

**CAMDEN AND ISLINGTON SHARED INTERNAL
AUDIT SERVICE**

**EXTERNAL QUALITY ASSESSMENT
OF INTERNAL AUDIT**

**CARRIED OUT BY:
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LONDON BOROUGH OF CROYDON**

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Contents

- 1. Background and Terms of Reference**
- 2. Overall Conclusions**
- 3. Minor Areas of Improvement for Consideration**
- 4. Impact of Internal Audit**
- 5. Effectiveness of Shared Internal Audit Arrangements**
- 6. External Assessment against the Public Sector Internal Audit Standards**

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Disclosure Clause

This report is prepared for the use of Camden and Islington Councils. We take no responsibility to any third party for the reliance they may place on it.

Camden and Islington Shared Internal Audit Service External Quality Assessment

1. Background and Terms of Reference

- 1.1 A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
- 1.2 As requested by the Head of Internal Audit, Croydon Council carried out an external quality assessment of the Camden and Islington Council's Shared Internal Audit Service. The principal objectives of the external quality assessment were to assess the internal audit function's conformance to the UK Public Sector Internal Audit Standards and following a specific request, the effectiveness of the partnership delivery model.

The UK Public Sector Internal Audit Standards

- 1.3 The Chartered Institute of Public Finance has adopted a common set of Public Sector Internal Audit Standards (PSIAS) for Local Government, effective from 1st April 2013 (updated 1st April 2016). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF), consisting of the following three elements:
 - Definition of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary)
- 1.4 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.
- 1.5 In local government, the PSIAS are mandatory for all principal local authorities and apply to all internal audit service providers, whether in-house, co-sourced/outsourced or shared service.
- 1.6 The PSIAS aim to promote the professionalism, quality and effectiveness of internal audit. They reaffirm the importance of robust, independent and objective internal audit to provide assurance.
- 1.7 The Code of Ethics of the Chartered Institute of Internal Auditors has been adopted by the PSIAS and promotes an ethical, professional culture. It does not supersede or replace the membership regulations of internal auditors' own professional bodies and codes of conduct of employing organisations.

Statutory Requirements for Internal Audit Effectiveness

- 1.8 The Accounts and Audit Regulations 2015 (S6.1) state that *“A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.”*
- 1.9 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”*.
- 1.10 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 and systems of internal control;
 - ensure that the authority makes best use of resources and that taxpayers and/or service users receive value for money; and
 - 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.

External Review of Internal Audit

- 1.11 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.”*
- 1.12 *“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.”*
- 1.13 In London, the London Audit Group has organised a system of peer review, with thirty two member London Boroughs participating. Self-assessments will usually be carried out initially and these will be validated by suitably qualified individuals or teams from other members of the group over a five year cycle.

1.14 The London Audit Group has adopted the HM Treasury Toolkit for the external quality assessment using a standard assessment questionnaire and report format.

1.15 This external quality assessment of internal audit for the Camden and Islington Shared Internal Audit Service has been carried out by the Audit & Governance Manager of the London Borough of Croydon. His credentials for conducting this review are: holds a master's degree in internal audit and management (MSc), a fully qualified member of the Chartered Institute of Public Finance & Accountancy (CPFA) and the Chartered Institute of Internal Auditors (CMAA, FCMA & CIA).

He has more than twenty five years' experience of internal audit including twelve years as a local government Head of Internal Audit and has previous experience of conducting numerous similar external quality assessments of internal audit for large public sector organisations.

1.16 The review was based on the self-assessment carried out by the Shared Service Management Team, with evidence provided to support its conclusions. We fully validated this including review of all supporting evidence, comparison with best practice and undertaking interviews with the Head of Internal Audit, Audit Managers and a Principal Auditor. In addition customer surveys were completed by key stakeholders and internal audit staff which were followed up by interviews with the Chair of the Audit Committee, Chief Executive, Corporate Director Finance and Resources for Islington Council and Chair of Audit & Corporate Governance Committee, Chief Executive, Executive Director of Corporate Resources for Camden Council.

2 Overall Conclusions

2.1 **Based on the work carried out the conclusion of this review is that the Camden and Islington Shared Internal Audit Service FULLY CONFORMS with the Public Sector Internal Audit Standards.** This outcome should be reported to the respective audit committees and included in the Head of Internal Audit opinion reports.

2.2 The HM Treasury Toolkit uses a scale of four ratings, "Fully Conforms", "Generally Conforms", "Partially Conforms" and "Does Not Conform". The definitions for these are in the following table:

Table 1 EQA 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.

- 2.3 This outcome of the assessment is considered to reflect a very professional and successful internal audit service. The shared service commands a high level of respect and credibility across officers and members alike. The internal audit service is seen as a key part in supporting and developing good governance within the Councils.
- 2.4 The manner in which the internal audit service is planned, executed, managed and reported demonstrates a high level of compliance with the PSIAS. Whilst being part of corporate services for both Councils, the shared service has a high degree of independence, in fulfilling the definition of internal auditing.
- 2.5 We have identified some minor areas for improvement, details of which are provided in Section 3 of this report but none of these issues impact on meeting the PSIAS and the overall conclusion of full conformance.

3. Minor Areas of Improvement for Consideration

- 3.1 The Internal Audit Charter in need of review and updating in particular:
- Refer to compliance with current Accounts and Audit Regulations (2015);
 - Refine the definition of consulting activity.
- 3.2 PSIAS 1100 *Organisational Independence* states that “*The Chief Audit Executive must confirm to the board, at least annually, the organisational independence of the internal audit activity*” This requirement is also included in the Internal Audit Charter.

Review of reports submitted by the Head of Internal Audit (Chief Audit Executive) to the Governance and Audit Committee for Camden Council and Audit Committee for Islington Council (The Board), including latest Annual Reports and Internal Audit Plans did not find specific confirmation of the organisational independence of internal audit including no impairment. It alluded to including outlining the reporting line but this can be more explicit for future reports.

- 3.3 PSIAS Section 6 *Code of Ethics* states that “*Internal auditors in UK public sector organisations must conform to the Code of Ethics*” This Chartered Institute of Internal Auditors Code of Ethics have been adopted for the PSIAS. Whilst the Head of Internal Audit and in-house staff were found to complete an annual declaration of conforming to the Code of Ethics this was not evident for PWC the internal audit contractor. Knowledge of other internal audit contractors is that this is usually provided in one declaration for all staff.

PWC staff do complete an annual “fit and proper” declaration, required to comply with the Institute of Chartered Accountants England and Wales ethical guidelines together with their own Staff Code of Conduct. Whilst it is accepted there is a high level of compliance with ethical standards, going forward it is recommended that any future contract to include the requirement for an annual declaration of compliance with the CIIA Code of Ethics as defined in the PSIAS covering all staff engaged.

4. Impact of Internal Audit

- 4.1 To assess the impact of the service, the main tool used was an online survey to gain an understanding of stakeholders and staff views. A reasonable number of stakeholders (8) and staff (4) provided responses to the 17 statements or assertions on internal audit. The high majority are in the generally (%) and fully agreed (%) to the seventeen statements, grouped in Table 1 below. This was followed up by interviews with key stakeholders including Section 151 Officers, Chief Executives and Chairs of the Audit Committees.

Table 1 – Stakeholder Survey Responses

Table 1 – Stakeholder Survey Responses				
Statement Group	Do not agree	Partially agree	Generally agree	Fully agree
Standing and Reputation of Internal Audit (4)	0%	0%	42%	58%
Impact on Organisational Delivery (5)	2%	2%	41%	55%
Positive Impact on Governance, Risk and Control (8)	0%	1%	45%	54%

- 4.2 Stakeholders were also invited to provide any additional comments on internal audit and nine were received. Five comments were made, all positive and endorses the high quality internal audit service:

“From a personal perspective, I have seen a very positive change in our Audit service over the last three years and they have worked very successfully in my area with managers to both review functions and comment on proposed change. They have helped unlock barriers and ensure responsibility is taken for actions where that involves other service areas. We used to see Audit as a necessary evil but now it is a partner.”

“The Internal Audit Team provides an excellent service which is open and accessible to all elected members. They have gone above and beyond what we could expect in terms of following up particular areas which are of interest to councillors or where councillors have been concerned regarding issues relating to their wards.”

“The Internal Audit team has also recently developed an ad hoc but increasingly comprehensive training programme for councillors, which has helped to improve our knowledge of their work, and also supported us to better provide oversight of their work. This programme has been very welcome, and has helped us to identify gaps in our own knowledge, enabling us to take appropriate steps to address them.”

“My one area of concern is in relation to the level of resourcing for the service. Whilst I appreciate that we are working within a tough financial climate, the level of work which we require from Internal Audit is arguably increasing as a result of this. With services being restructured it is even more important for them to be effectively audited and for risk to be assessed in order to ensure that the level of service which residents receive does not deteriorate as a result of service change. We therefore need to ensure that the internal audit service is well-resourced to ensure that there is appropriate oversight of services across the Council.”

“I have only been on Audit for a year during this time I have always found them to appropriately responsive to enquiries and have found my committee to be quite happy with their performance.”

5. Effectiveness of Shared Internal Audit Arrangements

- 5.1 During the external quality assessment we were requested to review the effectiveness of the shared internal audit arrangements. This was found to be operating very effectively in particular both Councils being served equally and through interviews carried out a perception of a responsive in-house internal audit resource, particularly audit management.
- 5.2 The service has not expanded to include other partner local authorities and so operates within its capacity and remains customer focussed.
- 5.3 Whilst there is effectively a team at each Council with an Audit Manager, this is seamless as regards for example joint working, audit methodologies, standard documentation, training and development and resource sharing.

- 5.4 The shared service also benefits significantly from wider collaboration through the PWC contract framework that includes four other London Boroughs.
- 5.5 Internal audit staff are split between being employed directly by Islington or Camden Councils, on different pay scales and terms and conditions. Whilst this has so not so far been a barrier to the service operating effectively, the risk does exist.
- 6. External Assessment against the Public Sector Internal Audit Standards (PSIAS)**
- 6.1 The assessment was based on interviews carried out and the examination of relevant documentation to form an opinion on whether the service meets the individual standards (73) as:
- Fully conforms;
 - Generally conforms;
 - Partially conforms; and
 - Does not conform.
- 6.2 Table 2 below provides a summary of the assessment carried out against the PSIAS.

Table 3 – Summary of External Quality Assessment

		Does not conform	Partially conforms	Generally conforms	Fully conforms	Comments
	Purpose & Positioning					
•	• Remit				✓	See 3.1
•	• Reporting lines				✓	
•	• Independence				✓	See 3.2, 3.3
•	• Other assurance providers				✓	
•	• Risk based plan				✓	
	Structure & Resources					
•	• Competencies				✓	
•	• Technical training & development				✓	
•	• Resourcing				✓	
•	• Performance management				✓	
•	• Knowledge management				✓	

	Audit Execution					
•	• Management of the IA function				✓	
•	• Engagement planning				✓	
•	• Engagement delivery				✓	
•	• Reporting				✓	
		Do not agree	Partially agree	Generally agree	Fully agree	Comments
	Impact					
•	• Standing and reputation of internal audit	0%	0%	42%	58%	
•	• Impact on organisational delivery	2%	2%	41%	55%	
•	• Impact on Governance, Risk, and Control	0%	1%	45%	54%	
Overall Assessment						
Does not conform		Partly Conforms		Generally conforms		Fully conforms ✓
						X