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**Annual Review of Internal Audit Effectiveness**

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**SUMMARY REPORT**

**Purpose of the Report**

1. This report provides members with the results of the external assessment of the Internal Audit service.

**Summary**

2. An external peer review is a requirement of the Public Sector Internal Audit Standards and must be performed at least once every five years.
3. The review has taken place in accordance with the terms agreed at the March 2018 meeting. In summary it has been concluded that the service complies with the Public Sector Internal Audit Standards.

**Recommendation**

4. The results of the peer review are noted.

**Reasons**

5. To comply with the requirements of the Public Sector Internal Audit Standards.

**Andrew Barber**  
**Audit & Risk Manager**

**Background Papers**

- (i) Internal Audit Charter
- (ii) Public Sector Internal Audit Standards

Andrew Barber: Extension 156176

|                        |  |
|------------------------|--|
| S17 Crime and Disorder | Other than any special investigation work there is no crime and disorder impact. |
|------------------------|--|

|                                  |  |
|----------------------------------|--|
| Health and Well Being            | There is no specific health and well being impact.   |
| Carbon Impact                    | There is no specific carbon impact.  |
| Diversity                        | There is no specific diversity impact.   |
| Wards Affected                   | All wards are affected equally.  |
| Groups Affected                  | All groups are affected equally.   |
| Budget and Policy Framework      | This report does not affect the budget or policy framework.  |
| Key Decision                     | This is not a key decision.  |
| Urgent Decision                  | This is not an urgent decision.  |
| One Darlington: Perfectly Placed | There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements. |
| Efficiency                       | There is no specific efficiency impact.  |

# Tees Valley Audit & Assurance Services

## Audit and Assurance Report – Final

# External Peer Review – Internal Audit Service Compliance with PSIAS

Stockton Borough Council and Darlington  
Borough Council

**Report issued by:** Helen Fowler, Audit & Assurance Manager

**Date:** 10 May 2018

**Distributed to:**

**Draft**

Andrew Barber, Audit and Risk Manager

**Final**

As for Draft plus:  
Audit Committee

Tees Valley Audit & Assurance Services  
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## PSIAS – External Peer Review

### Executive Summary

#### 1. Overall Opinion

- 1.1 Overall, the external validation of the self assessment of the internal audit service for Stockton Borough Council and Darlington Borough Council confirms that the Service conforms to the requirements of the Public Sector Internal Audit Standards. There are no significant areas of concern that need to be addressed but some minor areas are outlined below for further consideration or development.
- 1.2 The Public Sector Internal Audit Standards include a specific definition of Internal Auditing; a Code of Ethics and eleven separate standards, each of which is divided into numerous attribute standards and performance standards as follows:

##### Attribute Standards

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme

##### Performance Standards

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

#### 2. Main Conclusions and Findings

- 2.1 The Public Sector Internal Audit Standards (PSIAS) were introduced in April 2013 (and revised in 2016). These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The PSIAS included a requirement for an external assessment of an organisation's internal audit function to be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. Heads of Audit at Hartlepool Borough Council, Stockton Borough Council and Darlington Borough Council (shared service) and Redcar and Cleveland Borough Council and Middlesbrough Council (Tees Valley Audit and Assurance Service - shared service) have established a peer-review process between the authorities' internal audit services which will meet the requirement of external assessment by self-assessment with independent external validation. This report presents the summary findings of the review carried out by TVAAS on behalf of Stockton and Darlington Borough Councils.
- 2.2 The Audit and Risk Manager (chief audit executive according to the PSIAS definition) maintains a self-assessment of the Internal Audit Service, and its compliance with the Standards. The self assessment was used as the basis for the external assessment to identify any areas of non compliance. The review involved examination of the completed self assessment for any areas marked as not complying or partially complying. The review also selected a sample of areas deemed to be compliant and confirmed this status by reference to supporting evidence. The peer review has not included an in depth review of the quality of individual audit files.

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- 2.3 This external assessment concludes that the Internal Audit Service for Stockton Borough and Darlington Borough Councils conforms to the requirements of the Public Sector Internal Audit Standards. There are some minor areas which may warrant further development or consideration but these do not have a material impact on the overall opinion. Overall, it was evident from the self assessment and the evidence and documentation reviewed that the Internal Audit Service makes a positive contribution to the provision of reliable and independent assurance on the governance, control and risk management environment for each Council.
- 2.4 The following represent areas where current practice may not strictly be in accordance with the PSIAS definitions but which are usual practice or issues in local government:
- The Standards expect feedback to be sought from the Chair of the Audit Committee and CMT member as part of the Chief Audit Executive's performance appraisal. At present, the Audit and Risk Manager's appraisal is not carried out by a member of the Corporate Management Team although it is counter signed. Similarly, although the Chair of the Audit Committee does not specifically provide feedback into the Audit and Risk Manager's appraisal, it is expected that any issues would have been highlighted by other means.
  - The Standards require that assignments for ongoing assurance engagements and other audit responsibilities are rotated periodically within the internal audit team. Whilst the Audit and Risk Manager aims to rotate assignments wherever possible, this is becoming increasingly difficult given the reduced staffing within the Team. Rotation is more problematic for audits where specialist skills are required e.g. IT technical audits. This is mitigated by the Auditors' Code of Conduct and the clear documentation of the need for objectivity, confidentiality and integrity.
  - Standard 1110 Organisational Independence expects that the Audit and Risk Manager as the chief audit executive should report to an organisational level equal or higher to the corporate management team. For line management purposes, the Audit and Risk Manager reports to the Procurement and Governance Manager rather than to the S151 Officer. Whilst this is not strictly compliant with the Standards, any impact on impartiality of the Audit and Risk Manager is safeguarded via a secondary reporting line to the S151 Officer and by direct interaction with senior management and the Audit Committee.
- 2.5 There is scope for the Service to complete its development of an assurance mapping exercise and place reliance on other assurance providers wherever appropriate and to incorporate this into the annual audit planning process.
- 2.6 The Standards (2430) expect that internal auditors state in each report that engagements are conducted in conformance with the PSIAS provided that the results of the QAIP support such a statement. At present, this statement is not included but, given that this assessment has confirmed overall compliance, then it is suggested that this should be considered as standard wording for future report templates.

### 3. Acknowledgements

- 3.1 The assistance given by the Audit and Risk Manager is gratefully acknowledged.

## Appendices

### Appendix 1 Terms of Reference

**Appendix 1**  
**Tees Valley Audit & Assurance Service**

**Terms of Reference**

|                             |   |
|-----------------------------|---|
| <b><u>Audit Title:</u></b>  | PSIAS - SBC Peer Review                 |
| <b><u>Start Date:</u></b>   | 01 April 2018                           |
| <b><u>Audit Lead:</u></b>   | Helen Fowler, Audit & Assurance Manager |
| <b><u>Key Contacts:</u></b> | Andrew Barber, Audit and Risk Manager   |

**Background**

Introduced in 2013 and most recently updated in 2016, the Public Sector Internal Audit Standards (PSIAS) promote robust governance and audit within public sector bodies and ensure that organisations and audit committees can be confident that their internal audit function is performing effectively. Heads of Internal Audit have been requested to report annually on their service's compliance with the PSIAS by completing a self assessment against the Standards. An external validation of this self assessment is required at least once every five years. The Heads of Audit for Stockton Borough Council (shared service covering Darlington Borough Council), Hartlepool Borough Council and Tees Valley Audit & Assurance Service (covering Redcar and Cleveland Borough and Middlesbrough Councils) have agreed to carry out an external validation of each other's self assessment. The Head of Audit and Governance at Hartlepool Borough Council has received confirmation that this route is acceptable to the professional bodies. As a result, the Audit & Assurance Manager of TVAAS is carrying out the external validation of the PSIAS self assessment for Stockton Borough Council's Internal Audit Service.

**Audit Approach**

The first stage of the work will be for the PSIAS self assessment, as updated by Stockton Borough Council's Audit and Risk Manager, to be provided to TVAAS's Audit and Assurance Manager for review. The Audit & Assurance Manager will assess the responses to the self assessment and identify any potential areas of non compliance or where further clarification is required. A sample of areas will be selected and evidence of compliance requested. The range of relevant documentation is likely to include reports to audit committee, audit charter, audit plans, strategies and policies, various minutes and performance review documents. This approach is taken in order to provide assurance that processes and procedures are fit for purpose and effectively

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communicated as well as checking the extent to which they are being complied with.

### **Scope & Objectives**

The objective of the review is to provide an external and independent validation of Stockton Borough Council's Audit and Risk Manager's self assessment of the Service's compliance with the Public Sector Internal Auditing Standards and to highlight any significant areas of non compliance. The objective of this work is to provide assurance to the audit committees and senior management of both Stockton Borough Council and Darlington Borough Council that their internal audit service is compliant with the PSIAS thereby giving them assurance that the audit outcomes reported can be relied upon. The objective of this work is also to comply with the PSIAS requirement to complete an external validation at least once every five years.

### **Reporting**

A draft report will be issued for review and consultation by the appropriate levels of management. A final report will then be issued, in a timely manner. It is the responsibility of management to ensure that any actions identified are implemented.