

# APPENDIX A

## Core Cities Chief Internal Auditor Group

### External Assessment – Peer Review

#### Terms of Reference

##### Background Information:

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The two possible approaches to external assessments outlined in the standard 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 Core Cities Chief Internal Auditors Group have agreed that the PSIAS 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. It was also agreed that reciprocal reviews would not be undertaken.

Members of the peer group:

Sheffield City Council, Leeds City Council, Liverpool City Council, Birmingham City Council, Nottingham City Council, Bristol City Council, Newcastle City Council, Manchester City Council and Glasgow City Council.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to 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 Head of Internal Audit 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.

### **Purpose of the Review**

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.

### **Proposed Approach**

Members of the Core Cities Group have elected to adopt the latter of the 2 approaches with another member of the Core Cities group undertaking the validation of a self-assessment. 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 with an approximate cost of £15K (based on a quote obtained for the Internal Audit service at Sheffield City Council). They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes approx. 5 working days and costs approx. £11k.

There are obvious financial savings to members of the Core Cities Group by adopting the peer review approach outlined within this paper. In addition, such an approach is in keeping with the promotion of collaborative working arrangements.

It has been agreed that each authority will determine the most appropriate member of their management team to conduct the external assessment, taking into account qualifications and relevant experience.

A standard template has been devised for the purposes of reporting conformance and this will be used by each core city. A moderation process will be developed to ensure consistency in the severity of issues being reported.

### **Independence and Objectivity**

Prior to the commencement of the assessments taking place all parties agreed the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. 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 Core City Internal Audit Group have some knowledge of each other.

## **The Assessment Process**

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

### **Pre Assessment Phase (2 days):**

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain background information in order to obtain an appreciation of the function. This should include the Internal Audit 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. 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 along with a file of supporting evidence
- Obtain evidence of how quality is maintained and how performance is measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

### **Assessment Phase (on-site visit) (1day):**

- Raise and resolve any queries arising from the review of the self-assessment.
- 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 Head of Internal Audit.

### **Post Assessment Phase (1 day):**

The review should conclude with a detailed report providing an evaluation of 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 suggested actions for improvement, where appropriate.

**Reporting Phase (1 day):**

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor
- Head of Internal Audit / Sponsor to report to their Audit Committee, including an action plan and implementation dates.

It is envisaged that the assessment process should take approximately 5 days in total.

**Proposed schedule for Bristol City Council**

Sheffield City Council to undertake the peer review, with self-assessment to be provided late July/early August and on-site visit to be arranged for September 2017.