fuller appreciation of what the audit service resources are being applied to.</p>	<p>For the purpose of clarity and transparency, the details of the audit services provided to SLH and Drainage Boards should be included within the Internal Audit Charter and the Strategy should be updated in respect of the Children's Services Trust.</p>	<p>Agreed. An updated Audit Charter and Strategy will be presented to the Audit Committee in July 2017, to incorporate comments made by the Peer Review and changes to auditing standards that are currently being consulted on.</p> <p>Date 27 July 2017</p>
<p>6.</p>	<p>The Standards require that up-to-date job descriptions should exist that reflects roles and responsibilities and those personal specifications define the required qualifications, competencies, skills, experience and personal attributes.</p> <p>Whilst the HoIA job description makes specific reference to compliance with the PSIAS, those for the remainder of roles in Audit do not.</p>	<p>Internal Audit job descriptions should be revised to include reference to the PSIAS.</p>	<p>Agreed. All job descriptions will be updated as part of the full service review scheduled for 2017/18</p> <p>Date 31 December 2017</p>



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7	The PSIAS self-assessment identified a number of development issues which were incorporated into an action plan. Several of these have been completed but a number remain ongoing.	The HoIA should ensure full implementation of the remaining issues in the self-assessment action plan.	Agreed. The action plan will be merged with the Quality Assurance and Improvement Programme referred to in the recommendations made in the peer review, and reported to the Audit Committee on a regular basis to enable monitoring of progress. Date 6 April 2017
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Report Prepared by

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