

**Nottingham City Council  
Internal Audit**

**Peer Review of Bristol City Council  
Internal Audit against the UK Public Sector  
Internal Audit Standards**

**Final Report**

**February 2023**

## 1. Introduction and Background

- 1.1 In April 2013, (revised 2016 and 2017) a new set of Public Sector Internal Auditing Standards (PSIAS) became effective. PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. They seek to secure 'a professional, independent and objective internal audit' that makes an effective contribution to governance arrangements. Guidance on the interpretation of the Standards is set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Local Government Application Note (LAGN) 2019.
- 1.2 The PSIAS sets out the Mission and definition of Internal Auditing; the core principles for professional practice; together with a Code of Ethics. These seek to capture the characteristics of effective internal audit functions. Whilst specific attribute and performance standards provide guidance on how internal auditing should be carried out and the function managed. The Standards also introduced a requirement for an external assessment of an organisation's internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation
- 1.3 The Core Cities Chief Internal Auditors group has established a 'peer-review' process. This process addresses the requirement of external assessment by 'self-assessment with independent external validation. The self-assessment of Bristol City Council's Internal Audit function against the requirements of the Standards and Application Note was completed by the Chief Internal Auditor and his team.
- 1.4 In line with the agreed Terms of Reference (ToR), the Head of Audit and Risk at Nottingham City Council was responsible for the external review and was supported by his Audit Manager.
- 1.5 The ToR specific to Bristol's review (attached) was shared with and endorsed by Bristol City Council's Audit Committee in July 2022.
- 1.6 This report has been issued to Simba Muzarurwi, Chief Internal Auditor, Denise Murray, Finance Director and S151 Officer and Councillor Andrew Brown, Chair of the Audit Committee.
- 1.7 We have been informed that the findings from our review will be formally reported to the Audit Committee in March 2023.

## 2. Approach/Methodology

- 2.1 The peer review was undertaken remotely, commencing with the with BCC Internal Audit Team providing the Nottingham Team with the self-assessment checklist and supporting evidence. The self-assessment was used as the basis for the external assessment, which was then evidenced with reference to a range of internal and published documentation. The review covered the 2022/23 period which included the latest Chief Internal Auditor's Annual Report.
- 2.2 Throughout the review, meetings were held with members of the Bristol Audit Team. To support and further inform the assessment, a sample of completed assignments was examined and the documentation used to assess the service's documented processes as part of assessment against PSIAS using the CIPFA Local Government Application Note (LGAN).
- 2.3 Views were obtained from other stakeholders within BCC to confirm some of the details stated within the self-assessment and to obtain views on the Internal Audit Service.
- 2.4 Operational practices were discussed with the Audit Manager and the Quality Assurance (QA) process also reviewed with the Audit Manager and evidence was provided to demonstrate compliance.

## 3. Opinion of External Assessment

- 3.1 This review has shown that Bristol's Internal Audit Section has made considerable improvements since its last external review in 2017/18. Previous areas of partial or non-compliance within many sections of the PSIAS have been successfully addressed by the Chief Internal Auditor and his team. We are pleased to report that this external assessment concludes that Bristol City Council's Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards.
- 3.2 There are some minor partial conformances which require further development (most of which have already been identified via the self-assessment) and opportunities have been identified to do this which should enhance the strategic and operational function. We have shared comments with the CAE and his team as part of the review. Our action plan does not cover areas where the service had already self-assessed and identified actions.
- 3.3 It was clear from our review of the Internal Audit Service's documentation that supports the self-assessment, from our interviews with key stakeholders and from our assessment of further requested documentation that the service is valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control.

It operates to ethical standards and with professionalism and integrity. This is achieved through both the service's and Council's standards, policies and practices together with the planned programme of audit work

- 3.4 The service is headed by experienced leaders who have a good reputation with stakeholders across the Council. Roles and responsibilities are understood and there is regular, timely communication of audit assurances, issues and concerns to management and Members. Whilst there are minor areas where the PSIAS are partially met, these do not affect the overall outcome.
- 3.5 It is reassuring that areas for further development or consideration were mostly identified through the Service's own self-assessment. This demonstrates positive self-awareness, openness, and a genuine commitment to ongoing service improvement.
- 3.6 We agree with team's self-assessment, with the exception of 2 areas:
- a) With regard to questions concerning the Audit Charter, question 5.13 asks if the Charter covers the arrangements for appropriate resourcing. In the Charter there is some mention in section 8 of resourcing but there is the potential to include more detail to include the current strategic partnering arrangement plus other potential developments included in BCC's own Action Plan, namely:
    - Explore opportunities for seconding staff in and out of Internal Audit.
    - Explore and enhance partnership arrangements with other local authority audit team
  - b) The self-assessment recorded compliance with regards to obtaining client feedback (5.99) which we feel is more likely a partial compliance. However, we are aware that the team is to re-introduce the capture of formal feedback from March 2023 and that this intention forms part of the team's own Action Plan as reported to the Audit Committee in November 2022. There is therefore no requirement to make a recommendation on this point.

## Findings

### 4. Definition & Code of Ethics

#### Definition of Internal Auditing

4.1 The evidence that we have seen leads us to conclude that Bristol City Council Internal Audit service has demonstrated that it is independent, objective and uses a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation.

#### Code of Ethics

4.2 Internal Auditors at Bristol City Council Internal Audit Service demonstrate integrity, objectivity, confidentiality, and competency and have regard to the Seven Principles of Public Life as required by PSIAS.

### 5. Attribute Standards

#### Standard 1000: Purpose, Authority and Responsibility

5.1 Internal Audit has an Audit Charter which defines its purpose, authority and responsibility and references are made to the PSIAS requirements. The role of audit is well understood within the team and respected within the wider organisation, including the Audit Committee.

#### Standard 1100: Independence and Objectivity

5.2 The CAE has unrestricted access and without reference to other senior managers to:

- Senior management
- Board (Audit Committee)
- Chief Executive
- Chair of Audit Committee

and our interviews with a sample of members of this group and documentary evidence indicate that he communicates well with them.

- 5.3 We consider that the Chief Internal Auditor is organisationally independent. We are aware that he is responsible for whistleblowing within Bristol City Council and understand the historic reasons for this decision. There are arrangements in place that require an annual external review of this process, which are sufficiently robust.
- 5.4 The internal audit process and corporate policy environment contributes to the individual objectivity of internal auditors, and we have not become aware of any impairment to independence or objectivity during our review.

#### Standard 1200: Proficiency and Due Professional Care

- 5.5 The Internal Audit team is led by a qualified experienced Chief Internal Auditor. The section's requirements for most positions within the team is for professional qualifications or studying for professional qualifications. The team collectively contains lots of experience. The team is subject to periodic appraisals and evidence confirm that there is relevant training occurring to support team members in their roles.
- 5.6 Bristol Internal Audit team's own action plan deals with the requirement to have the necessary skills to undertake IT-related reviews. We note that the section has been successful with its strategic partnering arrangement which has helped the Chief Internal Auditor to provide these assurances to Bristol City Council. We understand that this joint working is providing a knowledge transfer that benefits the permanent team.
- 5.7 Bristol Internal Audit's action plan notes the areas for development that include continuous monitoring / continuous auditing methodologies, introducing agile auditing methodologies and enhancing the use of analytics. These are areas which are now in progress.

#### Standard 1300: Quality Assurance and Improvement Programme

- 5.8 The standards require that a Quality Assurance and Improvement Programme (QAIP) is developed which covers all aspects of the internal audit activity and enables conformance with all aspects of the standards to be evaluated. The service has completed a PSIAS Local Government Application Note checklist and provided supporting evidence to this review. Previous self-assessments have been reported to the Audit Committee including any partial/non-conformance.
- 5.9 There are good processes in operation to monitor quality on an ongoing basis. It is noted that the section will be re-introducing a process for obtaining formal feedback from senior stakeholders from March 2023.

- 5.10 Performance is discussed within a range of internal meetings and key performance measures are reported to the Audit Committee.
- 5.11 The form of external assessment selected by Bristol City Council Internal Audit and approved by the Audit Committee has been determined in order to meet the criteria of the PSIAS. This approach was agreed with other Core Cities as best meeting the needs of all involved and in particular allows for assessors to have good understanding of the role of internal audit within the local government of a major city. The approach has designed out conflict of interest through non-reciprocity of assessment.

## 6. Performance Standards

### Standard 2000: Managing the Internal Audit Activity

- 6.1 The service has arrangements to produce a risk-based audit plan annually as defined within its charter. This links to organisational priorities, the Council's Corporate Risk Register and national and regional issues, and enables an annual audit opinion to be given. The plan takes account of stakeholder input. The audit plan is broken down into assurance blocks and meets the expectations of the standard, including the requirement for flexibility. The Audit Plan is agreed by senior management and approved by the Audit Committee. Any significant changes to the Audit Plan are communicated to senior management and the Audit Committee.
- 6.2 Resource requirements are identified as part of the planning process, and timing and scope of engagements are subsequently agreed with management. Policies and procedures have been put in place to guide internal audit activity, which support compliance with PSIAS, and these are reviewed periodically.
- 6.3 The service meets periodically with the Council's external auditor, Grant Thornton, with a view to coordinating activity.
- 6.4 The service has identified and utilised an assurance mapping framework which will enhance governance, improve coordination and inform the risk-based audit plan.
- 6.5 The service provides regular updates in an agreed format to management and the board, which include fraud work and gives the opportunity to highlight limited and no assurance opinions and major impact opinions.

### Standard 2100: Nature of Work

- 6.6 Internal Audit activity evaluates and contributes to the improvement of the organisation's governance through a programme of audits linked to ethics and values, performance management, and information technology, and through recommendations within other audits. These audits are balanced against other priorities through the assurance block arrangements. The Chief Internal Auditor is involved in coordination of the Audit Committee, external and internal audit plans, and management reporting.
- 6.7 Internal Audit has a programme to evaluate the organisation's risk management and control processes which includes all the elements required by PSIAS. Its scoping process and Charter ensure that other significant risks are considered, that the service maintains its independence and objectivity, and uses the knowledge of controls that auditors have gained across all types of engagement

### Standard 2200: Engagement Planning

- 6.8 Scoping documents are prepared for each audit or consultancy engagement which are agreed with and issued to the respective client officers. Engagement planning meets the PSIAS requirements, and engagement objectives and scope are set with regard to the appropriate factors specified by PSIAS.
- 6.9 Internal Audit procedures ensure that resource allocation matches the nature, complexity, and time constraints for each engagement.

### Standard 2300: Performing the Engagement

- 6.10 We have seen evidence that supports the completion of work programmes. Procedures operate to ensure that information with appropriate qualities is identified. The reports seen based their conclusions on appropriate analyses and evaluation, and there was evidence that the factors mentioned in PSIAS formed part of the considerations. Documentation for audits was securely held, subject to retention and disposal policies consistent with those of the organisation, and sufficient to support engagement conclusions and results.

6.11 We saw evidence of supervision and quality assurance within the sample of audits we selected which was consistent with the policies and procedures of the service.

#### Standard 2400: Communicating Results

6.12 The results of engagements are communicated in accordance with the requirements of the standard.

6.13 As highlighted by the self-assessment, a statement of conformance with PSIAS does not feature in the Annual Report although it was noted in the November 2022 update to the Audit Committee. The action plan prepared by the section sets out the intention to report conformance moving forwards. We understand that there have been no examples of non-conformance within engagements and identified none in the sample that we reviewed.

6.14 Appropriate arrangements are in place for ensuring the results of engagements are shared with appropriate parties within Bristol City Council.

6.15 The service complies with the standard in relation to the overall annual internal audit opinion.

#### Standard 2500: Monitoring Progress

6.16 The monitoring process implemented by the service meets the requirements of the standard.

#### Standard 2600: Communicating the Acceptance of Risks

6.17 The service has appropriate protocols and processes in place to deal with communicating and challenging the acceptance of risks.

## 7. Conduct of the External Assessment

- 7.1 This external assessment of Bristol City Council's Internal Audit Service has been conducted in accordance with the Public Sector Internal Audit Standards and the related CIPFA Local Government Application Note. Such external assessments must be conducted at least once in every five years by a qualified, independent assessor / assessment team from outside the organisation.
- 7.2 The qualified assessor / assessment team must demonstrate competence in two areas – the professional practice of internal auditing, and the external assessment process.
- 7.3 Regarding competence, the Standards state that experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. Regarding independence, the independent assessor must not have either a real or an apparent conflict of interest and must not be a part of, or under the control of, the organisation to which the internal audit activity belongs.
- 7.4 I certify that as the responsible external assessor as defined in the PSIAS, I am a CCAB qualified accountant, and have over 30 years of audit experience (27 of which have been at a Chief Audit Executive level). This experience has been gained in a comparable sector (local government) and I am currently fulfilling the role of Chief Audit Executive for Nottingham City Council. I have no conflict of interest in performing this assessment in respect of Bristol City Council's Internal Audit Service – I am not a part of, or under the control of, Bristol City Council.

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Ref	Number	Observation	Recommendation	Responsibility, Target Date and Management Comments
1	5.13	<p><b>Attribute Standard</b></p> <p>The Standard looks to the Charter to cover the arrangements for appropriate resourcing. Whilst the self-assessment records a conform in terms of this requirement and points to a mention in section 8 of the Charter, we consider that more could be said to bring out the current approach to resourcing, including the strategic partnership plus the section's own stated aims to:</p> <ul style="list-style-type: none"> <li>• Explore opportunities for seconding staff in and out of Internal Audit.</li> <li>• Explore and enhance partnership arrangements with other local authority audit team</li> </ul> <p><b>Partially conforms</b></p>	<p>Provide more detail within the Audit Charter in terms of resourcing</p>	<p><b>Responsibility:</b> Simba Muzarurwi, Chief Internal Auditor</p> <p><b>Target Date:</b> November 2023 when Charter is reviewed by the Audit Committee</p> <p><b>Management Comments:</b> The Charter will be updated to reflect the resourcing approach used by BCC Internal Audit in delivering assurance activities including the use of a strategic partner and other applicable resourcing arrangements.</p>

**External Assessment – Peer Review**  
**Bristol City Council's Internal Audit Service**  
**Terms of Reference**

### **Background Information**

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 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 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 and establish whether governance requirements relating to provision of the service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

## Proposed Approach

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external reviewer. The key benefit to this approach is cost. The Chartered Institute of Public Finance (CIPFA) offer a service to provide external assessments and can undertake a full quality assessment at an approximate cost of £30K. The Chartered Institute of Internal Auditors (CIIA) also offer a similar service at an approximate cost of £14k. They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes around 5 working days and costs approximately £12.5k (costs based on quotes obtained for PSIAS reviews at Birmingham City Council).

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

Each authority should determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

The external review of Bristol City Council's Internal Audit Service will be led by Shail Shah, who is the Head of Audit and Risk at Nottingham City Council. Shail Shah is ACCA qualified and has over 20 years of audit experience at Nottingham as Chief Auditor and previously as external auditor with one of the largest accounting firms.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** to the PSIAS.

## Independence and Objectivity

Prior to the assessments taking place all parties will agree 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 be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

It has been confirmed that Shail Shah, who is leading the assessment, is independent and has no links with Bristol City Council.

## 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.

It is envisaged that Bristol's Internal Audit Service will have completed its own checklist along with supporting documentation by 31<sup>st</sup> December 2022.

It is proposed that Bristol's external assessment is completed remotely, with the self-assessment and supporting documentation being provided electronically. It is also proposed that meetings are held via Teams or a similar alternative.

Pre Assessment Phase (2 days):

- In accordance with this ToR, the checklist and supporting evidence will be provided electronically to Nottingham City Council by 31<sup>st</sup> December 2022.
- This evaluation of Bristol's submission will be completed by Nottingham City Council by 31st January 2023.
- The information provided to Nottingham City Council will include;

- Relevant background information to gain an understanding of the service. 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).
  - Details of responsibilities, resources, structure and activities;
  - 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
  - The completed self-assessment and supporting evidence; and
  - Evidence of how quality is maintained and performance is measured and reported.
- During this phase Nottingham will issue a questionnaire to 5 key stakeholders at the Council to obtain feedback on the internal audit procedures and process – TBA.
  - Also during this phase, meetings will be held with key stakeholders at Bristol City Council to confirm some of the detail within the self-assessment and to obtain views on the Internal Audit Service. These meeting will include Bristol’s Director of Finance / 151 Officer, the Chair of Bristol’s Audit Committee and the Chief Executive.

#### Assessment Phase (1day):

- This phase will allow Nottingham to raise and resolve any queries arising from the review of the self-assessment.
- The assessor from Nottingham will make arrangements with Bristol’s Audit Team to examine a sample of audit engagements to verify compliance to the PSIAS and procedures.
- During this time the assessor from Nottingham will interview key staff in the Audit Team to confirm audit procedures and process.
- The assessor from Nottingham will 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 team’s conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as 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 outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

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