

REPORT TO:		Audit Committee	
DATE:		18 July 2022	
PORTFOLIO:		Cllr Joyce Plummer - Resources	
REPORT AUTHOR:		Mark Beard – Head of Audit & Investigations	
TITLE OF REPORT:		PUBLIC SECTOR INTERNAL AUDIT STANDARDS – EXTERNAL PEER REVIEW OF INTERNAL AUDIT	
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	Options	Not applicable	
KEY DECISION:	Options	If yes, date of publication:	n/a

1. Purpose of Report

- 1.1 To inform and update Audit Committee about the Public Sector Internal Audit Standards (PSIAS) external peer review process which will ensure that Hyndburn Borough Council meets the requirement under PSIAS that the Internal Audit Service is externally assessed once every 5 years.

2. Recommendations

- 2.1 I recommend that Audit Committee:
- notes the content of this report.

3. Reasons for Recommendations and Background

- 3.1 The PSIAS state that a local authority internal audit function must be subject to an external inspection against the PSIAS once every 5 years. The last external inspection of Hyndburn's Internal Audit Service took place in February 2018. The next external inspection of Hyndburn's Internal Audit Service against the PSIAS is provisionally timetabled for November 2022
- 3.2 There are 8 Lancashire Councils including Hyndburn taking part in a Lancashire Peer Review process. Of the remaining 8 Lancashire Councils which are not part of this scheme, two Councils have chosen to buy-in their external review from an outside provider. Four Councils have internal audit provided by Mersey Internal Audit Agency. One Council is part of the Northwest Chief Audit Executives Group and they also supply internal audit to another Council.

- 3.3 There is a sub-group of the Lancashire District Councils' Audit Group consisting of the Heads of Audit from Burnley, Blackpool, Chorley / South Ribble (one head of Audit covers both Councils), Hyndburn and Wyre. This subgroup has reviewed and updated the methodology for the Lancashire Peer Review process that was based on the one developed previously by the North West Chief Audit Executives Group.
- 3.4 A Memorandum of Understanding (MofU) has been produced that sets out the key aspects of the process including:
- The participating Councils
 - Duration of the MofU
 - Confidentiality
 - Governance
 - Moderation and Quality Control
 - Cost
 - Methodology
- A copy of the MofU is attached for information as **APPENDIX 1**.
- 3.5 The peer reviews have been split into grouped areas to perform the inspections. These groupings are:
- Burnley, Blackburn with Darwen, Chorley / South Ribble
 - Blackpool, Hyndburn. Wyre
 - Preston
- Preston was originally in a triad with 2 other authorities both of whom have now outsourced their internal audit provision to an external provider. As a result the external review of Preston City Council's internal audit service has been carried out in a shared approach by a number of the other Heads of Audit participating in this process.
- 3.6 The timetable for carrying out all 8 external reviews is between June 2021 and March 2023. The external reviews of the internal audit service for Blackburn, Blackpool and Preston have already taken place with the rest still being outstanding.
- 3.7 Hyndburn Borough Council's external inspection of Internal Audit is scheduled to take place during November 2022 with the exact dates still to be set. As part of this process the external assessors will interview key personnel as defined within the PSIAS. This will include:
- Chief Executive
 - Director of Finance s151
 - Monitoring Officer
 - Chair of Audit Committee
 - Head of Audit
- These 5 post-holders are essential to the process, but in addition the external assessors will choose to interview at least one member of the audit team and will interview one or more auditees which are usually the Head of Service.
- 3.8 In order to both facilitate the required interviews and to gather information a pre-inspection questionnaire will be issued to all the key people. The answers to this questionnaire will then be used to target areas to explore further in the subsequent interview. This is likely to be sent out to recipients at some point during October 2022

- 3.9 The Head of Audit & Investigation will provide the external assessors with evidence to demonstrate why Internal Audit does comply with the PSIAS. We will be externally assessed by the Head of Audit & Risk from Blackpool Borough Council and the Head of Governance and Business Support (former Head of Audit) at Wyre Borough Council.
- 3.10 Following completion of inspection process a report is produced. The judgement of whether an internal audit service conforms to the PSIAS will be based on 3 areas of focus:
- Purpose and positioning
 - Structure and resources
 - Audit execution
- The judgement will be that Internal Audit Service conforms, partially conforms or does not conform. The external assessment team may make recommendations for an authority to either achieve full conformity if it has not achieved that or improvements on service deliver if improvements could be made even if overall the Internal Audit Service conforms to the PSIAS.
- 3.11 Once the final report has been issued to the Council it will be presented to both Corporate Management Team and Audit Committee. The external assessment team is prepared to attend either or both of these meetings if required to answer any questions that may arise.
- 3.12 As different authorities will have different external assessors there is a Moderation / Quality Control process that takes place at a number of points until the end of review process in March 2023. The first Moderation / Quality Control meeting took place 8th October 2021 with future meetings taking place during 2022 and 2023. The purpose of these meetings is to look at the reviews carried out and ensure that there is consistency of approach, logical findings and any recommendations made. The Head of Audit & Investigation is a member of the Moderation / Quality Control panel but will clearly have no involvement when Hyndburn Borough Council's Internal Audit assessment is moderated.
- 3.13 The Head of Audit & Investigation is reviewing key documents that are part of the internal audit process in preparation for the external assessment. The Head of Audit & Investigation has begun the process of evidencing the self-assessment of the PSIAS. The self-assessment is carried out annually and reported with the Annual Internal Audit Report & Audit Opinion.

4. Alternative Options considered and Reasons for Rejection

- 4.1 The Council's Corporate Management Team has previously approved participation in the Lancashire Peer Review process which both meets the requirement under the PSIAS and is more cost effective than buying in an externally sourced inspection. As explained above, the Peer Review process is operated under strict guidance and protocols to meet the requirements of the PSAIS.

- 4.2 An alternative option would have been to buy in an external sources inspection which would have costs upwards of £15k. The cost to the Council of being involved in the Lancashire Peer Review process is staff time as opposed to physical cost.
- 4.3 The other alternative option would be to do nothing and not carry out an external assessment of the Internal Audit Service. This would result in the Internal Audit Service having to state that it does not comply with the PSIAS which would have to be reported in the Annual Governance Statement and could result in adverse comment from the Council's External Auditors which may or may lead to further impacts.

5. **Consultations**

- 5.1 Internal consultation within Hyndburn Borough Council has not been necessary, however, the Head of Audit & Investigation has worked as part of a sub-group of Lancashire District Councils Heads of Audit Group in agreeing the protocols for the Peer Review process.

6. **Implications**

Financial implications (including any future financial commitments for the Council)	There are no financial implications arising from this report. Participation in the Peer Review process utilised staff time rather than a cost of buying in a service.
Legal and human rights implications	There are no legal or human rights implications arising from this report.
Assessment of risk	Risks are taken into consideration during the audit process itself, there is no direct risk implication from this report.
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	A Customer First Analysis has not been completed because the report does not change current Council policy. The purpose of the External Assessment of the Internal Audit Service is to ensure conformity with the PSIAS and does not formulate new policy.

7. **Local Government (Access to Information) Act 1985:** **List of Background Papers**

- 7.1 No background papers were necessary for the preparation of this report.