



## Barnsley Internal Audit Service External Compliance Assessment with Public Sector Internal Audit Standards

15 March 2016

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## **Circulation**

Frances Foster	Section 151 Officer Barnsley Council	For Information and Discussion
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## **1 Introduction**

- 1.1** This report is an external assessment of Barnsley's Internal Audit Service. The assessment has been undertaken by professional Auditors from Bradford Council's Internal Audit Service. The assessment has taken place to ensure compliance with statutory regulations and Public Sector Internal Audit Standards (PSIAS) which requires a review of the Internal Audit provider every five years.
- 1.2** The results of the review will be reported to Barnsley's Audit Committee on 23<sup>rd</sup> March 2016. The Committee approved the terms of the external assessment at their meeting of the 5th November 2014. The external assessment builds on the internal assessments which are reported regularly to the Audit Committee in the Service's Annual Internal Audit Reports.
- 1.3** Barnsley's Internal Audit Service provides the Internal Audit function for a number of South Yorkshire Joint Bodies and other organisations. In addition to Barnsley Council the purpose of the assessment is to provide assurance to these organisations, that Barnsley Internal Audit Service is professionally competent to meet their internal audit needs as well.

## **2 Executive Summary**

The focus of the assessment was two-fold; primarily it was to review whether Barnsley's Service was PSIAS compliant. The secondary purpose was to identify possible areas for service improvement.

### **2.1 PSIAS Compliant**

It is our overall opinion that Barnsley Council Internal Audit Services "Generally Conforms" to the Public Sector Internal Audit Standards and Code of Ethics.

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 an IA 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 IA 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 IA activity from performing adequately in all or in significant areas of its responsibilities.

The only area where the service had not been compliant with PSIAS was the need for an external review which this report resolves. This enables the Audit Committee to have confidence that the annual opinion of the Head of Internal Audit is supported by a professional and competent service and is evidenced based.

## **2.2 Service Improvement Opportunities**

As part of the assessment the review looked at the current practices adopted by the Barnsley Internal Audit Service. The report identifies areas that the Audit Committee, Financial Management and the Internal Audit Service may wish to consider in terms of the future development of the service. Any developments need to be considered in the context of 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 Section 151 Officer, the Head of Internal Audit and other key council officers and the application of their professional judgement in accordance with Barnsley Council's strategic objectives.

## **3 Purpose and Scope of the Report**

Internal Audit is a statutory function for a local authority. This section of the report identifies those statutory responsibilities, how this review complies with the statutory responsibilities and the organisations this review covers.

### **3.1(i) 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.”

### **3.1 (ii) Public Sector Internal Audit Standards (PSIAS)**

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.

The purpose of the review is to ensure that Internal Audit conforms with the PSIAS. This includes the requirements for a quality assurance and improvement programme which must include both internal and external assessments.

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive (HoIA) must discuss with the board: the form of external assessments, the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence is demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience

### **3.1(iii) Barnsley Internal Audit Service Charter and Strategy**

Barnsley Internal Audit Service's Internal Audit Charter and Strategy 2015/16 was renewed in March 2015. The Charter sets out the nature, objectives, outcomes and responsibility of the Internal Audit Service along with the scope of its activities within its client organisations. The strategy sets out how the charter will be delivered.

The strategy includes a statement on the need for an external assessment which requires an independent external review to be undertaken at least every 5 years. The Audit Committee and the Director of Finance, Assets and Information Services will approve the terms of reference for this assessment which is timetabled for 2015. The external assessment process will also be utilised by Internal Audit's external clients to avoid any duplication or additional cost.

## **3.2 External Clients**

In addition to Barnsley Council the Internal Audit Service has a responsibility for the internal audit of the following organisations

South Yorkshire Police Chief Constable  
South Yorkshire Police and Crime Commissioner

South Yorkshire Fire and Rescue Authority  
Sheffield City Region Combined Authority  
South Yorkshire Passenger Transport Executive  
South Yorkshire Pensions Authority  
Berneslai Homes

Of the sample of four audits in total, two audits were chosen from the external clients. These were an audit for Berneslai Homes and one for the South Yorkshire Fire and Rescue Authority. An interview was also held with the Finance Director of the South Yorkshire Fire and Rescue Service. These evidenced that the same procedures were adopted for these organisations and were PSIAS compliant.

### **3.3 External Assessors Qualifications**

The review has been undertaken by Mark St Romaine and Michael Parkinson who both work for the Bradford Council Internal Audit Team. Mark St Romaine is currently the Joint Head of Internal Audit, Insurance, Information Governance, and Risk at Bradford Council and Service Manager Internal Audit and Risk at Wakefield Council. He has been Head of Internal audit at Bradford since 2012. Previous to that he was a Senior Auditor/ Audit Manager at Bradford Council between 1992 and 1997. He held various Finance Manager positions for Bradford Council between 1997 and 2012. He qualified with the Chartered Institute of Public Finance and Accountancy in 1992.

Michael Parkinson is an Audit Manager with Bradford Council. He has been an Audit Manager since 2002 and has over 25 years internal audit experience from working within public and private sector organisations. He qualified with the Association of Certified Accountants in 1997.

Both Assessors have significant knowledge on local government finance and local government, as well as specific understanding of Internal Audit issues.

## **4. External Assessment Methodology**

4.1 The methodology for the external assessment was agreed by the West & South Yorkshire Heads of Internal Audit Group. The terms of reference for the External Assessment Peer Review are detailed in Appendix A. The review required a Document Review, Structured Interviews a review of audit working papers and a review of the PSIAS checklist. Appendix B details the interviews held and Appendix C details the documents and the Audit working papers reviewed. Appendix D identifies the audits examined.

Barnsley Internal Audit Service has undertaken its own compliance test against the PSIAS. This has been reviewed. The evidence identified in

the external assessment has confirmed the results in Barnsley Internal Audit Service's own assessment.

4.2 This report has been prepared from the findings of the review. In accordance with the assessment criteria it has been considered by the Council's Section 151 Officer, the Head of Internal Audit and the Service Director Finance. The purpose of this is to ensure the factual accuracy of the report. The report will now be considered at the meeting of the Audit Committee.

4.3 This assessment has reviewed the working practices of Barnsley Internal Audit including an interview of an external client and a review of two audit files for separate external clients. As an external assessment this review can also be considered as incorporating an external assessment on behalf of the other audit committees that are supported by Barnsley Internal Audit Service.

## **5. Findings**

### **5.1 Public Sector Internal Audit Standards Compliance**

#### **5.1a The Standards**

PSIAS are broken down into four areas, the definition of internal auditing the code of ethics for auditors, the attribute standards which details the organisational and professional framework that Internal Audit operates within and the performance standards, which details how Internal Audit should be managed and audit engagements completed. This assessment has reviewed Barnsley Internal Audit Service against each of the areas.

##### **5.1a.i 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. Barnsley Internal Audit Service complies with this definition.

##### **5.1a.ii Code of Ethics**

The standards require the Internal Audit service to have integrity, be objective and maintain confidentiality. From the external assessment and the interviews with key individuals undertaken Barnsley Internal Audit Service abides by the codes of ethics of the Standard.

### **5.1a.iii 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. This has been identified by reviewing the documentation that supports the operation of Barnsley Internal Audit Services. This is supported by the interviews with key staff and shows that the Barnsley Internal Audit Services is PSIAS compliant in this area.

### **5.1a.iv 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, Barnsley Internal Audit Service was found to be PSIAS compliant in this area, although there are some potential areas for improvement which are raised in 5.2.

The external assessment of the performance standards particularly focused on the review of a sample of 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 from the review.

Relevant recommendations were made in respect of control weaknesses identified, adequacy or application, which were appropriately classified. The recommendation classifications were challenged by the reviewer as appropriate, with the auditor and manager of the review 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. In one audit a control issue stated in the audit working papers that did not appear in the final audit report was queried with the auditor and/or manager. A clear explanation and rationale, which was agreed with the manager, was provided for the control issue not appearing in the final audit report.

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

**5.1b Level of Resources**

The level of resources available to internal Audit is a decision for the Audit Committee, the Council's Section 151 officer and the Head of Internal Audit. The external assessment view on the level of resources supporting both Barnsley Council and the Service's External Clients is satisfactory. Whilst there is the margin for a reduced level of resources to be deployed if circumstances were appropriate any substantial reduction in resources would bring the issue of a minimum level of audit into consideration.

The service is also responsible for the delivery of Internal Audit to a range of other organisations. If the service was to lose any of these clients, or the Council was to withdraw from any significant service areas then the resource position of the service would need to be reappraised.

**5.1c Training**

In 2014/15, 14 Internal Audit staff successfully completed the professional training programme provided by the Institute of Internal Auditors, the Certificate in Internal Audit and Risk. The Head of Internal Audit 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. This was evidenced by the quality of the internal audit work reviewed.

**5.2 Service Improvement Opportunities**

**5.2a Three Year Plan**

The current Internal Audit plan is for a year's duration. If the level of resources available to internal audit reduces, consideration should be given to moving to a three year plan. This will assist in ensuring that there are no gaps in the coverage of critical areas of the Council's financial systems and key service delivery risks.

**5.2b Focus on High Priority Recommendations**

The service currently has three levels of recommendation, fundamental, significant and merits attention. Consideration should be given to focusing on those controls, which if audit work found to be weak, in either adequacy or application, would result in a fundamental or significant recommendation being made. This not only promotes internal audit resources being focused on the priority areas but also enables the organisation to focus on the key controls it needs to operate.

**5.2c Audit Reports per Auditor**

A review of the number of audits issue indicates that Barnsley issues fewer reports compared with its West and South Yorkshire neighbours. This could be for a number of reasons including working styles and the definition of a report (for example other Councils may include grant certification audits as reports). However it would be beneficial for the Council's Head of Internal Audit to review the position to determine whether the reporting framework met Barnsley's Internal Audit requirements and those of the Council's and external client requirements. In some cases short briefing style reports can be a more effective deployment of Internal Audit resources focusing on remedies to internal control weaknesses.

**5.2d Risks linked to the Audit Plan**

The current Internal Audit plan reflects the financial risks of the authority and also links in with the risk management processes of the authority. It is critical that the Council's strategic risk register remains relevant and reflects the environment the Council is working in, especially in the light of the changing availability of resources. This is a key responsibility of strategic management. It is Internal Audit's responsibility to ensure it reviews those strategic risks and the control environment supporting them. The Audit Committee, Strategic Directors, Section 151 Officer and Internal Audit Service need to continue ensuring that the Internal Audit resources are directed and balanced, so that Service delivery, organisational governance and financial administrative controls are reviewed and maintained.

**5.2e Assurance Mechanisms**

In order to make the best use of Internal Audit resources it is important that attention is directed to significant/critical risks including process/system development and areas where Internal Audit's expertise is effective. Care should continue to be taken when preparing the Internal Audit plan that Internal Audit is not used to provide assurances outside its professional authority. The Authority could benefit from an assurance mapping process which clearly designates responsibility for critical risks and how assurances are achieved for those risks.

**5.2f Adults**

A review of the Internal Audit Plan for 2015/16 shows that 65 Internal Audit days were allocated to the Communities Department which incorporates Adults Services. The days allocated to People and Place

were 175 days and 112 respectively. Given that Adults services is one of the most critical resource demanding areas of Council activity, consideration should be given to whether the resources allocated to Adults, is sufficient and reflects the current level of risk.

#### **5.2g Delivery of Training**

Whilst not a specific requirement of PSIAS and the responsibility could sit within other areas of the organisation, it was noted that the Internal Audit Service had not delivered any formal training in the form of courses to other areas of the organisation, or service managers.

The provision of training by Internal Audit gives the Service exposure to the rest of the organisation and allows it to sell itself to service managers and also be pro active in delivering improvements to the governance arrangements of the Council. Consideration should be given to the delivery of such training in the future.

### **6. Recommendations**

- 6.1 That the Audit Committee notes the report and approves the findings of the external assessment that Barnsley Internal Audit Service is PSIAS compliant.
- 6.2 That the Audit Committee considers the service improvement opportunities (5.2a to 5.2g) and discuss with the relevant management through Internal Audit's planning and reporting cycle whether they should be incorporated into Internal Audit's activities in the future.

### **7. Appendices**

Appendix A:	West & South Yorkshire Heads of Internal Audit Group External Assessment – Peer Review Terms of Reference
Appendix B	List of Staff Interviews
Appendix C	Documents Reviewed as part of the External Assessment
Appendix D	Internal Audits Reviewed as Part of the External Assessment

**Appendix A**

**West & South Yorkshire Heads of Internal Audit Group**

**External Assessment – Peer Review**

**Terms of Reference**

**Purpose of the Paper**

At the meeting of the West and South Yorkshire HoIA Group held on the 20th November 2013 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to be taken to undertaking such assessments.

It was agreed at this meeting that the external assessment process should be undertaken as a peer review whereby one Authority would undertake a peer assessment of a different Authority within the group. This approach forms the basis of this paper which provides background information regarding the requirements of the Public Sector Internal Audit Standards (PSIAS) in so far as they apply to external assessments along with details of the process to be followed by members of the group.

**Background Information**

**Members of the Peer Group:**

West Yorkshire: Wakefield Metropolitan District Council; Bradford City Council; Calderdale Council; Kirklees Metropolitan Council

South Yorkshire: Rotherham Metropolitan Borough Council; Doncaster Metropolitan Borough Council; Barnsley Metropolitan Borough Council

NB: Sheffield and Leeds City Council intend to undertake a similar Peer Review but alongside other Core Cities.

**External Assessments:**

The purpose of the external assessment is to help improve delivery of the audit service to an organisation. The assessment should be a supportive process that identifies opportunities for development which ultimately helps to enhance the value of the audit function to your Authority.

External assessments must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The HoIA should involve their Audit Committee and Section 151 Officer in determining the frequency,

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timing and scope of their external assessments as well as the selection of who will conduct the review and terms of reference for the review.

The two possible approaches to external assessments include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification
- Have appropriate experience of internal audit - at least five years at manager level within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The HoIA should discuss the proposed form of the external assessment with their Line Manager (where relevant) and Audit Committee or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Board (this is usually the Audit Committee) regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The HoIA should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Members of the West and South Yorkshire HoIA Group have elected to adopt the latter of the 2 approaches with another member of the West and South Yorkshire Internal Group undertaking the validation. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment which takes around 8 days at a minimum cost of £10K. They also provide a validated assessment, similar to the approach agreed by the West and South Yorkshire Internal Audit Group, which takes 6-8 working days and costs between £6K and £9K. Reviews at the higher end of the scale would include interviews with the senior team and the Audit Committee chair.

There are obvious financial savings to Members of the peer group by adopting the agreed approach as outlined within this paper. In addition, such an approach is in keeping with the promotion of collaborative working arrangements.

One of the risks identified by the group in respect of this form of peer review approach relates to the potential negative impact on professional relationships in the event of adverse findings. The terms of reference outlined within this paper would aim to mitigate against such a risk / issue. The CIIA have been consulted in terms of this form of peer assessment and are supportive of the approach. At the CIPFA audit update meeting held during November 2013, such an approach was cited as a good example of best practice in obtaining best value. In addition, there have been examples of groups similar to the South and West Yorkshire Group proposing to adopt a similar approach i.e. Greater London Authorities, South West Audit Group, Core Cities.

In adopting this approach HoIA and / or Section 151 Officer should be mindful that their Audit Committees and Section 151 Officer may require an external version of the assessment which may be perceived as providing a more robust and independent form of challenge.

### **Independence and Objectivity**

Prior to the commencement of the assessments taking place all parties should agree the programme of peer reviews and an appropriate timetable. It is important to ensure the independence of the Auditor undertaking the peer assessment. Any known or perceived conflicts of interest should therefore be disclosed. It should be acknowledged at the outset that all West and South Yorkshire Internal Audit services have some knowledge of each other.

### **Agreeing the Assessment Process**

West and South Yorkshire colleagues should agree a programme of assessments taking into account the requirement noted above regarding independence and objectivity. In addition, colleagues should agree the number of days to be assigned to undertaking assessments, along with the sponsor for each review.

### **The Assessment Process**

Completion of the Checklist:

Each HoIA must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment.

Pre Assessment Phase:

- Confirm the terms of reference for the review, timescales and dates for the review.

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- Obtain background information in order to obtain an appreciation of the function. This should include the IA Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives).
- Obtain details of responsibilities, resources, structure and activity.
- Obtain details of any external client organisations e.g. YPO, Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required.
- Obtain the completed self assessment which has been sign posted to the supporting evidence.
- Obtain evidence of how quality is maintained and how performance is measured and reported.

### **Assessment Phase:**

- Review of documentation in support of the standards / checklist.
- Examine a sample of audit engagements according to the PSIAS and procedures.
- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the HoIA.

### **Post Assessment Phase:**

The review should conclude with a detailed report providing an opinion on the Internal Audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards highlighting any areas of partial conformance or areas which do not conform along with recommendations for improvement, where appropriate.

### **Reporting Phase:**

- Discussion of the draft report with the HoIA and Sponsor.
- Issue of final report and agreed actions to the HoIA and Sponsor to confirm accuracy.
- Issue final report to the HoIA and Sponsor. HoIA / Sponsor to issue final report to their Audit Committee which includes an action plan and implementation dates.

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In order for each Authority to obtain maximum benefit from the peer assessment approach each HoIA should share a synopsis of their respective outputs / report with members of the West and South Yorkshire HoIA group.

It is envisaged that each phase of the assessment process should take no longer than 1 day i.e. 4 days in total.

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**Appendix B**

**List of Staff Interviews**

<b>Name</b>	<b>Position</b>	<b>Organisation</b>
Frances Foster	Section 151 Officer	Barnsley Council
Neil Copley	Service Director - Finance	Barnsley Council
Rob Winter	Head of Internal Audit	Barnsley Council
Councillor Richardson	Chair of Audit Committee	Barnsley Council
Beverley Sandy	Director of Finance and Resources	South Yorkshire Fire and Rescue Service
John Cornett	External Auditor	KPMG
Linda Wild	Audit Manager	KPMG
Wendy Lowder	Acting Executive Director Communities	Barnsley Council
Adrian Hunt	Risk and Governance Manager	Barnsley Council

**Appendix C**

**Documents Reviewed as part of the External Assessment**

Barnsley Internal Audit Checklist for Conformance with the PSIAS and the Application Note May 2015

Barnsley Council Risk Management Framework Review 20th May 2015

Risk Management Process August 2014

Internal Audit Risk Based Planning Methodology Barnsley Internal Audit

Future Council Strategy 2014-17 Barnsley Metropolitan Council 2014-2017

Internal Audit Annual Report 2014/15 Audit Committee 10th June 2015

Annual Governance Review Process 2014/15 25th March 2015

BMBC Strategic Risk Register as at February 2015

Internal Audit Plan 2015/16 Audit Committee – 25th March 2015

Internal Audit Quarterly Report 2015/16, Quarter Ended 30 June 2015 Audit Committee 22nd July Internal Audit Charter and Strategy 2015/16 2015

Annual Review of the Effectiveness of Internal Audit Committee 10th June 2015

Public Sector Internal Audit Standards – Proposal for undertaking an external Assessment Audit Committee – 5th November 2014

Barnsley MBC Internal Audit Services Internal Audit Charter and Strategy 2015/16

**Appendix D**

**Internal Audits Reviewed as Part of The External Assessment**

**Barnsley Council**

Safeguarding Process – Deprivation of Liberties Internal Audit Report Date of Issue 21st October 2015

Area Council Governance Arrangements Internal Audit Report Date of Issue 14th October 2015

**South Yorkshire Fire and Rescue Authority**

Stronger Safer Community Reserve Internal Audit Report date of Issue 24th June 2015

**Barneslai Homes**

Recruitment and Selection Internal Audit Report Date of Issue 30th September 2015