

BUSINESS ASSURANCE

London Borough of Camden & London Borough of Islington Shared Internal Audit Service

2021/22 External Quality Assessment
Final Report

2nd February 2022

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London Borough of Hillingdon



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1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require an External Quality Assessment (EQA) of Internal Audit (IA) be undertaken at least every 5 years, although more frequent assessments may take place. The PSIAS apply to all public sector IA service providers, whether in-house, shared services, co-sourced or fully outsourced. The EQA is on IA work and excludes other areas such as risk management and counter fraud/investigations.
- 1.2 Standard 1312 states: *External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.*
- 1.3 The standards and interpreting guidance go on to clarify that the external assessor must conclude as to conformance with the Code of Ethics and the Standards. The lead assessor must demonstrate competence in the professional practice of internal auditing and the external assessment process. Neither the lead assessor or any members of the assessment team should have an actual or perceived conflict of interest and they must not be a part of, or under the control of, the organisation to which the IA activity belongs. The scope of the assessment must be agreed with an appropriate sponsor i.e. the Director of Finance or Chair of the Audit Committee.
- 1.4 Across London, the London Audit Group (LAG) has organised a system of independently validated assessments. It has been agreed that self-assessments will be completed and that these will be validated by suitably qualified individuals or teams from other members of the group.
- 1.5 The IA function for the London Boroughs of Camden and Islington is provided through a shared service. This review of the Shared IA Service (SIAS) performance at Camden and Islington has been led by Sarah Hydrie, Head of IA & Risk Assurance at the London Borough of Hillingdon, who is appropriately qualified, independent and has no actual or perceived conflicts of interest. The terms of reference for this assessment were discussed and agreed with Nasreen Khan, Head of IA, Investigations & Risk Management (HIA) for the SIAS.

2. Conclusion

- 2.1 Based on the self-assessment, supporting evidence and independent validation it is the view of the lead assessor that the SIAS for the London Borough of Camden and the London Borough of Islington **Generally Conforms** with the **Public Sector Internal Audit Standards (PSIAS)**. Definitions of all the ratings are detailed in **Appendix A**.

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.

- 2.2 During this review, we found the SIAS to be well regarded at both authorities. IA staff are qualified, professional, highly skilled and experienced. We identified that officers within the SIAS work collaboratively and proportionately with stakeholders to add value and identify areas where improvements can be made.
- 2.3 In addition, our testing of the evidence provided confirmed that the SIAS was operating effectively, with consistent application of the IA charter, methodology and standard working papers across the SIAS, with a dedicated IA Manager and team at both councils.
- 2.4 We have concluded that the SIAS is not 'fully' compliant with some aspects of the PSIAS and therefore have raised recommendations in these areas that the SIAS may want to consider. We have also made a number of good practice suggestions and highlighted opportunities to potentially increase the efficiency of the SIAS; please refer to **Appendix C** for further details.

3. Stakeholder Survey

- 3.1 During this assessment a survey of key stakeholders was undertaken. Feedback surveys were circulated to all 14 Audit Committee members for both London boroughs (10 surveys for Camden and 4 for Islington). In total of 6 of 14 (43%) surveys were returned, 3 (30%) for Camden and 3 (75%) for Islington. The summary survey results revealed the following:
- 2 of the 6 surveys were generally positive about the work and professionalism of the SIAS and members felt they had a good relationship with the SIAS staff;
 - 1 member did not complete their survey in full and in the 'further comments' section said that they were not 'close enough to give an appropriately evidence-based response';
 - 2 of the 6 members were fairly new to Audit Committee and did not feel they had enough experience to complete the survey in full;
 - 1 of the 6 surveys complimented the SIAS's professionalism and technical abilities;
 - 2 of the 6 surveys partially agreed that the SIAS asks challenging and incisive questions that stimulate debate and improvements in key risk areas; and
 - 1 survey contained generally negative feedback. Specifically, the respondent:
 - Did not agree with 9 out of 19 (**47%**) questions and partially agreed with 9 out of 19 (**47%**) questions;
 - They found that the IA service delivered a professional, technical service and IA processes were mainly good; and
 - The 'further comments' section contained statements which provided context to their responses, which include saying that, in their opinion, the SIAS did not demonstrate its independence or its ability to think strategically.
- 3.2 As part of our testing, we found no evidence of the where the SIAS's independence was compromised, and the review confirmed the SIAS's ability to think strategically.
- 3.3 In addition to the stakeholder surveys, we also conducted 1 to 1 meetings with the Chairs of both Audit Committees, both Chief Executives, both S151 Chief Finance Officers and both Directors of Finance. Overall, the feedback from these meetings was very positive; senior officers and the Chairs broadly stated that they believe the SIAS is professional, skilled, flexible and adding value.
- 3.4 The full results of the survey are set out at **Appendix B**.

4. Key (Not Detailed) Findings

- 4.1 The overall key finding of the EQA is, as set out at section 2 of this report, that **the SIAS has been assessed by us as Generally Conforming to the PSIAS**, which is the highest available level of assessment for local authorities. Nevertheless, at **Appendix C** we have set out **17 recommendations/good practice suggestions** aimed at further helping improve the efficiency and effectiveness of the SIAS.
- 4.2 The other key findings from this assessment include the following:
- Reporting:**
- I. An annual IA plan is prepared by the SIAS and approved by the Audit Committee at each council, and we understand each annual plan takes into consideration both Council's strategic risks. However, it was noted that an IA Strategy is not in place at either authority. This was further brought to light after stakeholders we met were unable to share the strategic vision for Internal Audit. The PSIAS recommend IA service have an IA Strategy which sets out the longer term vision for the IA service. Consequently, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.

- II. During testing, we found that IA progress reports or updates were being provided to the Islington senior officer board and Audit Committee four times a year, but at Camden these were only presented twice per year. The PSIAS set out that IA should report its progress to the corporate officer board and Audit Committee on a regular basis. Generally accepted good practice is that the HIA should present IA summary progress reports to the most senior officer board and Audit Committee on a quarterly basis to reflect the rapid pace of change and to facilitate IA being held to account. As a result, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.
- III. At both authorities, IA Plans, Progress Reports and Annual Reports are formally considered by DMTs prior to approval by the Audit Committee. However, our testing highlighted that although Islington's senior officer board also formally considers these documents before they are presented to Audit Committee, at Camden the responsibility has been delegated to the DMTs. The PSIAS set out that all IA reports should be formally presented to the senior officer boards as well as the Audit Committee to ensure IA performance receives the right level of scrutiny. Therefore, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.
- IV. In terms of reporting lines, we noted that HIA is within the statutory Chief Finance Officer's directorate at both authorities. Although it is not mandatory, it is recommended good practice that the HIA is independent of the Chief Finance Officer reporting function. Where the HIA service does sit within the Finance Directorate, it is recommended good practice for the HIA to have regular interaction with the Chief Executive Officer. It is our understanding that at Islington the HIA formally meets with the Chief Executive Officer on a quarterly basis, but that there is a less frequent and less formal arrangement at Camden. As a result, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.
- V. As part of our testing, we found the individual IA reports issued at the end of each piece of IA work to be relatively long in section 2 (the detailed findings). Whilst the SIAS does apply exception reporting concepts, it would save valuable time if consideration was given to reducing the length of the individual IA reports. This suggestion is in line with recognised best practice and the concept of agile auditing. This minimises the amount of time for IA to produce the reports and the amount of time for management to read the report and understand the key findings. Consequently, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.
- VI. We found that in 2017/18 (when there was a change of HIA for the SIAS) an EQA was neither conducted nor formally recorded as considered at either authority. Whilst it is noted that the incoming HIA was the previous IA Manager and that generally IA processes did not change, it is a requirement of the PSIAS for an EQA to be formally considered in the event of any major IA changes. As a result, we have raised a **LOW** risk recommendation in this area for the SIAS to consider, when applicable, in future.

Resources:

- VII. The SIAS consists of highly skilled/trained staff, consisting of a shared HIA, an IA Manager and 3 Principal Internal Auditors (PIAs) at each authority plus one graduate trainee at Islington and a small amount of specialist resource provided to the SIAS by PwC. Without conducting formal benchmarking, we are aware that the level of IA resource in the SIAS is lean compared to most London boroughs. Linked to this, our testing highlighted that there is scope for the SIAS to consider hiring trainees/apprentices or more junior auditors to perform the less complex/ more straightforward IA work. This would be an efficient way of continuing to keep the cost of the SIAS relatively low, as well as potentially contributing to the apprenticeship levy at both authorities. In addition, this would be a more effective use of resources, freeing up PIA time for the more complex assurance reviews. This sort of arrangement can also provide better succession planning within the SIAS, allowing the PIAs to get exposure to coaching and mentoring junior staff and if/when a PIA leaves or becomes an IA Manager, there is a ready-made replacement within the SIAS. Therefore, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.

- VIII. The SIAS does not currently use any form of audit software package and instead places reliance on using MS Word and Excel etc, as part of the IA process. Major audit software suppliers quote that upwards of 15% savings on IA costs can be achieved through the effective implementation of audit software. In our experience at a number of authorities, audit software, if successfully implemented, does achieve significant efficiencies, particularly in relation to audit evidence and the time taken for audit file reviews, as well as providing a transparent evidence trail of how much time an audit file has taken to complete/review and the exact time date it was carried out. At Hillingdon, the same amount of audit work is now being delivered for a significantly reduced IA service cost following the implementation of audit software (Hillingdon use TeamMate). However, we understand that the SIAS has previously used audit software (PAWS) and found the opposite to be true and that PAWS made the IA process significantly longer for IA staff, rather than more efficient. Nevertheless, with agile auditing/robotic process automation at the forefront of IA developments, we think that as matter of good practice the SIAS should reconsider the use of audit software and hence have raised a **LOW** risk recommendation in this area for the SIAS to consider.
- IX. One of the critical activities for IA to carry out is the follow-up of previous IA recommendations. As part of our review, we identified that although there had been some slippage during the pandemic, the implementation rate of IA recommendations at Islington was fair and at Camden it was generally good, although there were some IA recommendations that had passed their agreed implementation date. Specifically, despite there being an 'Internal Controls Board' (ICB) at Islington, some recommendations raised in 2018 were still outstanding in 2021. Responsibility for implementation predominantly rests with management and IA had appropriately followed up actions. Further, although we were impressed with the concept of the ICB at Islington we found the amount of IA and management resource that goes into the implementation and monitoring of IA recommendations to be disproportionately high (approx. 180 IA days in the last 12 months which equates to c20% of the available 880 days in the IA plan). On top of the significant IA time, there is the management time that goes into the ICB, therefore is this the most effective approach for a process that achieves a fair, but not exceptional, IA recommendation implementation rate. In line with good practice and the concept of agile auditing, we believe the SIAS should consider implementing software to automate most of the process for the follow up of IA recommendations. This would streamline the process, reduce the demand on IA resource and provide greater accountability and transparency for senior managers in relation to managing their risks in a robust and timely way. Consequently, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.
- X. It was noted that the SIAS utilises specialist IT staff from the co-sourced partner (PwC) to deliver the IT element of the IA plan at both authorities. It is recognised that PwC has access to specialist IT audit staff and that key stakeholders at both authorities appreciate the latest knowledge and expert skills that PwC IT audit staff offers. However, we noted that the SIAS in total spends approx. 60 days per year in total on IT audit related work at both authorities. Given the major reliance that local authorities place on their IT systems, we think spending less than 7% of the 880 available IA days on IT audit is very low (i.e. at Hillingdon alone we provide at least 120 days IT audit per year). Therefore, we think the SIAS should consider increasing the volume of IT audit work at both authorities. Doing this would also provide an opportunity for the SIAS to consider appointing its own IT Auditor. Therefore, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.
- XI. During testing, we found that in line with the PSIAS the IA service took a comprehensive approach to staff Continued Professional Development (CPD). This included recording IA staff training needs and training undertaken in individual staff performance and appraisal documents. However, recognised good practice is for a centralised training log for the whole IA service to be maintained. This assists management with monitoring staff training and development for the overall IA service to ensure consistency and to identify potential gaps within the IA service. As a result, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.

Audit Committee:

- XII. We noted that some training for the Audit Committee members at Camden has been provided in 2021/22, but we were informed that prior to this, the last training provided to the Camden Audit Committee was 2018. In addition, we understand that whilst some training for the Islington Audit Committee is planned for later this year, no training has been provided to the Islington Audit Committee since 2018.
- XIII. In addition, our review highlighted that not all Audit Committee members understand the role of IA, as evidenced by part of the survey results/additional comments. Linked to this it was identified that an up-to-date skills matrix for each of the Audit Committee members is not in place.
- XIV. Further, we noted that whilst a review of the effectiveness of the Camden Audit Committee had been conducted in 2020, a review of the effectiveness of the Audit Committee at each authority has not been carried out on an annual basis in line with good practice.
- XV. Finally, we identified that neither Audit Committee has an independent Chair which is recognised best practice to ensure politics do not become part of Audit Committee meetings. As a consequence, we have raised a **LOW** risk in each of these four areas for the SIAS to consider in consultation with key stakeholders, with the aim of further improving the effectiveness of the Audit Committees at both councils.

Other Areas:

- XVI. As part of our testing, we identified that the SIAS IA Charter does not contain a statement which includes the boards responsibility to review and approve the appointment and removal of the HIA as set out in the PSIAS. As a result, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.
- XVII. We noted that whilst conflicts of interest are taken into consideration as part of IA planning and are set out in the SIAS Charter in line with the PSIAS, conflicts of interest are not specifically mentioned in individual audit terms of references. We understand the IA managers do discuss potential conflicts of interest with IA staff and we found no evidence that there were conflicts of interest, but we think it would be good practice to include a specific statement in each terms of reference to specifically state that there are no conflicts of interest. As a result, we have raised a **LOW** risk recommendation in this area for the SIAS to consider.

4.3 An action plan has been developed to summarise these **17 minor matters arising** and is included as **Appendix C** for the consideration by the SIAS in consultation with the key stakeholders at both authorities. Also included in **Appendix C** are two areas of **NOTABLE PRACTICE**.

4.4 We would like to thank all key stakeholders, particularly the HIA for their engagement and co-operation throughout the EQA process.

Sarah Hydrie CMIIA CIA
Head of Internal Audit & Risk Assurance

2nd February 2022

SUMMARY ASSESSMENT

Statement	Generally Conforms	Partially Conforms	Does not Conform
Mission of Internal Audit			
Does the internal audit activity aspire to accomplish the Mission of Internal Audit as set out in the PSIAS?	✓		
Definition of Internal Auditing			
Is the internal audit activity independent and objective?	✓		
Does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓		
Core Principles			
Does the internal audit activity conform with the PSIAS by demonstrating integrity?	✓		
Does the internal audit activity conform with the PSIAS by demonstrating competence and due professional care?	✓		
Does the internal audit activity fully conform with the PSIAS by being objective and free from undue influence (independent)?	✓		
Does the internal audit activity fully conform with the PSIAS by being aligned with the strategies, objectives, and risks of the organisation?	✓		
Is the internal audit activity appropriately positioned and adequately resourced?	✓		
Does the internal audit activity demonstrate quality and continuous improvement?	✓		
Does the internal audit activity communicate effectively?	✓		
Does the internal audit activity provide risk-based assurance, based on adequate risk assessment?	✓		
Is the internal audit activity insightful, proactive, and future-focused?	✓		
Does the internal audit activity promote organisational improvement?	✓		
Code of Ethics			
Do internal auditors display integrity?	✓		
Do internal auditors display objectivity?	✓		
Do internal auditors display due respect and care by maintaining confidentiality?	✓		
Do internal auditors display competency?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Do internal auditors, whether consciously or through conformance with organisational procedures and norms, have due regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i> ?	✓		
Attribute Standards			
Does the internal audit charter conform with the PSIAS by including a formal definition of the purpose, authority and responsibility of the internal audit activity?	✓		
Does the internal audit charter conform with the PSIAS by clearly and appropriately defining the terms 'board' and 'senior management' for the purposes of the internal audit activity?	✓		
Internal Audit Charter.	✓		
Does the CAE periodically review the internal audit charter and present it to senior management and the board for approval?	✓		
Does the CAE have direct and unrestricted access to senior management and the board?	✓		
Are threats to objectivity identified and managed.	✓		
Does the CAE report to an organisational level equal or higher to the corporate management team? Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	✓		
Does the CAE's position in the management structure: Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?	✓		
Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?	✓		
Is the organisational independence of internal audit realised by functional reporting by the CAE to the board?	✓		
Does the CAE communicate and interact directly with the board?	✓		
Where the CAE has roles or responsibilities that fall outside of internal auditing, are adequate safeguards in place to limit impairments to independence or objectivity? Does the board periodically review these safeguards?	✓		
Do internal auditors have an impartial, unbiased attitude?	✓		
Do internal auditors avoid any conflict of interest, whether apparent or actual?	✓		
Do internal auditors avoid any conflict of interest, whether apparent or actual?	✓		
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties?	✓		
Does review indicate that work allocations have operated so that internal auditors have not assessed specific operations for which they have been responsible within the previous year?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	✓		
Is the risk of over-familiarity or complacency managed effectively?	✓		
Have internal auditors declared interests in accordance with organisational requirements?	✓		
Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties has this been declared and investigated fully?	✓		
Does review indicate that no instances have been identified where an internal auditor has used information obtained during the course of duties for personal gain?	✓		
Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	✓		
If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?	✓		
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	✓		
Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent? Is the CAE suitably experienced?	✓		
Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	✓		
Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	✓		
Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	✓		
Do internal auditors have sufficient knowledge of key information technology risks and controls?	✓		
Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	✓		
Do internal auditors exercise due professional care?	✓		
Do internal auditors exercise due professional care during a consulting engagement?	✓		
Has the CAE defined the skills and competencies for each level of auditor? Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	✓		
Do internal auditors undertake a programme of continuing professional development?	✓		
Has the CAE developed a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Does the QAIP include both internal and external assessments?	✓		
Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	✓		
Do internal assessments include ongoing monitoring of the internal audit activity?	✓		
Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?	✓		
Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?	✓		
Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	✓		
Has an external assessment been carried out, or is one planned to be carried out, at least once every five years?	✓		
Has the CAE properly discussed the qualifications and independence of the assessor or assessment team with the board?	✓		
Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	✓		
Has the CAE reported the results of the QAIP to senior management and the board?	✓		
Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	✓		
Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	✓		
Has the CAE reported any instances of non-conformance with the PSIAS to the board?	✓		
If appropriate, has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	✓		
Performance Standards			
Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	✓		
Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	✓		
Does the risk-based plan set out the: Audit work to be carried out?	✓		
Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	✓		
Is the internal audit activity's plan of engagements based on a documented risk assessment?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
In developing the risk-based plan, has the CAE also given sufficient consideration to: Any declarations of interest (for the avoidance for conflicts of interest)? The requirement to use specialists, e.g. IT or contract and procurement auditors? Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	✓		
In developing the risk-based plan, has the CAE consulted with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes?	✓		
Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	✓		
Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval? Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	✓		
Has the CAE communicated the impact of any resource limitations to senior management and the board?	✓		
Does the risk-based plan explain how internal audit's resource requirements have been assessed?	✓		
Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance?	✓		
If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?	✓		
Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	✓		
Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	✓		
Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?	✓		
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	✓		
Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes?	✓		
Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	✓		
Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes?	✓		
Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems?	✓		
Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	✓		
Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	✓		
Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?	✓		
Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems	✓		
Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	✓		
Do internal auditors develop and document a plan for each engagement?	✓		
Do internal auditors consider the following in planning an engagement, and is this documented: objectives, controls, risks, resources, operations, risk mitigation, adequacy, effectiveness, improvements?	✓		
Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party?	✓		
For consulting engagements, have internal auditors established an understanding with the engagement clients	✓		
Have objectives been agreed for each engagement?	✓		
Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished?	✓		
Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	✓		
Is the scope that is established for each engagement generally sufficient to satisfy the engagement's objectives?	✓		
Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	✓		
For each consulting engagement, was the scope of the engagement generally sufficient to address any agreed-upon objectives?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of each engagement	✓		
Have internal auditors developed and documented work programmes that achieve the engagement objectives?	✓		
Do internal auditors generally identify (sufficient, reliable, relevant and useful) information which supports engagement results and conclusions?	✓		
Have internal auditors generally based their conclusions and engagement results on appropriate analyses and evaluations?	✓		
Have internal auditors generally remained alert to the possibility of the following when performing their individual audits, and has this been documented: Intentional wrongdoing? Errors and omissions? Poor value for money? Failure to comply with management policy? Conflicts of interest?	✓		
Have internal auditors documented the relevant information required to support engagement conclusions and results?	✓		
Does the CAE control access to engagement records?	✓		
Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	✓		
Do the communications of engagement results include the following: The engagement's objectives? The scope of the engagement? Applicable conclusions? Recommendations and action plans, if appropriate?	✓		
Do internal auditors generally discuss the contents of the draft final reports with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	✓		
If recommendations and an action plan have been included, are recommendations prioritised according to risk?	✓		
Subject to confidentiality requirements and other limitations on reporting, do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice?	✓		
Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	✓		
When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	✓		
Where the CAE has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, have the risks of doing so been managed effectively, having regard to the CAE's primary responsibility to the management of the organisation for which they are engaged to provide internal audit services?	✓		
Are internal audit communications generally accurate, objective, clear, concise, constructive, complete and timely?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	✓		
Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?	✓		
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved? The reason(s) for non-conformance? The impact of non-conformance on the engagement and the engagement results?	✓		
Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	✓		
Has the CAE communicated engagement results to all appropriate parties?	✓		
Before releasing engagement results to parties outside the organisation, did the CAE: Assess the potential risk to the organisation? Consult with senior management and/or legal counsel as appropriate? Control dissemination by restricting the use of the results?	✓		
Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	✓		
Has the CAE delivered an annual internal audit opinion?	✓		
Does the communication identify the following: The scope of the opinion, including the time period to which the opinion relates? Any scope limitations? The consideration of all related projects including the reliance on other assurance providers? The risk or control framework or other criteria used as a basis for the overall opinion?	✓		
Does the annual report incorporate the following: annual opinion, summary of work, qualifications, impairments, comparisons, conformance with PSIAIS, results of the QAIP, progress against improvement plans, summary of performance?	✓		
Where issues have arisen during the follow-up process (for example, where agreed actions have not been implemented), has the CAE considered revising the internal audit opinion?	✓		
Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	✓		
If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	✓		

London Audit Group - Internal Audit Assurance Levels and Definitions

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 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 practice statements within the section or sub-sections. 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.

LB of Hillingdon – Internal Audit Recommendation Risk Ratings and Definitions

RISK	DEFINITION
HIGH ●	The recommendation relates to a significant threat or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM ●	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular, an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW ●	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE ●	The activity reflects current best management practice or is an innovative response to the management of risk within the Council. The practice should be shared with others.

SURVEY RESULTS

The results of the stakeholder feedback survey are based on 5 out of 6 completed questionnaires which contain responses. Please note, some questions in these 5 surveys were unanswered by the respondents.

N.B. 20% equals 1 respondent, 40% equals 2 respondents, etc.

	Do Not Agree	Partially Agree	Generally Agree	Fully Agree
Standing and Reputation of Internal Audit				
1. The internal audit service is seen as a key strategic partner throughout the organisation	20%			60%
2. Senior managers understand and fully support the work of internal audit	20%			40%
3. Internal audit is valued throughout the organisation	20%		20%	20%
4. The internal audit service is delivered with professionalism at all times			20%	40%
5. The internal audit service demonstrates integrity in the way that it operates		20%	20%	40%
Impact on Organisational Delivery				
6. The internal audit service responds quickly to changes within the organisation		20%		40%
7. The internal audit service has the necessary resources and access to information to enable it to fulfil its mandate		20%		20%
8. The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes	20%	20%		40%

APPENDIX B (cont'd)

	Do Not Agree	Partially Agree	Generally Agree	Fully Agree
9. The internal audit service ensures that recommendations made are commercial and practicable in relation to the risks identified		20%		40%
10. There have not been any significant control breakdowns or surprises in areas that have been positively assured by the IA service	20%			40%
Impact on Governance, Risk and Control				
11. The internal audit service includes consideration of all risk areas in its work programme		20%	20%	40%
12. Internal audit advice has a positive impact on the governance, risk, and the system of control of the organisation		20%	20%	20%
13. Internal audit activity has enhanced organisation-wide understanding of governance, risk, and control	20%	20%	20%	20%
14. The internal audit service asks challenging and incisive questions that stimulate debate and improvements in key risk areas		40%	20%	20%
15. The internal audit service raises significant control issues at an appropriate level in the organisation	20%	20%		40%
16. Internal audit advice is insightful, proactive and future-focused	20%		20%	20%
17. The organisation accepts and uses the business knowledge of internal auditors to help improve business processes and meet strategic objectives		20%	20%	20%
18. Internal audit activity influences positive change and continuous improvement to business processes, bottom line results and accountability within the organisation		20%		40%
19. Internal audit activity promotes appropriate ethics and values within the organisation	20%			40%

Survey – extracts of further comments:

One member said that they had been a member of the Audit Committee for a short time and did not feel that they had the opportunity, in Covid conditions, to obtain a detailed knowledge of how IA works. Therefore, they had partially completed the survey. They did however add that they had been impressed with the IA service, particularly its leadership. Their view was that the IA service appeared to be well regarded by officers and members of the Audit Committee. They had been impressed with the way the team adapted and delivered an audit programme in Covid conditions. During the member's relatively short time on the Audit Committee, several of the IA team had attended and there was clearly experience and strength in depth.

One member felt that they did not have enough exposure to the IA service to be able to pass judgement. However, they had no doubt that the IA service is professionally run, well regarded and well connected within the organisation and they had no reason to think IA doesn't tick the other boxes.

One member clarified that where they had listed 'partially agree' in their survey response; they were reflecting on the relationship the IA service has with the Audit Committee.

One member stated that they had left a number of answers blank as they were not close enough to give an appropriately evidence based response.

One member felt that IA provided a professional, technical service, but IA did not sufficiently demonstrate its independence and the ability to think strategically. The member's view was that IA's governance and management structure meant that IA was directed by the organisation.

One member stated they thought the IA processes are mainly good, but that IA does not demonstrate that it thinks strategically and can rise above the detail. As an example, the member stated that revisions to the AGS were made over a four year period and a recent exercise for the Audit Committee to deep dive into undelivered IA recommendations was not adequate. The member also queried whether IA should be preparing the AGS.

Overall, the member felt that IA needs to be and be seen to be more autonomous and not bound by officer decisions which are not aligned with IA best practice; IA should help the Council to better understand how to achieve its objectives and more effectively manage risk and IA should aid the strategic decision making of the leadership team and support oversight by the Audit Committee.

The member felt that more strategic thinking, including strategic risk analysis and high-level judgements, was required.

RECOMMENDATIONS/GOOD PRACTICE SUGGESTIONS & NOTABLE PRACTICES IDENTIFIED

No.	Summary Finding	Recommendation / Suggestion	Risk / Rationale	Risk Rating
1	There is no documented IA Strategy for the SIAS and it was noted that none of the stakeholders interviewed were able to articulate to us the strategy or long-term plans for the IA Service.	The SIAS should consider developing an IA Strategy that underpins the IA Annual Plan and sets out the overall IA approach and vision, aligned to the strategic objectives of both councils.	<i>If there is no documented IA strategy in place and senior stakeholders are not aware of the IA strategy, there is a risk that some aspects of the IA approach may not align with the strategic objectives of both authorities, which could potentially have financial and operational consequences for the councils.</i>	LOW ●
2	The SIAS reports progress to the Islington senior officer board and Audit Committee on a quarterly basis, but to the Camden senior officer board and Audit Committee every 6 months.	The SIAS should consider formally reporting its progress to Camden senior officer board and Audit Committee on a quarterly basis. This reflects the pace of change in local government and provides greater oversight of the performance of the SIAS.	<i>If IA's progress is not reported regularly to the senior officer board and Audit Committee, there is a risk that oversight of IA performance and assurance on key risks may not be provided in a timely manner, which potentially could result in key strategic decisions not being taken promptly.</i>	LOW ●
3	At Camden we found that whilst DMTs are presented with IA progress reports and the annual plan etc, the IA reports are not reviewed by the senior officer board before they go to Audit Committee as required by the PSIAS.	The Camden senior officer board including the Chief Executive should consider approving all IA reports that go to the Audit Committee.	<i>If the IA Plan is not approved by the Chief Executive there is a risk of non-compliance with regulatory standards set out in the PSIAS which could have legal, operational and reputational consequences for the SIAS.</i>	LOW ●
4	At Camden we found that the HIA does not formally meet the Chief Executive Officer on a regular basis.	The HIA should consider formally meeting with the Camden Chief Executive Officer on a regular (at least quarterly) basis. This is particularly good practice where the IA service is part of the Finance Directorate as is the case at both authorities.	<i>If the HIA does not meet the Chief Executive Officer in formal 1-2-1's at each authority on a regular basis, there is a risk that independence of the SIAS may be compromised.</i>	LOW ●

APPENDIX C (cont'd)

No.	Summary Finding	Recommendation / Suggestion	Risk / Rationale	Risk Rating*
5	We found the individual IA reports issued at the end of each piece of IA work to be relatively long in section 2 (the detailed findings).	The SIAS should consider reducing the level of detail in reports in line with the good practice concept of agile auditing. This will increase the efficiency of the IA reporting process for IA staff and client managers/ audit sponsors.	<i>If IA officers and client managers are spending a disproportionate amount of time on preparing/reading IA reports, there is a risk that resources are being used inefficiently which has financial and operational consequences for the councils.</i>	LOW ●
6	We found that in 2017/18 (when there was a change of HIA) an EQA was neither conducted nor formally recorded as considered. PSIAS 1312 and 2020 states that an EQA should be conducted whenever there is a key change in personnel.	Whenever there is a key IA change in future it is recommended that an EQA is carried out or formally considered and documented as such.	<i>If an EQA is not conducted or formally considered following a key change in the system of IA, there is a risk of non-compliance with the PSIAS which has potential legal, operational and reputational consequences for the SIAS.</i>	LOW ●
7	Except for one IA trainee at Islington, the most junior members of staff in the SIAS are Principal Internal Auditors.	The SIAS should consider adding trainees /apprentices or more junior staff to the team to carry out some of the less complex IA work. This would be a more efficient use of IA resource and provide better succession planning within the SIAS.	<i>If senior IA staff are performing less complex IA reviews there is a risk that resources are not being used effectively, efficiently and economically which could have financial and operational consequences for the SIAS.</i>	LOW ●
8	The SIAS does not currently use any form of audit software package and instead places reliance on using MS Word/Excel, etc, as part of the IA process.	The SIAS should reconsider implementing an effective IA software package to help increase the efficiency of the IA processes.	<i>If the IA Service does not use an effective audit software package there is a risk that IA resource will not be used to the optimum which has potential operational and financial consequences for the SIAS.</i>	LOW ●

APPENDIX C (cont'd)

No.	Summary Finding	Recommendation / Suggestion	Risk / Rationale	Risk Rating*
9	The amount of time spent on IA recommendation follow-ups by the SIAS is disproportionately high compared to other IA processes which we found to be lean at both authorities.	The IA follow-up process should be considered for full automation. This would eliminate the need for senior IA staff to be checking spreadsheets and sending out reminders to managers.	<i>If SIAS staff are spending a high amount of time on follow-up work, there is a risk that resources are being used inefficiently which potentially could have financial and operational consequences for the councils.</i>	LOW ●
10	The amount time spent on IT audits provided by PwC across both authorities is 60 days and we believe this coverage is very low.	The SIAS should consider increasing the volume of IT audit work at both authorities to provide a greater level of assurance in this area. This would also provide an opportunity for the SIAS to consider appointing its own in-house specialist IT Auditor.	<i>There is a risk that the Board and Audit Committee at each authority do not get timely assurance on key IT risks facing both organisations. There is also a risk that the opportunity to develop in-house IT audit talent is missed.</i>	LOW ●
11	A central log of all SIAS training is not maintained.	The SIAS should consider implementing a centralised training log for all IA staff across the SIAS. This would help management take an overall view of staff training and development across the SIAS.	<i>If a central training log is not maintained and regularly updated there is a risk that IA service may not possess the relevant skills, knowledge and experience to fulfil their roles which has operational and reputational consequences for the IA Service. There is also a risk that IA management will not have effective oversight of the overall training and development needs of the IA service.</i>	LOW ●
12	Audit Committee training at both authorities is not carried out on an annual basis.	Both authorities should consider implementing a programme of training for all Audit Committee members.	<i>If the Audit Committee is not subject to an annual programme of training, there is a risk the committee will not have the up-to-date skills required for the role, including holding the SIAS to account.</i>	LOW ●

APPENDIX C (cont'd)

No.	Key Finding	Recommendation/Suggestion	Risk / Rationale	Risk Rating*
13	An up-to-date skills matrix for each member of the Audit Committee is not in place.	Both authorities should consider implementing a skills matrix for each Audit Committee member. These should be updated on annual basis to inform the skills gaps.	<i>Without an up-to-date skills matrix completed for each Audit Committee member, the training programme may not be targeting the right areas or address the skills gaps.</i>	LOW ●
14	A regular review of the effectiveness of each Audit Committee has not been carried out.	Both authorities should consider conducting an annual review of the effectiveness of the Audit Committee. These should be updated on annual basis to highlight any skills gaps.	<i>If a regular review of the effectiveness of Audit Committee is not carried out there is a risk that improvements and good practice may not be identified and followed.</i>	LOW ●
15	The Audit Committee Chairs at both councils are affiliated with a political party.	In line with best practice, it is recommended that both authorities consider appointing independent Chairs of their Audit Committees.	<i>If the Audit Committee Chair is not independent there is a risk that the Audit Committee meetings and IA's work are not free from political motivations which has operational and reputational consequences for the councils.</i>	LOW ●
16	The IA Charter does not contain a statement which includes the boards responsibility to review and approve the appointment and removal of the HIA.	In line with PSIAS 1100, the SIAS should include in its IA Charter the Board's responsibility to review and approve the appointment and removal of the HIA.	<i>If the Charter is not updated in accordance with the PSIAS there is a risk of non-compliance with regulatory standards which has legal, operational and reputational consequences for the IA Service.</i>	LOW ●
17	The individual IA terms of reference do not include a specific statement in relation to conflicts of interest.	It is recommended that individual IA terms of reference include a specific statement in relation to conflicts of reference to greater promote objectivity, transparency and independence.	<i>If terms of reference do not include a specific reference do not include a specific statement on conflicts of interest, there is a risk that the PSIAS (1112 and 1130) may not be fully complied with.</i>	LOW ●

APPENDIX C (cont'd)

No.	Key Finding	Observation / Suggestion	Risk / Rationale	Risk Rating*
18	The SIAS uses a 'Common Findings' paper for schools IA matters which helps share good and bad practice.	N/A	<i>The activity reflects current good practice or is an innovative response to the management of risk which has been shared with others.</i>	NOTABLE PRACTICE ●
19	The SIAS IA Plan for both authorities is aligned with the Principal Risk Report (PRR) at each organisation. This provides a seamless application of the IA methodology across both councils and a clear link between the strategic objectives of each authority, the PRR and the SIAS IA Plan.	N/A	<i>The activity reflects current good practice or is an innovative response to the management of risk which has been shared with others.</i>	NOTABLE PRACTICE ●

*Please refer to **Appendix A** for Risk definitions.