

LONDON BOROUGH OF HARROW

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

**CARRIED OUT BY
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London Borough of Harrow 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* have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013 (further updated in 2016 and 2017 accordingly. Note that this review is against the 2016 standards with the latest standards coming into effect in April 2017). 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*.

[*The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK]

Statutory Requirements

- 1.6 The Accounts and Audit (England) Regulations 2011 state that "A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control" (6 (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 ‘proper administration’ in that it 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 32 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 Borough of Harrow has been carried out by Alix Wilson from the South West London Audit Partnership. Her qualifications for conducting this review are:
- A member of the Chartered Institute of Public Finance and Accounting;

- Member of the CIPFA Tis Editorial Board for Internal Audit
- Member of the London Audit Group Executive
- More than 20 years' experience of public sector internal audit, including 12 years as a local government head of internal audit of which 5 years have been running a shared audit service;

2 Summary & Conclusion

- 2.1 The review was based on the self-assessment conducted by the Head Internal Audit and the Internal Audit Team, with evidence provided to support its conclusions. In addition, interviews were conducted with some of internal audit's key stakeholders: The Chief Executive, Divisional Director of Education Services, Corporate Director Resources & Commercial, Director of Finance (S151 Officer) and the Chair of the Governance, Audit, Risk Management and Standards (GARMS) Committee. Also available were the customer satisfaction surveys from a number of Chief Officers and senior managers.
- 2.2 The co-operation of the Head of Internal Audit (HIA) and members of the internal audit team 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 Harrow Council GENERALLY CONFORMS with the UK Public Sector Internal Audit Standards.** This outcome should be reflected in the HIA's annual opinion report for the year 2016/17.
- 2.4 There are no major or significant observations that need to be addressed. There are some minor observations and these are set out in section 3 below.
- 2.6 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

3.1 Standard 1300 Quality Assurance and Improvement Programme

The review identified that results of any self assessments undertaken against the PSIAS have not been communicated to the GARMS or progress against the improvement plan reported on.

In accordance with Standard 1320, the self-assessment and/or any external assessment against the PSIAS should be reported to the GARMs as part of the annual internal audit report. This should include the Quality Assurance Improvement Plan and progress against it.

Agreed Action

To be reported as part of the Internal Audit year-end report from 2016/17 onwards.

3.2 Standard 2010 - Planning

The risk based audit planning process should include an assessment of the range of audit techniques that have been selected as the most effective for delivering the audit objectives. This is not currently included within the Annual Internal Audit Plan report.

The range of audit techniques that will be used should be included within the Annual internal Audit Plan report.

Agreed Action

To be included in the Internal Audit Annual Plan report from 2018/19 onwards.

3.3 Standard 2030 – Resource management

Standard 2030 states that “The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. *Interpretation:* Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.”

The review identified that whilst the pool of auditors have a good range of skills there is a considerable gap between the role of the HIA and the next tier of staff and reliance is placed on the HIA to pick up high level strategic work as well as manage the service. This raises concerns around the capacity of the service, particularly in the current climate of organisational change where the requirement for higher level more strategic audit work is increasing.

Discussions with senior officers confirmed that the service is highly regarded, is responsive and offers a good quality service however, all of the officers recognised that significant reliance is placed on the HIA who has built strong relationships with key officers and members and has significant organisational knowledge. In her absence, there was a recognition that this would result in a

significant gap in capacity and expertise which could not be filled by any other member of the audit team.

A review of the current staffing structure should be undertaken to improve the resilience of the service and reduce the risk of over-reliance on the HIA. This should include succession planning for the HIA role and consider the current skills, knowledge and experience of the team and potential for career development.

Agreed Action

A review will be undertaken and action taken (if possible) to address this point however budget constraints severally restrict our ability to address this. A proposal for the four Auditor posts to act as a Principal Auditor on a rotation basis as part of a training plan is currently being considered – this will improve resilience and help to reduce the over-reliance on the HIA.

3.4 Standard 2200 – Engagement Planning

Audit Programme & Allocation of Days forms are completed for all audit assignments as part of the planning process. Although this includes the identification and review of key risks, it does not specifically include fraud risks.

The Audit Programme & Allocation of Days form should be updated to include the identification of fraud risks.

HIA Comment

Fraud risk is considered along with other key risk when auditors are developing the objectives of an engagement. The Audit Programme & Allocation of Days template requires the auditor to identify all key risks, including fraud where appropriate in accordance with Standard 2200. The Internal Audit Manual contains specific guidance on the assessment of risks.

3.5 Standard 2300 – Performing the Engagement

Project control sheets are used to document the engagement process to include the issuing and independent review of the Audit brief, Internal Control Evaluation (ICE), Draft and Final reports. Testing identified that these are not used consistently across all types of audit undertaken.

Project control sheets should be completed for all audits undertaken. Draft and Final reports should not be issued without review and sign off on the Project control sheet.

HIA Comment

Standard 2300 requires that ‘Appropriate evidence of supervision is documented and retained’. Project Control sheets are completed for all audit reviews and draft/final reports are not issued without them being reviewed and signed off. The exception identified in the Peer Review related to a review

that was undertaken involving a sample of schools for which one project control sheet was completed for the whole sample with detailed comments from the auditor undertaking the quality review and HIA made on the individual draft reports and retained on file as evidence. Thus the requirements of Standard 2300 were met.

Whilst the peer review of key documents is recorded in part on the Project control sheets and draft copies of reports retained on audit files, a review sheet is not completed highlighting specific review points and documenting responses. Although this was previously undertaken, a decision was taken to discontinue this process as it was felt that it did not add value.

It is best practice for a review sheet to be completed identifying all comments, queries and amendments raised as part of the peer review of the audit file. This would ensure that there is a proper audit trail demonstrating that all review points have been adequately addressed. In order to avoid duplication, it may be appropriate to record some comments or amendments on the draft report and to refer to this report on the review sheet. However, checks would still need to be undertaken prior to issue of the report to ensure that any review points had been addressed.

HIA Comment

As above Standard 2300 requires that 'Appropriate evidence of supervision is documented and retained'. All comments, queries and amendments arising from the quality check or management review are recorded on the relevant working paper/draft report and retained as evidence. A check is undertaken to ensure that all review points have been adequately addressed when the review of the next iteration of the working paper/draft report is made by the quality checker or the HIA i.e. prior to the issue of the report.

3.6 Standard 2400 – Communicating Results

Customer surveys are not issued to clients following the completion of audit assignments to seek feedback on the value of the work undertaken. Although this used to be undertaken, manual forms were used and the return rate was extremely low.

Consideration should be given to the use of Survey Monkey or similar on-line questionnaire to obtain feedback on all audit assignments undertaken. The results from quality questionnaires should be reviewed, action taken where necessary and be reported to the GARMs Committee as part of the annual internal audit report.

HIA Comment

Standard 2400 does not require or make any reference to obtaining feedback on individual assignments or on the Internal Audit Service as a whole. Feedback is however requested from senior management as part of the

annual self-assessment (via HIA meetings with Corporate Directors/surveys) and/or Peer review (formal surveys).

3.7 General observations

As part of the review process, the Council's intranet site was viewed to examine documentation and links relating to the Internal Audit service. This process identified that information relating to Internal Audit was vastly out of date.

Although this does not form part of the standards, it is recommended that the intranet and appropriate search engines are reviewed to ensure up to date information in relation to the Internal Audit service is available.

Agreed Action

JADU Training to be arranged (during 2017/18) to enable Internal Audit to update the Council's intranet site. The site will be updated at the beginning of the new financial year (2018/19) and maintained up to date thereafter.

3.8 Impact of internal Audit

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 customer surveys from other Chief Officers it is concluded that:

- The service is well regarded
- Audit staff are considered professional
- Internal audit work is well focused in areas of risk to Council objectives
- Recommendations are regarded as pragmatic and generally useful.

In general, the feedback was extremely positive:

- **94%** of respondents fully or generally agreed that the audit service is delivered with professionalism at all times;
- **94%** of respondents fully or generally agreed that the service is adept at communicating the results of its findings, building support and securing agreed outcomes;
- **93%** of respondents fully or generally agreed that there had been no significant control breakdown or surprises in areas that had been positively assured by internal audit;
- **100%** of respondents fully or generally agreed that the internal audit service has a positive impact on the governance, risk and the system of control of the organisation.
- **89%** of respondents fully or generally agreed that the internal audit service has a positive impact.

The questionnaires did highlight some opportunities for improvement although none provide for any significant cause for concern. For example, 38% of the respondents said they either did not agree or only partially agreed that Internal Audit has sufficient resources and access to information to enable it to fulfil its mandate. 17% of respondents also said they either did not agree or only partially agreed that the service is valued throughout the organisation, responds quickly to organisational changes and is seen as a strategic partner.

This was reflected in interviews with a sample of respondents where it was noted that, although the team has a number of very experienced members of staff, significant reliance is placed on the HIA as the main source of advice, particularly in relation to more strategic areas and those involving fraud.

Whilst the profile of the audit service is good, concerns were raised about whether Internal audit are sufficiently involved in some of the Council's key areas of activity and risk such as partnership deals, regeneration and outsourcing. Whilst the service has an important role to play in providing advice on risks and controls, it is not given the opportunity to be involved either at all, or early enough within the process to be properly effective. There is a balance to be made between advisory work and regular audit assurance work however the former has an important place in ensuring that risk and control issues are picked up early and dealt with to prevent issues arising in the future. Support from senior officers and in particular, the Chief Executive is essential in ensuring that the Internal Audit team are utilised in the most effective way. This means ensuring that the organisation recognises the value that the service brings and in particular, what skills and expertise can and should be drawn upon.

The HIA recognises the need to raise the profile of the team in some parts of the organisation and to ensure that there is more consistent involvement of Internal Audit in key projects. Care will need to be taken in getting the right balance, as this could have resource implications which could impact on the level of assurance work undertaken. The issues around resilience, capacity and over reliance on the HIA also need to be considered. The HIA and other senior officers accept that currently, reliance is placed on the HIA to undertake this type of work and this is not sustainable in the longer term without support from other members of the team.

Consideration needs to be given to the role of Internal Audit within the organisation and how it can add value and be most effective. This needs to come from the top of the organisation through establishing clear protocol for involving Internal Audit in major projects, for example where the Council is considering or implementing alternative delivery vehicles, where significant procurement activity is taking place or where systems are redesigned or new systems implemented. This will raise the profile of Internal Audit and ensure that it has greater opportunity to influence at an earlier stage in providing advice on systems and controls and in helping to identify and manage risks to acceptable levels. In order to facilitate this, a review of the current structure of Internal Audit would

need to be undertaken as currently, there is insufficient capacity within the team outside of the HIA (see 3.3 above).

Agreed Action

Each year as part of the annual planning process discussions are held with Divisional and Corporate Directors on how Internal Audit can add value and be most effective.

CSB will be asked to support a protocol for involving Internal Audit in major projects, for example where the Council is considering or implementing alternative delivery vehicles, where significant procurement activity is taking place or where systems are redesigned or new systems implemented. Consideration to be given to including this requirement in Financial Regulations.

See also response to 3.3 above.

Summary assessment

		Does not conform	Partially conforms	Generally conforms	Fully conforms	Comments
Purpose & positioning						
•	• Remit				X	
•	• Reporting lines			X		Only generally conforms in relation to the recruitment of the HIA as this has not been applied yet
•	• Independence				X	
•	• Other assurance providers			X		Only generally conforms as no recent examples of working with other internal audit providers
•	• Risk based plan			X		See 3.2 above
Structure & resources						
•	• Competencies				X	
•	• Technical training & development				X	
•	• Resourcing			X		See 3.3 above
•	• Performance management				X	
•	• Knowledge management				X	
Audit execution						
•	• Management of the IA function			X		See 3.1 above
•	• Engagement planning			X		See 3.4 above
•	• Engagement delivery			X		See 3.5
•	• Reporting			X		See 3.6
		Do not agree	Partially agree	Generally agree	Fully agree	Comments
Impact						
•	• Standing and reputation of internal audit			X		See 3.7 and 3.8 above
•	• Impact on organisational delivery			X		See 3.8 Above
•	• Impact on Governance, Risk, and Control			X		See 3.8 Above
Does not conform		Partly Conforms		Generally conforms	X	Fully conforms