

Peer Review Report Observations	Recommendations	Update – March 2019
<p>Whilst the Internal Audit Charter acknowledged that the team was not organisationally independent and safeguards were described that would go some way to mitigate any perceived or actual conflict of interest, testing confirmed that to date there have been no independent assurance reviews of risk management commissioned.</p>	<p><b>Recommendation 1:</b></p> <p>It was stated that the role of IA with regards to risk management and governance was being considered with a view to the responsibility being moved out of Internal Audit leaving it free to provide scrutiny and challenge as appropriate.</p> <p>It is recommended that this review be concluded and the safeguards required to maintain the independence of the service be embedded.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b></p> <p>The responsibility for Risk Management now lies with the Risk and Insurance Manager.</p> <p>In respect of the role undertaken by Internal Audit in the compilation of the Council’s Annual Governance Statement, it has been agreed that in the absence of alternative provision, experience and expertise within the Council, Internal Audit will continue to undertake this core Council activity.</p> <p>In relation to the Health and Safety responsibilities previously undertaken on behalf of the Finance Department, this has been reviewed and Internal Audit will no longer be required to undertake such tasks.</p>
<p>Threats to objectivity at a functional level were identified because of the role of Internal Audit in risk management and governance (see above).</p> <p>It was further noted that the periodical rotation of assurance assignments between staff was naturally occurring as there had been continual movement in staffing in the service; however no formal staff rotation policy was in place.</p>	<p><b>Recommendation 2:</b></p> <p>As recommended above, safeguards should be developed and embedded to maintain functional independence.</p> <p>For specific audit assignment an independence statement should be included within the Terms of Reference and Draft and Final reports to confirm there is no conflict of interest for the auditor performing the review.</p>	<p><b>Status: Complete</b></p> <p><b>Comment:</b></p> <p>The various report templates and Terms of Reference have been updated, where applicable, in relation to independence statements.</p>

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<p>The CAE is at a 3rd Tier - Head of Service level which can impact on the influence they have on the rest of the organisation.</p> <p>In practice, however, the Chief Internal Auditor regularly attends Leadership Team meetings and provides constructive challenge.</p>	<p><b>Recommendation 3:</b> The position of the CAE would be enhanced by the formalisation of Internal Audit attendance at SLT/DLT etc.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b></p> <p>The Chief Internal Auditor and Head of Internal Audit regularly attend the Corporate Leadership Board, Statutory &amp; Policy Board and Directorate EDM's.</p>

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<p>The Board (Audit Committee) does not approve the internal audit budget.*</p> <p>* denotes generally accepted practice within the sector</p>	<p><b>Recommendation 4:</b> The Audit Committee should determine whether it is satisfied with the current arrangements for approving the Internal Audit budget.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> The Audit Committee approves the resources for delivery of assurances but not the budget per se and can make recommendations to senior management if it considers resources are insufficient. Additionally, members can propose a budget amendment as part of the budget setting process should they consider appropriate.</p>
<p>The Heads of Internal Audit have not had a performance appraisal for a number of years.</p> <p>The Chief Executive or equivalent does not undertake, countersign, contribute feedback to or review the performance appraisal of the CAE *</p> <p>The Chair of the Audit Committee does not contribute to feedback to the performance appraisal of the CAE.*</p>	<p><b>Recommendation 5:</b> Identified as part of self-assessment. As a minimum, the Heads of Internal Audits should have an annual performance appraisal undertaken.</p> <p>Consideration should be given to method for obtaining feedback from the Head of Paid Service and Chair of the Audit Committee</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> Performance Appraisals for the Head of Internal Audit have been undertaken.</p>
<p>A draft Training Strategy for the Finance Service has been produced which focusses on professional qualifications only. A skills review within Internal Audit is to be undertaken by the Chief Internal Auditor as part of the Improvement Plan to ensure the service has the correct skills, knowledge and competence to perform its responsibilities.</p>	<p><b>Recommendation 6:</b> As outlined in the Improvement Plan, the skills review should be undertaken by the Chief Internal Auditor.</p>	<p><b>Status: Complete</b></p> <p><b>Comment:</b> The Skills Review has been completed and implementation of a revised structure is well progressed. There will, however, be further and ongoing reviews of how gaps in skills and knowledge will be addressed.</p>

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All auditors do not currently have sufficient knowledge of computer assisted audit techniques. This has arisen as experienced staff have left the services.	<b>Recommendation 7:</b> Identified as part of self-assessment. Training in this area is planned, and should be rolled out as appropriate.	<b>Status:</b> In Progress  <b>Comment:</b> As part of a wider review of Training Strategy and needs of the section, Computer assisted audit training (CAAT) is ongoing within the team, for example in data analytics. Additional training in this area has occurred in 2018/19, however, it still requires acceleration across the team as a whole.
Whilst internal auditors have had an annual appraisal and mid-year review, objectives and targets for the 17/18 financial year were not established.	<b>Recommendation 8:</b> Identified as part of the self-assessment. Targets should be established for the all auditors going forward. Performance against targets should be monitored throughout the year.	<b>Status:</b> Complete (as at Sept 19)  <b>Comment:</b> Objectives and targets have been set for the section and for individuals.
Professionally qualified staff are responsible for meeting their own professional body requirements. A Training Strategy for the team is not in place.	<b>Recommendation 9:</b> Following the outcome of the Skills Review and the establishment of performance targets, a training strategy should be formulated to guide the future development of the team.	<b>Status:</b> Complete  <b>Comment:</b> The Training Strategy has now been completed.
Compliance with routine quality monitoring processes was not consistently demonstrated.	<b>Recommendation 10:</b> Consideration should be given to re-introducing the quality control checklist to ensure Audit Managers clearly demonstrate compliance with the review process.	<b>Status:</b> In Progress  <b>Comment:</b> Quality control has been reviewed and now requires specific sessions with the team to set out arrangements commencing from 2019/20

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<p>Whilst performance monitoring was undertaken, the Chief Internal Auditor confirmed that the current suite of PI's were outdated and needed refreshing.</p>	<p><b>Recommendation 11:</b> The performance targets for Internal Audit should be refreshed in line with the wider corporate performance review and in consultation with appropriate parties.</p> <p>Once the performance target refresh has been undertaken, the new suite of PI's should be regularly monitored and reported.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> Performance Targets have been refreshed for 2018/19 and submitted to the Audit Committee.</p>
<p>The self-assessment identified a non-conformance in respect of the risk based plan taking into consideration the Council's assurance framework. It is acknowledged that a number of attempts have been made to develop an assurance framework for the Council but this has not been achieved.</p> <p>The PSIAS requires that an assurance mapping exercise is undertaken as part of identifying and determining the approach to using other sources of assurance.</p>	<p><b>Recommendation 12:</b> Within the Improvement Plan there is an agreed action to progress assurance mapping for the Council.</p> <p>The approach to using other sources of assurance and any work that may be required to place reliance upon those sources should be further developed as part of the assurance mapping exercise.</p>	<p><b>Status: Complete</b></p> <p><b>Comment:</b> Assurance mapping has commenced on a phased and pilot basis and incorporated when undertaking risk based audits on the Corporate Risk Register.</p>

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<p>Whilst procedures were agreed to guide the internal audit activity, these were not fully documented in the form of an audit manual and/or use of an electronic management system. This has led to variations in application and thus inconsistencies in areas such as working papers and file storage.</p>	<p><b>Recommendation 13:</b> Documented procedures should be developed to guide staff in performing their duties in a manner that conforms to the PSIAS.</p>	<p><b>Status: Not Complete</b></p> <p><b>Comment:</b> The completion of this action can only occur after the implementation of various other recommendations / improvements within the service.</p>
<p>The Chief Internal Auditor identified that liaison between internal and external audit was very limited. It is acknowledged that the External Auditors do attend the audit committee meetings and so are updated on the planned work of the team, however regular liaison meetings do not occur.</p>	<p><b>Recommendation 14:</b> It is anticipated that these will be reinstated when the new EA providers are engaged.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> Planning and Liaison meetings with the Council's new External Auditor have commenced and a schedule of meetings has been established.</p>

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<p>A new approach to following-up audit recommendations has been devised to monitor implementation of high and medium priority recommendations. The Head of Internal Audit acknowledged however that the follow-up programme was behind schedule due to reduced resources.</p>	<p><b>Recommendation 15:</b> Resources to conduct the new follow-up process should be established, with the results reported to DLT and SLT's.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> This was a short-term issue only at the time of the Peer Review and resources are allocated for the Follow Up Programme.</p>
<p>Due to the role of Internal Audit in risk management, it is difficult to assess how the service could evaluate the effectiveness of the organisation's risk management processes.</p>	<p><b>Recommendation 16:</b> The role of the Internal Audit team in the risk management process should be formally reviewed and appropriate safeguards introduced to protect independence. An option would be the implementation of the proposed external reviews of risk management.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> The responsibility for Risk Management now lies with the Risk and Insurance Manager.</p>
<p>Testing established that Audit Managers are not required to demonstrate approval of engagement work programmes as part of their quality review, and instead the issuing of the Terms of Reference by the manager was considered sufficient.</p>	<p><b>Recommendation 17:</b> The quality review checklist recommended above should incorporate a requirement for approval of the engagement work programme to be demonstrated.</p>	<p><b>Status: In Progress</b></p> <p><b>Comment:</b> Quality control has been reviewed and now requires specific sessions with the team to set out arrangements commencing from 2019/20.</p>

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<p>From a review of four audit assignments, there was insufficient detail within the working papers of three assignments to fully demonstrate that conclusions within the reports had been based on sufficient analysis and evaluation.</p>	<p><b>Recommendation 18:</b> Consistent completion of the working papers, particularly the RCES, should be undertaken to ensure that all conclusions within the audit reports are adequately supported by documented testing.</p>	<p><b>Status: In Progress</b></p> <p><b>Comment:</b></p> <p>While working paper processes had been inconsistent, audit reports issued are soundly based and occur after discussion and scrutiny of findings by relevant managers receiving the reports.</p> <p>Expectations and standards for consistent working papers are being reviewed and will be shared with management and the Assurance Team at the earliest opportunity.</p>
<p>The methodology used to file and store audit assignment working papers was not consistently applied. For 2 files sampled, the Head of Internal Audit was unable to immediately locate the working paper file and had to contact the auditor who had performed the review for assistance.</p>	<p><b>Recommendation 19:</b> File storage protocols should be documented and adhered to for all types of engagement record.</p>	<p><b>Status: Complete</b></p> <p><b>Comment:</b></p> <p>The new protocols have been written and will be implemented commencing 2019/20.</p>

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<p>The standard requires that all engagements are properly supervised and whilst it was stated that an agreed approach existed, this was not consistently applied. With one of files reviewed, the working papers had not been fully completed and this had not been raised as part of the quality review by the Audit Manager.</p>	<p><b>Recommendation 20:</b> The approach to undertaking and document the quality review by the Audit Manager should be evaluated to ensure it meets the requirements of the PSIAS. If necessary, the checklist of requirements should be reintroduced.</p>	<p><b>Status: In Progress</b></p> <p><b>Comment:</b> Quality control has been reviewed and now requires specific sessions with the team to set out arrangements commencing from 2019/20</p>
<p>The review of four audit assignments identified that the working papers for three of these were not sufficiently completed and detailed to enable another experience internal auditor, with no previous connection with the audit, to ascertain what work was performed, to re-perform it and if necessary to support the conclusions reached.</p>	<p><b>Recommendation 21:</b> As above, consistent completion of the working papers, particularly the RCES, should be undertaken to ensure that all conclusions within the audit reports are adequately supported by documented testing.</p>	<p><b>Status: In Progress</b></p> <p><b>Comment:</b> While working paper processes had been inconsistent, audit reports issued are soundly based and occur after discussion and scrutiny of findings by relevant managers receiving the reports.  Expectations and standards for consistent working papers are being reviewed and will be shared with management and the Assurance Team at the earliest opportunity.</p>
<p>The working paper which was in place to demonstrate the supervision and review of an audit engagement by an Audit Manager was not always completed. In addition, the checklist of items that should be checked/reviewed as part of the quality monitoring was no longer in use.</p>	<p><b>Recommendation 22:</b> As above, the approach to undertaking and document the quality review by the Audit Manager should be evaluated to ensure it meets the requirements of the PSIAS. If necessary, the checklist of requirements should be reintroduced.</p>	<p><b>Status: In Progress</b></p> <p><b>Comment:</b> Quality control has been reviewed and now requires specific sessions with the team to set out arrangements commencing from 2019/20.</p>

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<p>As a consequence of the findings identified from the assignment working paper reviews, there is a risk that that reports do not disclose all material facts, or that the opinions are not supported by sufficient, reliable, relevant and useful information. Whilst testing did not identify material omissions, the lack of consistency with working paper completion and quality review processes increases the risk that this may occur.</p>	<p><b>Recommendation 23:</b> See recommendations above to ensure complete, detailed working papers are maintained.</p>	<p><b>Status: In Progress</b></p> <p><b>Comment:</b></p> <p>While working paper processes had been inconsistent, audit reports issued are soundly based and occur after discussion and scrutiny of findings by relevant managers receiving the reports.</p> <p>Expectations and standards for consistent working papers are being reviewed and will be shared with management and the Assurance Team at the earliest opportunity.</p>

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<p>Audit reporting at Bristol City Council is by exception. The standards encourage internal auditors to acknowledge satisfactory performance in engagement communications. Interviews with key officers confirmed the audit reports have improved in recent months and further reviews of the report formats are planned as part of the Improvement Plan.</p>	<p><b>Recommendation 24:</b> Identified as part of self-assessment. To be considered as part of the review of report formats.</p>	<p><b>Status: Complete</b></p> <p><b>Comment:</b> The various report templates have been updated. All Audit reports (and summaries to Audit Committees) reflect the balance of the findings in the respective audit with areas of compliance/ good practice and areas for improvement being explicit.</p>
<p>The self-assessment has identified an area of partial conformance surrounding the timeliness of the audit communications.</p>	<p><b>Recommendation 25:</b> Chief Internal Auditor and Audit Committee to determine any actions arising.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> A new performance measure will monitor the length of the audit process and this will be measured, monitored and reported to the Audit Committee in 2018/19.</p>
<p>The annual internal audit report generally incorporates the requirements of the PSIAS, however the self-assessment identified that the results of the QAIP together with progress against any improvement plans resulting from the QAIP, were not fully covered.</p>	<p><b>Recommendation 26:</b> The annual internal audit report should incorporate the results of the QAIP, together with progress against any improvement plans resulting from the QAIP.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> The QAIP was approved by the Audit Committee in November 2017 and annual performance was reported to the Audit Committee in May 2018.</p>

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<p>Whilst the annual report included a summary of performance of the internal audit activity against its performance measures and targets, the Chief Internal Auditor has acknowledged that the suite of PI's need to be refreshed.</p>	<p><b>Recommendation 27:</b> Once the refresh of the PI's has been completed (see previous recommendation), the annual report should include a summary of performance against these measures.</p>	<p><b>Status: In Progress</b></p> <p><b>Comment:</b> Performance measures were refreshed for 2018/19 but this recommendation cannot be fully implemented until the Annual Internal Audit report for 2018/19 is submitted to the Audit Committee in May / June 2019.</p>
<p>The Head of Internal Audit confirmed that the follow-up programme of work is behind schedule due to resourcing constraints, and so the assessment has been changed to a partial conformance.</p>	<p><b>Recommendation 28:</b> Plans should be developed to progress the follow-up work programmed.</p>	<p><b>Status: Complete (as at Sept 19)</b></p> <p><b>Comment:</b> As per Recommendation 15, this was a short-term issue only at the time of the Peer Review and resources are allocated for the Follow Up Programme.</p>