

LONDON BOROUGHS OF EALING & HOUNSLOW

**PEER REVIEW OF INTERNAL AUDIT AGAINST THE
UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

**CARRIED OUT BY
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London Boroughs of Ealing & Hounslow Peer Review of Internal Audit against the UK Public Sector Internal Audit Standards

1 Introduction

- 1.1 A professional, independent and objective internal audit service is one of the key elements of good governance in local government.

The UK Public Sector Internal Audit Standards

- 1.2 The Relevant Internal Audit Standard Setters adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing;
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

- 1.3 Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

- 1.4 The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

- 1.5 The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

Statutory Requirements

- 1.6 The Accounts and Audit (England) Regulations 2015 state that "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." (5 (1)).

- 1.7 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". CIPFA has defined that 'proper administration' should include "compliance with the statutory requirements for accounting and internal audit".

- 1.8 The statement on the role of the Chief Financial Officer (CFO) in local government states that the CFO must:

- ensure an effective internal audit function is resourced and maintained;
- ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- support the authority's internal audit arrangements, and
- ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.

1.9 The relationship between the chief audit executive and the CFO is therefore of particular importance in local government.

External Review of Internal Audit

- 1.10 Standard 1312 states that "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.....External assessments can be in the form of a full external assessment, or a self-assessment with independent validation." "A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be 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." "The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified."
- 1.11 "An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs."
- 1.12 In London, The London Audit Group has organised a system of peer review, with most of the 33 London Boroughs agreeing to take part. It has been agreed that self-assessments will be carried out and that these will be validated by suitably qualified individuals or teams from other members of the group across a 5 year cycle.
- 1.13 This review of internal audit at the London Boroughs of Ealing & Hounslow has been conducted by the Head of Internal Audit at the London Borough of Croydon. His qualifications for conducting this review are: A Chartered Fellow of the Chartered Institute of Internal Auditors, more than 35 years experience of internal audit including 18 years as a local government head of internal audit, previous experience of conducting peer reviews and other forms of external inspection and a former member of the UK Public Sector Internal Audit Standards Advisory Board from March 2012 to February 2015. There is no relationship with either of the authorities under review.

2 Summary & Conclusion

2.1 The review, which covers the in-house and contracted out elements of the internal audit shared service between Ealing and Hounslow councils, was based on the self-assessment conducted by the Head of Audit & Investigations, with evidence provided to support its conclusions. In addition, interviews were conducted with some of internal audit's key stakeholders:

At Ealing - The Chair of the Audit Committee,
- The Chief Executive,
- The Executive Director of Corporate Resources (S151),
- The Director of Finance.

At Hounslow - The Strategic Director of Finance & Corporate Services (S151),
- The Head of Treasury, Pensions & Capital.

Also available were the results of a customer satisfaction survey with a small number of other senior officers and managers.

2.2 The co-operation of the Head of Audit & Investigations and members of the internal audit team (in-house and contractor) in providing every bit of information asked for, as well as those stakeholders that made themselves available for interview, was appreciated and made it possible to obtain a thorough view of internal audit's practices and of its contribution to the organisation.

2.3 **Based on the work carried out it can be confirmed that internal audit at the London Boroughs of Ealing & Hounslow GENERALLY CONFORMS with the UK Public Sector Internal Audit Standards.** This outcome should be reflected in the Head of Audit & Investigation's annual opinion report for the year 2018/19.

2.4 Some minor observations are made in section 3 below.

2.5 Definitions of the levels of conformance with the standards are contained in the following table:

DEFINITIONS	
Fully Conforms	The internal audit service fully complies with each of the statements of good practice in the assessment.
Generally Conforms	The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the objectives and good practice statements within the section or sub-section. These deficiencies will usually have a significant negative impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the audit committee.

3. Minor Observations

Public Sector Internal Audit Standards (PSIAS)

- 3.1 Standard 1110 requires that the “independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.” This does not occur at either council.
- 3.2 Standard 1130 requires that where there is “any real or apparent impairment of independence or objectivity” that this is disclosed to appropriate parties and set out in the audit charter. The Head of Audit & Investigations has line management responsibility for the insurance function and this is not identified in the audit charter for Hounslow, nor is it identified how this issue of independence will be handled.
- 3.3 Standard 1312 requires that “External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.” This requirement came in to effect on 1st April 2013. The current review, conducted in September 2018, is the first relevant external review and six months outside the required window.
- 3.4 Standard 2040 requires that “The chief audit executive must establish policies and procedures to guide the internal audit activity.” The internal audit manuals at both councils have not been reviewed for several years (2009) and do not necessarily reflect current working practices.
- 3.5 Standard 2450 requires that “The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.” To achieve this the internal audit function must complete a programme of work which is adequate in its breath to be able to inform that opinion. Given the complexity of unitary local authorities it is not clear whether or not the programme of work at either authority is adequate in its breadth for this purpose. There is a benchmarking exercise being undertaken by the London Audit Group which may give some evidence one way or another to this point.

Impact of internal Audit

- 3.6 In addition to a review of conformance with the standards, the review sought to gain an understanding of stakeholder views of the impact of the service.

Based on interviews with key stakeholders and a review of the results of a customer satisfaction survey with a number of senior officers and members of the audit team, it is concluded that:

- The function is considered to be generally professional and delivers assurance work of a high standard.

- Whilst assurance work is good and well received there is thought to be little in the way of 'added value' from assignments.
- The partnership with the external provider was generally considered to be positive and brings experience from other clients and sectors.
- The profile of internal audit amongst senior officers is not high and that despite the acknowledged professionalism and expertise in risk management and internal control, it is not routinely consulted on or included in major developments within either council.

Report Reference	Minor Observations	Chief Audit Executive Response
3.1	Standard 1110 requires that the “independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.” This does not occur at either council.	Noted – to introduce a note to CE annually.
3.2	Standard 1130 requires that where there is “any real or apparent impairment of independence or objectivity” that this is disclosed to appropriate parties and set out in the audit charter. The Head of Audit & Investigations has line management responsibility for the insurance function and this is not identified in the audit charter for Hounslow, nor is it identified how this issue of independence will be handled.	This responsibility was agreed following the annual review of the audit charter. This will be updated and reported to committee in July 2019.
3.3	Standard 1312 requires that “External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.” This requirement came in to effect on 1 st April 2013. The current review, conducted in September 2018, is the first relevant external review and six months outside the required window.	Now addressed by this review. Noting that the HIA was appointed in 2017 and identified this and requested a review to address, but timing proved difficult.
3.4	Standard 2040 requires that “The chief audit executive must establish policies and procedures to guide the internal audit activity.” The internal audit manuals at both	Agreed. A small in-house provision with significant experience so consider a small risk, but accept that a review would be sensible.

	councils have not been reviewed for several years (2009) and do not necessarily reflect current working practices.	
3.5	Standard 2450 requires that “The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.” To achieve this the internal audit function must complete a programme of work which is adequate in its breath to be able to inform that opinion. Given the complexity of unitary local authorities it is not clear whether or not the programme of work at either authority is adequate in its breadth for this purpose. There is a benchmarking exercise being undertaken by the London Audit Group which may give some evidence one way or another to this point.	The HIA has reviewed annually against peer authorities to ensure that he is happy with the level of coverage. A revision to the approach for key financial systems has been introduced, this along with the overall level of coverage has been discussed with External Audit at both Authorities. The outcome of the benchmark has been considered and we will continue to review annually against peers.