

CITY OF LONDON CORPORATION

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

**CARRIED OUT BY
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City of London Corporation

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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. 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 Corporation of London has been carried out by the Head of Governance (Head of Internal Audit) at the London Borough of Croydon. His qualifications for conduction this review are: A Fellow of the Chartered Institute of Internal Auditors, more than 30 years experience of internal audit including 14 years as a local government head of internal audit, previous experience of conducting peer reviews and other forms of external inspection and a member of the UK Public Sector Internal Audit Standards Advisory Board.

2 Summary & Conclusion

- 2.1 The review was based on the self-assessment conducted by the Head of Audit & Risk Management (HARM), with evidence provided to support its conclusions. In addition, interviews were conducted with some of internal audit’s key stakeholders: The Chair of the Audit & Risk Committee, a non-elected member of the Audit & Risk Committee, The Chamberlain (CFO and S151 Officer) and the Business Support Director. Also available were the notes of customer satisfaction interviews with a number of Chief Officers and senior managers.
- 2.2 The co-operation of the HARM 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 Corporation of London GENERALLY CONFORMS with the UK Public Sector Internal Audit Standards.** This outcome should be reflected in the HARM’s annual opinion report for the year 2013/14.
- 2.4 As the Public Sector internal Audit Standards only came into effect on 1st April 2013, no conclusion can be given on activities that happen only after the year end, such as the annual opinion report (Standard 2450) or reporting of the Quality Assurance and Improvement Programme (Standard 1320).
- 2.5 Some minor observations are made 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 1000.A1 specifies that “If assurances are to be provided to parties outside the organisation, the nature of these assurances must be defined in the internal audit charter.”

Review of the internal audit plan shows that assurance is given to other organisations in relation to City of London systems that are bought in to. This should therefore be reflected in the charter.

- 3.2 Standard 1000.C1 requires that “The nature of consulting services must be defined in the internal audit charter”

It is recognised that large scale consultancy projects are not usually undertaken by the internal audit team. They do, however, give advice on issues of governance, risk and control. This work is referred to in various places in the charter, but the nature and scale of this work would be better represented if it was pulled together in one place and strengthened.

- 3.3 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 team currently has a good mix of skills and the HARM has taken the sensible step of undertaking some succession planning for all of the key roles and skill sets. There is no evidence, however, that his own role has been considered. It is recommended that the succession planning work already undertaken be extended to include the head of service role.

- 3.4 Standard 2050 requires that the risk based audit plan should include: “the approach to using other sources of assurance and any work required to place reliance upon those other sources.”

Review of the plan and associated documents does not reveal anything that fulfils this requirement. This should be reflected in plans for future years.

Impact of internal Audit

- 3.5 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 notes from interviews with 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 City objectives
- Recommendations are regarded as pragmatic and generally useful.

It was however noted that, although the team has a number of very experienced members, not all areas of the organisation would consider internal audit as a source of advice, but rather a 999 service when things go wrong.

The HARM has already identified this issue himself and recognises the need to raise the profile of the team in some parts of the organisation. Care will need to be taken in awakening too much interest, as this could have resource implications and if too successful could even jeopardise the level of assurance work undertaken.

Summary assessment

| | | Does not conform | Partially conforms | Generally conforms | Fully conforms | Comments | | |
|----------------------------------|---|------------------|--------------------|--------------------|--------------------|-----------------------|----------------|--|
| Purpose & positioning | | | | | | | | |
| • | • Remit | | | X | | See 3.1 and 3.2 above | | |
| • | • Reporting lines | | | | X | | | |
| • | • Independence | | | | X | | | |
| • | • Other assurance providers | | | X | | See 3.4 above | | |
| • | • Risk based plan | | | | X | | | |
| 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 | | | |
| • | • Engagement planning | | | | X | | | |
| • | • Engagement delivery | | | | X | | | |
| • | • Reporting | | | | X | | | |
| | | Do not agree | Partially agree | Generally agree | Fully agree | Comments | | |
| Impact | | | | | | | | |
| • | • Standing and reputation of internal audit | | | X | | See 3.5 above | | |
| • | • Impact on organisational delivery | | | | X | | | |
| • | • Impact on Governance, Risk, and Control | | | | X | | | |
| Does not conform | | | Partly Conforms | | Generally conforms | X | Fully conforms | |