

**KIRKLEES COUNCIL INTERNAL AUDIT SERVICE**

**PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)  
EXTERNAL COMPLIANCE ASSESSMENT PEER REVIEW**

**REPORT PREPARED BY: Julie Gill (CMIIA), Audit Manager; Wakefield Council**

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## **CIRCULATION**

Martin Dearnley, Head of Risk (who is head of internal audit)

Service Director, Legal, Governance & Commissioning

Chief Executive, Strategic Director Resources, Interim Chief Finance Officer

Note;

The detailed work for this assessment was carried out during January 2018 and February 2018 (the activity requiring the 5 yearly assessment to be completed prior to 31<sup>st</sup> March 2018).

At that time the Internal Audit function was a part of the Finance, IT & Transactional Service. Since then the service has become a part of the Legal, Governance & Commissioning Service, with the Head of Risk reporting to the Service Director for that activity.

The chairs of the audit committees- referred to in this report- were unchanged as a result of the May 2018 elections.

## 1. INTRODUCTION

- 1.1 This report details the external assessment of Kirklees Council's Internal Audit function against the Public Sector Internal Audit Standards (PSIAS). This external assessment has been undertaken by the Interim Service Manager Internal Audit and Risk from Wakefield Council. The standards require that such an external review is carried out every 5 years.
- 1.2 This report has been discussed and agreed with the head of internal audit. The results of the review will be reported to Kirklees Council Corporate Governance and Audit Committee on the 7th September 2018
- 1.3 This external assessment builds on the internal self-assessments which have been reported to Kirklees Corporate Governance and Audit Committee as part of the Internal Audit Annual Report. The PSIAS assessment is accepted as a review of the practices of the internal audit provider, and the written assessment included work performed on Kirklees Council, Kirklees Neighbourhood Housing and West Yorkshire Fire Service. Interviews were only undertaken with Kirklees Council and KNH participants.
- 1.4 Kirklees Councils Internal Audit function provides services to the Council, its housing subsidiary Kirklees Neighbourhood Housing Ltd (KNH), West Yorkshire Fire & Rescue Service (WYFS), Kirklees Active Leisure and Kirklees College. The latter two clients are not required to demonstrate compliance with PSIAS, although services provided to these clients are delivered in the same way and to the same standards.

## 2. EXECUTIVE SUMMARY

- 2.1 The overall opinion from the external review is that Kirklees Council Internal Audit function **"Generally Conforms"** to the Public Sector Internal Audit Standards and Code of Ethics.
- 2.2 The guidance suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally Conforms" is the top rating and means that the Internal Audit activity has a Charter, policies and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the Internal Audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means 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.
- 2.3 The evidence identified in the external assessment has confirmed the results arising from the head of internal audit's self-assessment against the PSIAS.
- 2.4 The only area where the service had not been compliant with PSIAS was the need for an external review which this report now resolves. This enables the Corporate Governance and Audit Committees of KNH and WYFRS to have confidence that the annual opinion of the head of internal audit is based on work undertaken by professional individuals to the standard required within the PSIAS.

### 3. SCOPE AND METHODOLOGY

- 3.1 The review was conducted to assess conformance with the PSIAS using a combination of enquiry, observation and sample testing.
- 3.2 The detailed methodology for the external assessment was agreed by the West and South Yorkshire Heads of Internal Audit Group following the introduction of the PSIAS in April 2013. The scope of the external assessment was subsequently agreed by Kirklees Council's Corporate Governance and Audit Committee.
- 3.3 The focus of the external assessment was two-fold; primarily to review whether Kirklees Council's Internal Audit function was PSIAS compliant and secondly to consider and identify any possible areas for service improvement.
- 3.4 The external assessment involved an independent desktop review of Kirklees's own self-assessment against the PSIAS, structured interviews, and less formal discussions and a review of five Internal Audit reviews which were selected by the assessor. **Appendix A** provides a list of the interviewees and other staff with whom discussions took place. **Appendix B** lists the titles of the audit reports examined.

### 4. SUMMARY OF FINDINGS

- 4.1. As detailed in the executive summary at 2.1 above, the findings from the external review confirmed the results from the internal self-assessment being that Kirklees Internal Audit Service generally conforms to PSIAS.
- 4.2. From discussions with key stakeholders, as detailed in Appendix A, and from the review of documentation provided as evidence, the following good practices and positive comments were observed:
- a) There are comprehensive discussions with the Chair of the Kirklees Corporate Governance and Audit Committee and Kirklees Neighbourhood Housing (KNH) Audit Committee in relation to the content of the Internal audit annual plan and the assurance gained from completion of the planned work. It was also stated by the Chair of the KNH Audit Committee that in addition to agreeing the plan, that the scope for individual audits is also copied to the Chair to ensure that the review covers the priorities agreed. Progress against the plan is monitored to identify any slippage.
  - b) The audit team is well respected within the organisation (by both Members and Officers) providing constructive reports supporting directorates to achieve priorities. It is clear from the discussions that the current head of internal audit is held in high esteem and his professionalism and knowledge is recognised. It was stated that the head of internal audit raises with the Committee potential issues which may arise in future for their consideration and is honest and realistic as to the level of service that can be provided by Internal Audit.

- c) Good engagement with services and directorates was conveyed with auditors demonstrating professionalism and a good knowledge of key issues for the organisation whilst remaining independent. The key stakeholders confirmed that the audit service helps to identify key risks in relation to the organisation. If any areas of concern are identified as part of a review, these are communicated immediately to the appropriate senior officer(s)
- d) Confidence was expressed in the audit team and stakeholders stated that Internal Audit provided guidance as well as constructive recommendations arising from reviews to deliver improvements. The only issue raised was the possible loss of talent going forward. The reduction in resources has resulted in the prioritisation of areas of work which includes the review of core financial systems and core risks to the organisation.
- e) The scope of all reviews is defined by Internal Audit and it was stated that the reporting of outcomes of individual reviews is concise with reports being signed off by the Head of Service.
- f) Reports were viewed as being of a good standard with on the whole robust follow-up procedures being in place. Service Directors also monitor the extent to which agreed actions are implemented which is seen as good practice. The Chair of the Audit Committee also confirmed that Officers will be called in if actions arising as a result of an audit review had not been implemented to explain why.
- g) The reports to the Audit Committees detail various statistics and charts to highlight the work undertaken by Internal Audit within each quarter and it was felt that such reports provided assurance as to the effectiveness of the Service delivery and therefore gave assurance to the Audit Committee on the adequacy (or otherwise) of the overall control environment. It was confirmed by the chairs of the Audit Committees that the reports highlighted any areas of concern and also where recurrent problems had been identified.
- h) The Internal Audit team is made up of professionally qualified auditors who adhere to the protocols in place in relation to completion of documentation (for example, audit briefs for each piece of work undertaken) and the set-up of all audit work with the relevant Service Managers. There is an Internal Audit Charter in place, the version in use at the time of the assessment which was approved by the KMC Corporate Governance & Audit Committee in April 2017.
- i) All work is supervised with an appropriate quality assurance (QA) process in place. A database is maintained to enable monitoring of performance for all audits undertaken. Exception reports are produced to assist in the overall monitoring of performance of the Service which includes an examination of deviation from expected targets / timescales set for each individual review completed. Change Control reports examined confirmed that the QA process is kept under review.
- j) The examination of the individual reviews undertaken (as detailed in Appendix B) confirmed that generally, all work completed adhered to the standards expected and included the appropriate documentation. QA / review of the individual reviews had been completed. The QA process covers such areas as engagement planning; scoping of audit work; audit programme etc. and relates back to the requirements of the PSIAS. The QA process also extends to the filing of documentation and requires in addition to the supervisory review, an independent review of one report to a standard set of PIs from each team member in each quarter.

- 4.3 From interviews carried out with various officers, the Chair of the Kirklees Corporate Governance & Audit Committee and also the Chair of the KNH Audit Committee and a review of recent reports to the Audit Committees, it is clear that the level of resources within the Internal Audit team is a concern which has been identified by the organisation. It is also noted that the head of internal audit also undertakes consultancy work to help improve organisational performance, and whilst this is of value to the organisation as a whole, the balance between consultancy work and the management of the Internal Audit and risk function needs to be kept under review to ensure that the correct balance between the two roles is maintained.
- 4.4 It is also noted that the head of internal audit has formal responsibility for the wider “Risk” function and is heavily involved in the identification of new and emerging risks and overseeing the management of the majority of risks to the Council. It is acknowledged that this is advantageous in that it informs the Audit role and the identification of key areas for inclusion in the annual audit plan, however the responsibility for identification of key risks for all services should be with the Relevant Service Directors and Operational Managers so that they have ownership of those risks. This would ensure that Internal Audit retains its independence by reviewing the effectiveness of the process and can ensure that risks are relevant and reviewed periodically to ensure the mitigating controls are working effectively. The Audit Committee may wish to be able to challenge individual Service Directors and risk owners on the extent to which they are managing their risks
- 4.5 Client surveys are issued to clients and the target of 90% of returned surveys being assessed as at least ‘Good’ has been achieved. However, the number of surveys returned indicates that more engagement is needed with clients to improve the number of surveys returned.
- 4.6 The level of resources available to Internal Audit is a decision for the Council, and the Corporate Governance & Audit Committee, taking advice from the chief executive, chief finance officer and service director for legal, governance and commissioning, and the head of internal audit.

The view on the level of resources from the external assessment is that current resources are considered sufficient to be able to provide assurance on the control environment, although any further reduction in resources could bring into question the issue of a minimum level of audit which would need to be reconsidered. However, in specialist areas such as IT / cyber security etc. where a level of expertise is required, it would be prudent for the service to assess the extent to which the current resource would be able to undertake any detailed review required and look to enhancing existing resources if required. More generally the Council may wish to consider how it will ensure a sustainable level of skilled and competent internal audit staff to deliver the activity, as it may be currently over reliant on small number of individuals.

### **Service Improvement Opportunities**

- 4.7 As part of the assessment the review looked at the current practices adopted by Kirklees’s Internal Audit Service. The report identifies a number of observations made that the Corporate Governance & Audit Committee, Chief Executive and the Internal Audit Service may wish to consider in terms of the future development of the service. These Actions for Consideration are outlined in Appendix C.
- 4.8 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 of the Council and the Corporate

Governance & Audit Committee, taking advice from the chief finance officer, and head of internal audit along with the application of their professional judgement in accordance with Kirklees Council's strategic objectives.

## **5. RECOMMENDATIONS**

It is recommended that:

- a) This report is presented to members of the Corporate Governance & Audit Committee, and Chief Executive for consideration of the findings and suggested actions.
- b) The findings and suggested actions from the report are considered in order to develop a Quality Assurance and Improvement Programme (QAIP) which is used and maintained on an ongoing basis.
- c) The Quality Assurance & Improvement Programme (QAIP) is presented to the Audit Committees and reported periodically to monitor progress and the continued development of the Internal Audit Service.

**List of Interviewees**

1. Debbie Hogg, Former Service Director Finance, IT & Transactional Services
2. Councillor Hilary Richards, Chair of Governance & Audit Committee
3. Joanne Bartholomew, Service Director Highways & Waste
4. Councillor Liz Smaje, Chair of Audit Committee (Kirklees Neighbourhood Housing)
5. Martin Dearnley Head of Audit & Risk
6. Simon Straker Audit Manager



**List of Audit Reports Selected**

1. Safeguarding (Kirklees Neighbourhood Housing Ltd)
2. Income Management (WYFRS)
3. Children's Services - Purchasing Cards – Kirklees Council
4. Moorlands Primary School – Kirklees Council
5. Section 17 Payments – Kirklees Council

Service Improvement Opportunities

Ref	Observations	Actions to Consider	Management Response/Action
1.	<b>Chief Audit Executive Roles beyond Internal auditing (Standard 1112)</b>		
1.1	The head of internal audit also undertakes consultancy work to help improve organisational performance, whilst this is of value to the organisation as a whole, it should be monitored to ensure that it does not adversely impact on the delivery of the Internal Audit Service.	The proportion of time spent on the consultancy work undertaken and the management of the Internal Audit & Risk function needs to be kept under review to ensure that the correct balance between the two roles is maintained.	Agreed. Additional information can be presented to the KMC CGAC, and this role discussion can be a part of the performance management discussion held between the HoIA, Service Director LGC and chair of the KMC CGAC.
1.2	<p>The head of internal audit is heavily involved in the identification of new and emerging risks and the management of the majority of risks to the Council.</p> <p>It is acknowledged that this is advantageous in that it informs the Audit role and the identification of key areas for inclusion in the annual audit plan, however the responsibility for identification of key risks for all services should be completed by the Relevant Service Directors / operational Mangers so that they have ownership of those risks.</p> <p>This also ensures that Internal Audit retains its independence by reviewing the effectiveness of the process and can ensure that risks are relevant and reviewed</p>	<p>A full review of the risk management process should be implemented and Service Directors / Managers be made responsible for the identification of all key risks to their Service and the documentation of the mitigating controls in place.</p> <p>Internal audit can then provide the necessary challenge to the overall process and the extent to which they consider all key risks have been identified and that the controls identified are in place and working effectively.</p>	<p>A new Risk Management Statement was adopted (post the assessment site work) in March 2018 and is currently being implemented.</p> <p>This emphasises the need for Strategic and Service Directors to identify and take ownership of risks, both those that are service specific and their share of corporate risks. The role of the KMC CGAC is to oversee that executive management and the cabinet are properly carrying out an</p>

Ref	Observations	Actions to Consider	Management Response/Action
	<p>periodically to ensure the mitigating controls are working effectively. The Audit Committee should be able to challenge individual Service Directors / risk owners on the extent to which they are managing their risks rather than the committee being solely reliant on the information provided by the Head of Internal Audit and Risk.</p>		<p>assessment and management of entity risks.</p> <p>(arrangements in KNH are slightly different )</p>
<b>2.</b>	<b>Proficiency and Due Professional Care (Standard 1200.A3)</b>		
2.1	<p>The view on the level of resources from the external assessment is that current resources are considered sufficient to be able to provide assurance on the control environment</p> <p>However, any further reduction in resources could bring into question the issue of a minimum level of audit, in addition the loss of specialist knowledge may impact on the ability of the Service to be able to review specific areas of work.</p>	<p>In specialist areas such as IT / cyber security etc. where a level of expertise is required, it would be prudent for the service to assess the extent to which the current resource would be able to undertake any detailed review required and look to enhancing existing resources if required.</p> <p>More generally the Council may wish to consider how it will ensure a sustainable level of skilled and competent internal audit staff to deliver the activity, as it may be currently over reliant on small number of individuals.</p>	<p>It is acknowledged that the level of resources is very close to a minimum acceptable level.</p> <p>It is important to monitor arrangements to ensure that there is adequate coverage of key strategic and operational risks, and that investigations and consultancy based assignments do not absorb too much resources.</p> <p>It is planned to reassess arrangements for ensuring adequate levels of assurance.</p> <p>It is acknowledged that some speciality fields may prove difficult to assess, especially if unplanned activity is required in this area.</p> <p>The issues of overall sustainability of staffing also needs to be addressed</p>
<b>3.</b>	<b>Quality Assurance and Improvement Programme (1300)</b>		

Ref	Observations	Actions to Consider	Management Response/Action
3.1	<p>Standards require that internal assessments are required in the form of ongoing monitoring and reporting on the performance of internal audit activity against set performance targets. It is noted that the following performance targets are reported to the Audit Committee as agreed by Members of the Audit Committees</p> <ul style="list-style-type: none"> <li>a) percentage of the planned priority Audits achieved</li> <li>b) percentage of work achieved within initial time budget</li> <li>c) Percentage of draft reports issued within 10 days of completion of site work.</li> </ul> <p>It was noted however that these targets do not assess the 'quality' of internal audit activity.</p> <p>From discussion and examination of work completed, it was established that there is a quality assurance process in place which is comprehensive however, this information is not reported to Audit Committees other than to confirm the percentage of audits that passed the quality standard.</p>	<p>In order to provide Members of the Audit Committees with further assurance as to the effectiveness of the Internal Audit activity consideration should be given to extending the reporting of performance targets.</p> <p>Examples of the additional targets to be considered include, the following, although are not exhaustive:</p> <ul style="list-style-type: none"> <li>a) Percentage of audit recommendations accepted by management.</li> <li>b) Percentage of audit recommendation implemented by management.</li> <li>c) Percentage of audits completed within time allocated.</li> </ul>	<p>The need to monitor quality is acknowledged. It is unclear if the example measures are appropriate, or true measures of quality. It is agreed that a further discussion will take place with the audit committees to agree if additional performance measures would help them in gaining assurance.</p>
4.2	<p>It was noted that Internal Audit issue a client feedback questionnaire following the completion of all work. This provides the opportunity for clients to comment on various aspects of the audit service.</p> <p>Although the results from these questionnaires are reported to the Audit Committee, which generally show a</p>	<p>Consideration to be given to reviewing the approach to issuing and following up on Client Surveys in respect of individual reviews</p> <p>Also to consider the periodic engagement with Senior Officers of the Council to gain feedback on the quality of the overall Internal Audit provision.</p>	<p>Agreed. Additional work will be carried out to try to improve and report on client engagement</p>

Ref	Observations	Actions to Consider	Management Response/Action
	high satisfaction rate, it was noted that Kirklees have a fairly low response rate.		
<b>5.</b>	<b>Risk Management (Standard 2120.C3)</b>		
5.1	<p>This standard states that:</p> <p>‘when assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming responsibility by actually managing risks’</p> <p>Whilst The head of Internal audit is not designated as the risk owner for key risks to the Council, he is involved in the identification of those risks and ensuring that they are managed by way of reviews included within the audit plan.</p>	The actions as detailed in paragraph 1.2 apply.	See earlier response
<b>8.</b>	<b>Engagement Planning (2200)</b>		
8.1	<p>Standards require that auditors develop and document a plan for each engagement which includes the engagement’s objectives, scope, timing and resource allocations etc.</p> <p>From the review it was noted that on a few occasion, scoping documents for completed engagements had not always been fully completed by auditors. However, it should be noted that the omissions were minor in nature</p>	Management should ensure that scoping documents are fully completed.	Agreed

