

External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Kirklees Council
December 2022

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CONTENTS

1. Introduction	3
2. Background	3
3. Validation Process.....	5
4. Findings	7
5. Acknowledgement.....	10
6. Interviewees	10
1. Action Plan	11

1. Introduction

- 1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013, (revised in 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period.
- 1.2 **Kirklees's self assessment concluded that the service "Generally Conforms" which is the highest level of assessments. This external review validates this assessment.**
- 1.3 The Heads of Internal Audit from four councils within South and West Yorkshire established a 'peer-review' process that is managed and operated by the constituent councils. The peer review process addresses the requirement of an external quality assessment by 'self-assessment with independent external validation', and this report presents the summary findings of the review carried out on Kirklees Council's Internal Audit by the Head of Internal Audit of Doncaster Council.
- 1.4 The assessor, Peter Jackson is a qualified FCCA (Fellow of the Chartered Certified Accountants) and has over thirty years' experience within internal and external audit including performing the role of Chief Audit Executive (Head of Internal Audit) within local government for five years. He has been supported by Julie Lyon, Principal Auditor at Doncaster Council who also has previous experience of external quality assessments.
- 1.5 Kirklees Internal Audit has been operating under PSIAS since its launch in 2013 and this is the second external quality assessment that they have commissioned, the previous one being in 2018, which similarly concluded with a *Generally Conforms* opinion

2. Background

- 2.1 Kirklees Internal Audit provides audit services to Kirklees Council, West Yorkshire Fire & Rescue Service (WYFRS) and Kirklees Active Leisure (KAL). It is noted that KAL is not part of PSIAS and therefore has not been reviewed as part of this work. Although presented to Kirklees Council's Corporate Governance and Audit Committee (CGAC), this report also provides assurance to the WYFRS Management Board and Audit

Committee that Kirklees Council Internal Audit is professionally capable and competent to meet their internal audit needs.

2.2 The service is managed by Martin Dearnley, Head of Internal Audit (Head of Risk) who has 2 Internal Audit Managers, Simon Straker and Phil Taylor. All have extensive knowledge and experience around Internal Audit within Kirklees Council. There are a further 8 employees (6 fte) members of the team, most of whom are highly experienced within internal audit. Whilst there have been some staff moving out of the team, their replacements are settling in well and are well supported in their new roles. Since April 2022, the Corporate Counter Fraud Team of 4 employees (3 fte) are now part of the Internal Audit Service and their role continues to develop.

The service delivers around 1,800 productive days, These are deployed as follows

KMC planned work	1020
KMC other audit activity (queries etc)	120
KMC Fraud	450
West Yorkshire Fire	160
Other clients	50

2.3 From an operational perspective the Head of Internal Audit (Head of Risk) is line managed by the Service Director of Legal, Governance and Commissioning who holds the statutory role of the Monitoring Officer. He also reports to the Chief Executive and the Service Director for Finance (Chief Financial & S151 Officer) and to the Executive Leadership Team and Corporate Governance and Audit Committee. These two bodies fulfil the roles of ‘senior management’ and ‘the board’ as defined by the PSIAS. He also has direct access to the Council’s Chief Executive and the Section 151 Officer and the Chair of the Corporate Governance & Audit Committee. For West Yorkshire Fire and Rescue Service, the reporting lines are to the Audit Committee and the Chief Finance & Procurement (S151) Officer.

2.4 The Head of Risk also undertakes other roles covering line management of Risk Management, Insurance and Corporate Standards (Complaints) and provides input into certain procurement functions and corporate projects across the Authority. His independence is maintained through arrangements clearly set out in the Internal Audit Charter and Strategy. These are essentially for Internal Audit Managers to report directly to the Service Director Legal, Governance & Commissioning. This arrangement helps maintain independence and avoids any conflicts of interest but there are further

considerations associated with these arrangements around capacity and succession planning and further commentary is detailed within the report.

- 2.5 The service uses an in-house package of electronic working papers to document audit assignments and for the management of the section which are considered fit for purpose and work well for the team.

3 Validation Process

- 3.1 The self-assessment validation comprised a combination of a review of evidence provided by the service; a review of a sample of five completed internal audits, attendance at the November meeting of the Corporate Governance and Audit Committee and a series of interviews with key stakeholders from the Council and WYFRS using MS Teams.

- 3.2 Kirklees Council's Internal Audit provided a comprehensive range of documents that they used as evidence to support the validation of their self-assessment, including the:

- Self-assessment against the standards
- 2021/22 Annual Report of the HIA
- Internal Audit Annual Plan 2022/23
- Internal Audit Strategy and Charter 2021/22
- Progress and other reports to the Audit Committee
- Audit procedures
- Quality Assurance and Improvement Plan
- A range of documents relating to the team structure and team members
- Fraud Strategy – and Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy enabling the Council to respond to the risks of fraud, corruption and Bribery
- Scopes and reports for five completed audits (4 for the Council and 1 for WYFRS)

- 3.3 In addition, key documentation for the five audits were shared online, as were the processes for planning, risk assessment and other areas including for WYFRS.

- 3.4 The validation process was carried out during October – December 2022. The feedback from all interviewees was positive.

- 3.5 The guidance gives a scale of three ratings, 'generally conforms,' 'partially conforms' and 'does not conform'. 'Generally Conforms' is the top rating and means that the relevant structures, policies and procedures of the activity, as well as the processes by which they are applied, comply with the Standards in all material respects. 'Partially Conforms' means that the activity is making good-faith efforts to comply with the requirements but falls short of achieving some major objectives. This will represent significant

opportunities for improvement. 'Does Not Conform' means that the activity is not aware of or is not making good-faith efforts to comply with the Standards, or is failing to achieve many of them. This will have a significant impact on the activity's effectiveness and represent significant opportunities for improvement.

- 3.6 The opinion from this review is that the Kirklees Internal Audit Service's self-assessment is accurate and they Generally Conform to the PSIAS which is the highest level of assessment under the Standards.
- 3.7 This opinion provides assurance to Senior Management and those responsible for governance (the Corporate Governance and Audit Committee) at both Kirklees Metropolitan Borough Council and West Yorkshire Fire and Rescue Service and enables them to have confidence in the standard of internal audit provided by the service.
- 3.8 A small number of improvement opportunities and areas for development have been identified through our review and are raised at Appendix A for consideration.

4 Summary Feedback

The Team

- 4.1 The Head of Internal Audit, Martin Dearnley is highly regarded across the council for his wealth of knowledge and experience accumulated over his lifetimes work to the council. There are no concerns over his independence as noted above. His capacity in delivering the wider roles is managed and sufficient internal audit management capacity is well delivered and supported by the two Internal Audit Managers. Other members of the team are either very experienced in their roles or are developing well. Their job titles should be reviewed to ensure they convey the nature of the work they deliver. These newer members of the team need to maintain their development and the service needs to maintain sufficient capacity to discharge its responsibilities and add value to the organisation. It also needs to be able to evolve for the future delivery of Internal Audit and the skill sets this will require.

Customer / Stakeholder Feedback

- 4.2 All feedback was positive and the team clearly deliver a valued service to its customers. All key stakeholders were happy with the responsiveness of the service and specifically the wider support and advice provided by the Head of Audit (Risk). This positive feedback was also echoed by the West Yorkshire Fire and Rescue Service.

Corporate Governance and Audit Committee

4.3 This committee functions well and discharges its responsibilities as set out in its terms of reference. The Chair whilst relatively new to the role chairs the meetings well and is developing in the role. She understands the importance of the committee operating in an apolitical manner. The committee recently approved the recruitment of an Independent Member and this appointment should strengthen the committee and help it develop. It was noted that the majority of information around the work of the Internal Audit team in its quarterly Progress Report was held in the private session of the meeting which the public are not allowed to attend. It is felt that this position should be reviewed to strike an accepted balance between openness and transparency and need to maintain confidentiality and not expose the council to abuse of systems and controls through putting inappropriate information into the public domain.

5 Findings

Public Sector Internal Audit Standards are broken down into the following areas and this assessment has reviewed Kirklees Internal Audit Service against each.

- Overarching Material
- Attribute Standards
- Performance Standards

5.1 Overarching Material

5.1.1 Mission Statement and Definition of Internal Audit

There is a Charter and Strategy which contains the definition of Internal Audit but it should have the mission statement added to it and there may be benefits in separating which aspects are within the Charter and which sit within the Strategy.

5.1.2 Core Principles for the Professional Practice of Internal Auditing

It is clear that the Core Principles are embedded in the practices of Kirklees Internal Audit and that it is a competent and professional service that conforms to all ten elements of the Core Principles and that it is valued by its customers and stakeholders.

5.1.3 Code of Ethics

It is clear that Kirklees Internal Audit demonstrates integrity, objectivity, confidentiality and competency and have regard to the seven principles of public life as required by

PSIAS. All employees sign a corporate declaration of interest and gifts and hospitality but these arrangements could be strengthened through a separate ethics declaration.

The requirements of the Standards for Overarching Material are met with minor recommendations made to further strengthen arrangements in this area.

5.2 Attribute Standards

5.2.1 Attribute Standard 1000 – Purpose, Authority and Responsibility

Kirklees Internal Audit has a Charter and Strategy that clearly defines the purpose, authority and responsibility of the service in line with the standard.

5.2.2 Attribute Standard 1100 – Independence and Objectivity

The Service reports in its own name and directly to the Corporate Governance & Audit Committee

The Head of Internal Audit reports directly to the Chief Executive and the Service Director for Finance (Chief Financial & S151 Officer) and to the Executive Leadership Team and Corporate Governance and Audit Committee. From an operational perspective, the Head of Internal Audit (Head of Risk) is line managed by the Director of Legal, Governance and Commissioning who holds the statutory role of the Monitoring Officer.

The Head of Risk also undertakes other roles covering Risk Management, Insurance and Corporate Standards (Complaints) and provides input into certain procurement function and corporate projects across the Authority. His independence is maintained through arrangements clearly set out in the Internal Audit Charter and Strategy.

5.2.3 Attribute Standard 1200 – Proficiency and Due Professional Care

Kirklees Internal Audit has a professional and experienced team and newer members of the team are developing well. The Head of Internal Audit holds a CCAB qualification. Management do need to ensure the team are sufficiently skilled for future needs and have sufficient capacity to deliver the service.

5.2.4 Attribute Standard 1300 – Quality Assurance and Improvement Programme (QAIP)

The standards require that a QAIP is developed which covers all aspects of the activity and enables conformance with the standards to be evaluated. The team is highly experienced, especially at management level. Inherently therefore the service operates to a very proficient standard. A QAIP is in place and this was reported within the Annual Report of the Head of Internal Audit. The service completed a PSIAS Local Government Application Note checklist prior to this review which did not identify any problematic areas.

The requirements for Attribute Standards are met with minor recommendations made to further strengthen arrangements in this area.

5.3 Performance Standards

5.3.1 Performance Standard 2000 – Managing the Internal Audit Activity

A risk based plan is produced which is reviewed and approved by Senior Management and Corporate Governance and Audit Committee and any changes to it are reported to that committee.

Every assignment is reviewed by experienced managers and plan progress and other performance information are also reported to CGAC.

5.3.2 Performance Standard 2100 – Nature of Work

Kirklees Internal Audit has a well-established in-house package of electronic working papers to document audit assignments.

As part of this assessment, five completed audit assignments were selected for review. They all conformed to the standard and the Service's own methodology.

5.3.3 Performance Standard 2200 – Engagement Planning

A performance and control sheet including the scope of work is completed for each audit assignment which is reviewed and agreed with the client. Annual planning ensures that resource allocation matches the nature, complexity and time constraints for each audit. The two managers meet regularly to monitor and review plan progress making any changes as necessary.

5.3.4 Performance Standard 2300 – Performing the Engagement

All audit work is completed using the in-house package of electronic working papers. All work undertaken is suitably reviewed

5.3.5 Performance Standard 2400 – Communicating Results

The communication of the results of audit assignments is via draft and final reports agreed with the customer and these arrangements and the format and content of the reports are in accordance with the standards.

5.3.6 Performance Standard 2500 – Monitoring Progress

There are well established arrangements for monitoring progress with management actions relating to audit findings. There are opportunities to ensure the full value of audit work is attained through considering possible changes to follow up arrangements and to ensure an escalation process for cases where significant agreed actions have not been

effectively implemented by management. This escalation process can also involve the Corporate Governance and Audit Committee

5.3.7 Performance Standard 2600 – Communicating the Acceptance of Risk

The service has appropriate processes in place to deal with communicating and challenging the acceptance of risks. There have been no instances where management has accepted a level of risk that may be unacceptable to the organisation.

The requirements for Performance Standards are met with minor recommendations made to further strengthen arrangements in this area.

6 Acknowledgement

We would like to thank all involved for their assistance during this review, in particular those in the audit team who provided me with information and explanations, and those listed below as interviewees

7 Interviewees

Councillor Yusra Hussain, Chair of the Corporate Governance and Audit Committee

Jo-Anne Sanders, Service Director Learning & Early Support

Eamonn Croston, Service Director Finance (S151 Officer)

Julie Muscroft, Service Director Governance & Commissioning (Monitoring Officer)

Alison Wood, West Yorkshire Fire & Rescue

Stephen Nixon, Grant Thornton

Improvement Areas / Development Opportunities - Action Plan

Ref	Finding	Recommendation	Management Response / Action	Timescale
1	<p>Audit Charter and Strategy</p> <p>The service has an Audit Charter and Strategy that contains the majority of information expected within the standards. It does not, however, contain the Mission of Internal Audit which would help give context to the work of the team including some of the wider support given to the Council. It is also felt that to separate the Charter from the Strategy would help the reader understand both elements a little clearer.</p>	<p>It is recommended that the Charter be separated from the Strategy and that the Mission of Internal Audit be included within the document</p>	<p>Agreed; we will look to redraft the version during the next 3 months, and ask the Corporate Governance & Audit Committee to consider and approve a revised document as a part of the 2023/24 audit planning process</p>	<p>Approval at CGAC April 2023</p>
2	<p>Audit Team related issues</p> <p>The Head of Audit (Risk) also undertakes other roles covering Risk Management, Insurance and Corporate Standards (Complaints) and provides input into certain procurement function and corporate projects across the Authority. His independence is maintained through arrangements clearly set out in the Internal Audit Charter and Strategy. These arrangements helps maintain independence and avoid any conflicts of interest</p>	<p>a) Ensure the authority makes plans to cover the wider roles and responsibilities provided by the Head of Audit (Risk)</p>	<p>a) The Directors-Legal Governance & Monitoring and Finance, acknowledge this and are considering arrangements re succession planning</p>	<p>At the appropriate times (which cannot currently be defined)</p>

Ref	Finding	Recommendation	Management Response / Action	Timescale
	<p>but there are further considerations associated with these arrangements around capacity and succession planning.</p> <p>The Head of Audit (Risk) is contracted to work for three and a half days a week and deliver the management of the Audit Team and the wider roles and responsibilities set out in the report.</p> <p>It is clear the current management arrangements within the team work well and these additional roles do not impair upon Internal Audit function or delivery</p> <p>However, succession planning is considered a critical consideration for the service and wider elements of the role delivered by the Head of Audit (Risk). It was confirmed during the audit that this issue was being actively considered and planned for.</p> <p>Discussion was also held over the amount of School audit coverage, which, whilst valued by the Service Director Learning and Early Support, represents a significant amount of resource in this area. The majority of school audit opinions are substantial assurance, suggesting the level of coverage is disproportionate to risk and that best value may not be obtained out of the team's limited resources.</p>	<p>b) Ensure the team maintain sufficient capacity to discharge its responsibilities and add value to the organisation. It also needs to be able to evolve for the future delivery of Internal Audit and the skill sets this will require.</p> <p>c) Consider the strategy for delivering assurance over Kirklees' schools and if there may be different ways of gaining this e.g. through thematic based audits, promoting lessons learned from audits undertaken etc.</p> <p>d) The ongoing development of the newer members of the team should be maintained</p> <p>e) Review the job titles of Audit Staff below Audit Manager level to ensure their role in the authority and the nature of the</p>	<p>b) Agreed; this depends on maintaining a capacity of competent , and appropriately skilled team members, through internal promotion and external recruitment as opportunities arise.</p> <p>c) As a principle accepted, although this depends on both the audit resourcing capacity, and the expectations from those within the wider organisation. Will subject to review discussion.</p> <p>d) Agreed</p> <p>e) Agreed. Whilst there are advantages of maintaining alignment with other finance posts</p>	<p>Ongoing/ from point of any future approved recruitment</p> <p>Discussion by April 2023</p> <p>March 2023 staff appraisals, and ongoing</p> <p>At time of next recruitment.</p>

Ref	Finding	Recommendation	Management Response / Action	Timescale
	<p>A further observation was the job titles of audit staff below Audit Manager level; they hold job titles of “Senior Finance Officer”, “Finance Officer” and “Assistant Finance Officer”. These are historical job titles helping alignment with Accountancy / Finance staff. However, this does not reflect their role or much wider responsibility for risk, governance and control across the organisation as opposed to the historic internal financial control remit. It also does not reflect their status and rights of access to information and documentation and could result in prospective applicants for vacancies being put off / missing the job adverts.</p> <p>There are no concerns about the independence of the Head of Internal Audit; however, his performance review is not referred to the Chief Executive or Chair of the Audit Committee, in accordance with the public sector interpretation within PSIAS as a measure to help maintain the Head of Audit’s independence.</p> <p>It is not considered that sharing the performance review would be helpful in supporting independence and the current arrangements in place are considered sufficient to do this already.</p>	<p>work they deliver is understood.</p>	<p>for career and grading reasons, the titles will be made more distinct, and the role profiles amended to emphasise the key expectations go beyond those of finance for many post holders. Will do this for new recruits and if possible for existing post holders</p>	

Ref	Finding	Recommendation	Management Response / Action	Timescale
	<p>The Counter Fraud Team</p> <p>The Counter fraud team was transferred into Internal Audit at the start of the 2022/23 year and the work of this team has continued to be assessed. Cabinet is expected to approve a revised counter fraud strategy in early 2023 and this provides the opportunity to further develop the counter fraud team to align with the revised strategy.</p>	<p>Continue further developing the Counter Fraud team to align with the revised counter fraud strategy</p>	<p>Agreed; changes depend on developing skills and capacity</p>	<p>From time of approval of new Strategy, and then ongoing</p>
	<p>Code of Ethics</p> <p>All Audit staff complete the corporate declaration of interests and gifts and hospitality that is done by all employees of Kirklees Council. The standards are very clear on conducts and behaviours of internal auditors which are not fully covered by the corporate declarations.</p>	<p>All audit staff could complete a separate ethics declaration covering all aspects highlighted in the Standards.</p>	<p>Agreed. Can ask staff to update these declarations annually too</p>	<p>April 2023, and annually thereafter</p>
	<p>Corporate Governance and Audit Committee</p> <p>This committee functions well and discharges its responsibilities as set out in its terms of reference. The Chair whilst relatively new to the role chairs the meetings well and is developing in the role. She understands the importance of the committee operating in an apolitical manner. The committee approved the creation of an Independent Member role and this appointment should help the committee develop and enhance the skills,</p>	<p>a) Progress the appointment of the Independent Member - this will provide further support to the operation of the committee, in particular in maintaining its apolitical conduct. The independent member will also likely enhance the skills, knowledge and experience</p>	<p>a) This is to be progressed during January 2023. If a recruitment takes place it is hoped the post holder can take up duties at the end of this financial year.</p>	<p>March 2023</p>

Ref	Finding	Recommendation	Management Response / Action	Timescale
	<p>knowledge and experience collectively held within the committee</p> <p>It was noted that the majority of information around the work of the Internal Audit team in its Progress Report was held in the private session of the meeting which the public are not allowed to attend. This is to not expose the council to abuse of systems and controls thought putting inappropriate information into the public domain.</p> <p>The Annual Report of the Head of Internal Audit provides an opinion over Kirklees risk, governance and control arrangements as does the Annual report for West Yorkshire Fire and Risk Service. Current guidance however states the opinion should have separate explanations over all three areas</p>	<p>collectively held within the committee.</p> <p>b) Review the level of information reported in the private session of the committee around the work of the internal audit team to strike an accepted balance between openness and transparency and need to maintain confidentiality and not expose the council to abuse of systems and controls through putting inappropriate information into the public domain.</p> <p>c) The Annual Report of the Head of Internal Audit for 2022/23 should provide separate opinions over risk, governance and control arrangements in line with CIPFA guidance</p>	<p>b) The CGAC will be asked to consider this alongside some amended reporting formats which might help with achieving a slightly amended balance between openness and the need for confidentiality</p> <p>c) Agreed; this will be changed in the Head of Internal Audit annual report for the year 2022/23 (& thereafter)</p>	<p>April 2023 And July 2023</p> <p>April 2023</p>

Ref	Finding	Recommendation	Management Response / Action	Timescale
	<p>Action tracking and reporting</p> <p>Follow up audits are routinely undertaken when a “No or limited Assurance” opinion is given for an audit. These are generally between 6-12 months after the agreement of the final report to ensure the agreed actions will have been implemented.</p> <p>There are also further checks occasionally carried out on actions from other audits by asking management to confirm the implementation of these actions.</p> <p>As an overall position regarding overdue management actions is not known, such information cannot be reported and this presents a risk of problems within particular areas not being identified and management not being called to account for their actions / inactions. It also loses the value of the audit work carried out in those areas.</p>	<p>The arrangements for checking the implementation of agreed management actions arising from audit findings should be reviewed to ensure best value is obtained from audit work carried out and that management are held to account when significant actions are not implemented within timescales they provided.</p>	<p>Agreed. We will explore the opportunities for strengthening follow up arrangements for all audit work and ensure that this is systematically reported to the Corporate governance & Audi Committee. (although it is important that this process does not detract too much from delivery of the initial audit work)</p>	<p>July 2023</p>