


<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>22 March 2016</b></p>		
<p><b>LBHF PEER REVIEW OF INTERNAL AUDIT AGAINST THE UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS DECEMBER 2015</b></p>		
<p><b>Open Report</b></p>		
<p><b>Classification:</b> For Information <b>Key Decision:</b> No</p>		
<p><b>Wards Affected:</b> None</p>		
<p><b>Accountable Director:</b> Moyra McGarvey, Shared Service Director for Audit, Fraud, Risk and Insurance</p>		
<p><b>Report Author:</b> Geoff Drake, Senior Audit Manager</p>		<p><b>Contact Details:</b> Tel: 0208 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

- 1.1. The Relevant Internal Audit Standard Setters\* have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. 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.” 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.
- 1.2. This review of internal audit at the London Borough of Hammersmith and Fulham (LBHF) has been carried out by the Head of Anti-Fraud and Internal Audit (Head of Internal Audit) at the London Borough of Southwark. Based on the work carried out it can be confirmed that internal audit at the **LBHF GENERALLY CONFORMS** with the UK Public Sector Internal Audit Standards. This means 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.
- 1.3. Only minor observations were raised, these are identified below:

- that the CEO and the Chair of the Audit Committee contribute to the Chief Audit Executive's (CAE's) appraisal: Fully conforms but scope for enhancement;
- all internal audit staff and contractors are required to comply with the Code of Ethics and the Nolan principle: Generally conforms;
- There should be written job descriptions (the job description for the Senior Audit Manager was not provided during the audit): Generally conforms;
- The terms of reference for audit projects are comprehensive, they did not include reporting lines for projects: Generally conforms.

## 2. RECOMMENDATIONS

- 2.1. To note the contents of this report.

## 3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

## 4. INTRODUCTION AND BACKGROUND

- 4.1. This report is a result of an independent review of the LBHF Internal Audit Service. The full report is provided at Appendix 1. No major observations were raised, only 4 minor observations were made and no actions are required to address any of these points.
- that the CEO and the Chair of the Audit Committee contribute to the Chief Audit Executive's (CAE's) appraisal: Fully conforms but scope for enhancement. **As the CEOs and Audit Committee chairs of each council already have avenues to provide feedback, and the line manager has the option of speaking to them as necessary, no further action is proposed;**
  - all internal audit staff and contractors are required to comply with the Code of Ethics and the Nolan principle: Generally conforms. **Compliance with the Code of Ethics is a requirement of professional membership of audit organisations, signing an annual statement is no guarantee of compliance with the Code of Ethics for Internal Audit. No further action is proposed;**
  - There should be written job descriptions (the job description for the Senior Audit Manager was not provided during the audit): Generally conforms. **The job description does exist, refreshed when the shared service Internal Audit service was established. No further action is proposed;**
  - The terms of reference for audit projects are comprehensive, they did not include reporting lines for projects: Generally conforms. **The reporting lines for auditees was introduced into audit terms of reference approximately 2 months before this review took place. No further action is proposed.**

## **5. PROPOSAL AND ISSUES**

5.1. To note the contents of the report

## **6. OPTIONS AND ANALYSIS OF OPTIONS**

6.1. Not applicable

## **7. CONSULTATION**

7.1. Not applicable

## **8. EQUALITY IMPLICATIONS**

8.1. Not applicable

## **9. LEGAL IMPLICATIONS**

9.1. Not applicable

## **10. FINANCIAL AND RESOURCES IMPLICATIONS**

10.1. Not applicable

## **11. RISK MANAGEMENT**

11.1. Not applicable

## **12. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

12.1. Not applicable

12.2.

### **LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	Internal Audit background papers	Geoff Drake Ext. 2529	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

### **LIST OF APPENDICES:**

Appendix A - LBHF Peer Review of Internal Audit against the UK Public Sector Internal Audit Standards

**LONDON BOROUGH OF HAMMERSMITH AND FULHAM**

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

**CARRIED OUT BY  
MIKE PINDER, HEAD OF ANTI-FRAUD AND INTERNAL AUDIT  
LONDON BOROUGH OF SOUTHWARK**

**REPORT DECEMBER 2015**

# **London Borough of Hammersmith and Fulham**

## **Peer Review of Internal Audit against the UK Public Sector Internal Audit Standards**

### **1 Introduction**

- 1.1 A professional, independent and objective internal audit service is one of the key elements of good governance in local government.

### **The UK Public Sector Internal Audit Standards**

- 1.2 The Relevant Internal Audit Standard Setters\* have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. 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 (CAE) and the CFO is therefore of particular importance in local government.

### **External Review of Internal Audit**

1.10 Standard 1312 states that “External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.....External assessments can be in the form of a full external assessment, or a self-assessment with independent validation.” “A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience.” “The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.”

1.11 “An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.”

1.12 In London, The London Audit Group has organised a system of peer review, with 32 of the 33 London Boroughs agreeing to take part. It has been agreed that self-assessments will be carried out and that these will be validated by suitably qualified individuals or teams from other members of the group across a 5 year cycle.

1.13 This review of internal audit at the London Borough of Hammersmith and Fulham (LBHF) has been carried out by the Head of Anti-Fraud and Internal Audit (Head of Internal Audit) at the London Borough of Southwark. His qualifications for conducting this review are: A qualified member of the Chartered Institute of Public Finance and Accountancy, 20 years experience of internal audit including 9 years as a local government head of internal audit, previous experience of conducting peer reviews and other forms of external inspection.

## 2 Summary & Conclusion

2.1 The review was based on the self-assessment conducted by the Senior Manager Internal Audit (SMIA) at LBHF, 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, and the Chief Executive. Also available were the customer satisfaction surveys from a number of key stakeholders.

2.2 The co-operation of the SMIA 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 LBHF GENERALLY CONFORMS with the UK Public Sector Internal Audit Standards.** This outcome should be reflected in the Head of Internal Audit's annual opinion report for the year 2015/16.

2.4 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.
<b>Generally Conforms</b>	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 – Fully conforms but scope for enhancement. The standard requires that the CEO and the Chair of the Audit Committee contribute to the CAE's appraisal.

The Director of Internal Audit (DIA) is line managed by the Section 151 at Royal Borough of Kensington and Chelsea. Feedback is requested from their line manager, which fully complies with the scheme. The DIA also seeks informal feedback from the chair of the audit committee. While feedback is not routinely requested from LBFH management, the LBFH Chief Executive is able to provide feedback at any time if they wish.

3.2 Standard 1100. Generally conforms. The standard requires that all internal audit staff and contractors are required to comply with the Code of Ethics and the Nolan principle.

The SMIA indicated that all staff are required to sign an annual statement confirming their compliance with the IIA code of ethics. A copy of this for the SMIA was not, however, available to confirm compliance. The service is reminded to maintain a copy of signed code of ethics statements for all staff going forward.

3.3 Standard 2030. Generally conforms. There should be written job descriptions. A copy of the job description for the Director of Internal Audit was provided. The job description for the SMIA was not provided during the audit. This document should be located/updated as appropriate.

3.4 Standard 2200. Generally conforms. Engagement plans include consideration of the relevant systems, records, personnel, and physical properties.

The terms of reference for projects are comprehensive and meet the majority of requirements. They did not, however, include reporting lines for projects. Scope exists to include this on future terms of references.

#### **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.

The survey was sent to four key stakeholders with three responses received. On average the service scored well with an overall score of 80%. Full returns are provided in appendix A. Averages were compiled and summary scores which were generally either three or fours, with the following exceptions:

Areas	Average Score (%)
The internal audit service is seen as a key strategic partner throughout the organisation	2.3 (58%)
Internal audit is valued throughout the organisation	2.7 (67%)
Internal audit activity influences positive change and continuous improvement to business processes, bottom line results and accountability within the organisation	2.7 (67%)

3.6 It is noted, that these scores were slightly skewed by one lower score in each case from the small number of respondents. The SMIA was already aware of these comments, from ongoing dialogue for that service.

3.7 Further to this, interviews were held with the LBHF's Chief Executive and Chair of the Audit Committee. These meetings did not indicate any issues or concerns with the internal audit service. Both indicated improvements in the service over recent times.

3.8 The Chair of the Audit committee, also discussed the role of the committee, and how they are trying to optimise support of the service, through their processes.

## Summary assessment

2	3	4 Does not	5 Partially	6 Generally	7 Fully conformed	8 Comments
9	10 Purpose & positioning	11	12	13	14	15
	• Remit				X	
	• Reporting lines				X	Noting 3.1 above
	• Independence			X		See 3.2 above
	• Other assurance providers				X	
	• Risk based plan				X	
16	17 Structure & resources					
	• Competencies				X	
	• Technical training & development				X	
	• Resourcing				X	
	• Performance management			X		See 3.3 above
	• Knowledge management				X	
18	19 Audit execution					
	• Management of the IA function				X	
	• Engagement planning			X		See 3.4 above
	• Engagement delivery				X	
	• Reporting				X	
20	21	Do not agree	Partially agree	Generally	Fully agree	Comments
22	23 Impact					
	• Standing and reputation of internal audit				X	See 3.5 above
	• Impact on organisational delivery				X	
	• Impact on				X	

	Governance, Risk, and Control					
Does not conform		Partly Conforms		Generally conforms	X	Fully conforms

**Appendix A**  
**Survey Scores:**

Area	Respondent			Score (out of 4)	Score
<b>Standing and reputation of internal audit</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>Average</b>	<b>%</b>
The internal audit service is seen as a key strategic partner throughout the organisation	1	3	3	<b>2.33</b>	58
Senior managers understand and fully support the work of internal audit	2	4	4	<b>3.33</b>	83.
Internal audit is valued throughout the organisation	1	4	3	<b>2.67</b>	67
The internal audit service is delivered with professionalism at all times	4	4	4	<b>4.00</b>	100
<b>Impact on organisational delivery</b>					
The internal audit service responds quickly to changes within the organisation	2	4	3	<b>3.00</b>	75
The internal audit service has the necessary resources and access to information to enable it to fulfil its mandate	3	3	3	<b>3.00</b>	75
The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes	2	4	3	<b>3.00</b>	75
The internal audit service ensures that recommendations made are commercial and practicable in relation to the risks identified	2	4	3	<b>3.00</b>	75
There have not been any significant control breakdowns or surprises in areas that have been positively assured by the internal audit service	3	4	4	<b>3.67</b>	92

Area	Respondent			Score (out of 4)	Score
<b>Has the internal Audit had a positive impact on Governance, Risk and Control?</b>					
The internal audit service includes consideration of all risk areas in its work programme	3	4	4	<b>3.67</b>	92
Internal audit advice has a positive impact on the governance, risk, and the system of control of the organisation	2	4	4	<b>3.33</b>	83
Internal audit activity has enhanced organisation-wide understanding of governance, risk, and control	1	4	4	<b>3.00</b>	75
The internal audit service asks challenging and incisive questions that stimulate debate and improvements in key risk areas	2	3	4	<b>3.00</b>	75
The internal audit service raises significant control issues at an appropriate level in the organisation	3	4	4	<b>3.67</b>	92
The organisation accepts and uses the business knowledge of internal auditors to help improve business processes and meet strategic objectives	2	4	3	<b>3.00</b>	75
Internal audit activity influences positive change and continuous improvement to business processes, bottom line results and accountability within the organisation	1	4	3	<b>2.67</b>	67
Internal audit activity promotes appropriate ethics and values within the organisation	4	4	4	<b>4.00</b>	100
<b>Total Score and Percentage</b>				<b>3.20</b>	<b>80</b>