

Committee:	Date:
Audit and Risk Management Committee	13 May 2014
Subject:	
Public Sector Internal Audit Standards – Peer Review	Public
Report of:	
Chamberlain	For Information

Summary

This report presents the Audit and Risk Management Committee with the outcome of a Peer Review exercise, undertaken in February 2014 and reviewing compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS).

The (PSIAS) came into effect on the 1st April 2013 with the aim of providing a consistent framework for Internal Audit Services operating across the public sector. The PSIAS contain more rigorous requirements for quality assurance than the previous standard that applied to local authority Internal Audit, namely the 'CIPFA Code of Practice for Internal Audit in Local Government'.

The most significant new requirement of the PSIAS is for an external assessment of Internal Audit services to be conducted at least once every five years by a qualified, independent assessor. The recent Peer Review represents such an assessment, intended to measure compliance with the Standards and drive continuous improvement in the quality and effectiveness of the audit service.

The Peer Review was carried out by the Head of Governance (Head of Internal Audit) at the London Borough of Croydon, who is also a member of the UK Public Sector Internal Audit Standards Advisory Board. A copy of the Peer Review report is attached at **Appendix 1**.

The assessment outcome was that the City of London Internal Audit Section generally conforms with the PSIAS requirements. This rating means the reviewer has concluded that 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 Standards in all material respects. Certain minor developments are necessary to ensure full compliance, outlined below, with plans in place to address. These relate to documentation of succession planning for the Head of Audit and Risk Management role, minor revision to the Audit Charter, and the inclusion of some additional information within audit planning documentation on placing reliance on other sources of assurance.

In addition to a review of conformance with the Standards, stakeholder views on the impact of the Internal Audit Service were sought and positive feedback received in respect of the professionalism of staff, the risk-focus of internal audit work and the usefulness of audit recommendations.

Recommendations:

Members are asked to note the outcome of the Peer Review exercise and the proposed actions to achieve full compliance with PSIAS requirements.

Main Report

Background

1. In April 2013 the new Public Sector Internal Audit Standards (PSIAS) came into effect, replacing the CIPFA Code of Practice as the key framework document governing the Internal Audit arrangements at the City of London. Adoption of the Standards is mandatory and includes a requirement for external assessment of the effectiveness of Internal Audit functions at least once every 5 years. This requirement may be satisfied by either arranging for a 'full' external assessment or by undertaking a self-assessment with independent validation.
2. In London, The London Audit Group has organised a system of peer review, with 32 of the 33 London Boroughs agreeing to take part. The agreed approach to these peer reviews is that each Internal Audit Service undertakes a self-assessment which is validated by suitably qualified individuals or teams from other members of the group across a 5 year cycle.

Conduct of the Peer Review

3. The City of London Corporation has been one of the first tranche of organisations to be subject to an external independent review. A self-assessment was performed against the PSIAS requirements ahead of the Peer Review, with evidence collated for independent examination, and this indicated that the Internal Audit Service was compliant with the PSIAS in all significant areas. It is intended that this self-assessment be repeated on an annual basis to obtain on-going assurance regarding the quality of Internal Audit provision.
4. The Peer Review has been undertaken by the Head of Governance (Head of Internal Audit) at the London Borough of Croydon and whose qualifications and independence are in accordance with the public sector requirement for external assessors.
5. The self-assessment framework comprises four parts, as follows:
 - **Purpose and positioning** - Does the internal audit service have the appropriate status, clarity of role and independence to fulfil its professional remit?
 - **Structure and resources** - Does the internal audit service have the appropriate structure and resources to deliver the expected service?
 - **Audit execution** - Does the internal audit service have the processes to deliver an effective and efficient internal audit service?
 - **Impact** - Has the internal audit service had a positive impact on the governance, risk and control environment within the organisation?

6. Against this an assessment is made as to the degree of conformance using an agreed scale: does not conform, partially conforms, generally conforms or fully conforms.
7. The approach to the Peer Review has been to review the self-assessment conducted by the Head of Audit and Risk Management as well as the supporting evidence. In addition to a review of conformance with the Standards, key stakeholder views were sought on the impact of the Internal Audit Service. Interviews were conducted with the Chair of the Audit & Risk Management Committee, a non-elected member of the Audit & Risk Management Committee, the Chamberlain (in his capacity as both CFO and S151 Officer) and the Business Support Director. The review also considered the notes of customer satisfaction interviews with a number of Chief Officers and senior managers.

Review Outcome

8. The Peer Review exercise has concluded that the Internal Audit Service generally conforms to the PSIAS requirements and this outcome will be reflected in the Head of Audit's annual opinion for the 2013/14 year.
9. A rating of 'generally conforms' means that the reviewer has concluded that 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.
10. Four minor observations were made which would need to be addressed to achieve full conformance status; these relate to:
 - Documentation of succession planning in respect of the Head of Audit and Risk Management Role
 - Minor amendment to the Audit Charter to reflect the nature of assurances provided to External Parties
 - Minor amendment to the Audit Charter to more clearly define the nature of consultancy services provided; and
 - Reflection in audit planning documentation of the approach to using other sources of assurance and any work required to place reliance upon those other sources
11. Documentation of a formal Head of Audit succession plan will be completed by the end of May. The minor revisions to the Audit Charter, and explanation of reliance placed on other sources of assurance in audit planning documentation will be completed by October 2014 prior to the planned review of these documents at the 4th November 2014 Audit and Risk Management Committee.
12. Positive feedback was received in respect of the professionalism of staff, the risk-focus of internal audit work and the usefulness of audit recommendations.
13. The review concluded that the Internal Audit Service is well regarded but with scope to raise its profile further as a source of advice and information. The Head

of Audit and Risk Management is focused on promoting the role of Internal Audit whilst ensuring that an appropriate balance is struck between the provision of advice and guidance, and delivery of assurance work.

Conclusion

14. The Peer Review has confirmed that the City of London's Internal Audit Service is compliant with the requirements of the PSIAS in all material respects. A small number of opportunities for improvement have been identified and are in the process of being addressed.

Appendices

- Appendix 1 – April 2014 Report of the Peer Review of the City Corporation's Internal Audit Service against the PSIAS.

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