



## Audit Panel

### Internal Audit External Quality Assessment

**Date:** 21 June 2022

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Rich Clarke, Head of Assurance

### Outline and recommendations

Public Sector Internal Audit Standard 1312 requires that each audit service undergo an external assessment at least once every five years by a qualified, independent assessor. Lewisham Council's internal audit service was due an external assessment in 2021/22 and opted in to the London Audit Group's peer assessment process.

The attached report was prepared by the Head of Internal Audit for the City of London Corporation and concludes Lewisham's internal audit service **generally conforms** to the Standards. The report details the 3 (of 135) areas of partial conformance and makes recommendations for remedial action. Lewisham's Head of Assurance has responded to each finding as shown in the report.

As part of the peer assessment process Lewisham will now complete an external assessment of Croydon's internal audit, as set out in the 2022/23 internal audit plan.

**Members are recommended to note the External Quality Assessment findings**

## 1. Summary

- 1.1. The report sets out the conclusions of the City of London Corporation-led external quality assessment of the London Borough of Lewisham internal audit service's conformance with Public Sector Internal Audit Standards. The assessment concludes that Lewisham, overall, **generally conforms** to Standards, with 132 specific areas of conformance and three of partial conformance. The report includes remedial recommendations for the areas of partial conformance.

## 2. Recommendations

- 2.1. We ask Members to **note** the External Quality Assessment findings.

### 3. Policy Context

- 3.1. This report sets out how the Council has conformed to the requirements of Public Sector Internal Audit Standards in ensuring good governance and efficiency that underpins delivery of all the Council's strategic priorities.

### 4. Background

- 4.1. The [Public Sector Internal Audit Standards](#) were adopted by the UK public sector from 1 April 2013. These Standards were, and remain, derived from [the International Profesional Practices Framework](#) created by the Institute of Internal Audit with additional obligations relevant to public sector services added on the recommendation of the [Internal Audit Standards Advisory Board](#). The Standards were further revised in 2017.
- 4.2. These Standards created, for the first time, an obligation for each internal audit service to undertake an annual review of conformance (Standard 1311) and, at least every five years, an external assessment conducted by a qualified, independent assessor (Standard 1312). There is no set, uniform approach to undertaking an assessment. Rather the Standards allow for the participants to tailor the approach as necessary, in consultation with Members and Senior Management.
- 4.3. Lewisham last underwent an external Quality Assessment in 2016/17, [reported to the Audit Panel in June 2016](#). That review was led by the NHS London Audit Consortium hosted at Barts Health NHS Trust and concluded that Lewisham conformed to the Standards.
- 4.4. The requirement for a fresh external quality assessment fell due in 2021/22. Earlier in the year, the audit service agreed to take part in the London Audit Group's peer review process to secure the required assessment. In this process, the London Audit Group (comprising Heads of Audit from across London Boroughs) co-ordinate the assessments of participating councils so that each council receives and provides one assessment. Lewisham was assigned an assessment led by the City of London Corporation and will, in turn, deliver an assessment of London Borough of Croydon.
- 4.5. Lewisham's assessment was led by Matt Lock, City of London Corporation's Head of Internal Audit. The major part of the fieldwork took place in November 2021 with the report finalised in March 2022. This slight delay allowed Lewisham's new Head of Assurance – who started in January 2022 – to take part in responding to the assessment.

### 5. External Quality Assessment Report Findings

- 5.1. The assessment concludes that Lewisham **generally conforms** to the Standards. This is the top of a three-point scale used by City of London that also includes 'partially conforms' and 'does not conform' as possible outcomes.
- 5.2. The assessment considered 135 discrete points of conformance and concluded Lewisham conformed with 132. Three areas were picked out as demonstrating 'partial conformance' and detailed in the report, along with recommendations for remedial action.
- 5.3. The full report, including the Head of Assurance response to the recommendation, is at Appendix A.

## **6. Financial implications**

- 6.1. No direct implications. As part of our involvement in the London Audit Group peer review scheme, Lewisham is now committed to undertaking a review of London Borough of Croydon in 2022/23. This review is accounted for within the Internal Audit Plan approved by this Panel in March 2022.

## **7. Legal implications**

- 7.1. In seeking an External Quality Assessment, the Council remains in conformance with the Public Sector Internal Audit Standards and [Regulation 5 of the Accounts and Audit Regulations 2015](#).

## **8. Equalities implications**

- 8.1. No implications noted.

## **9. Climate change and environmental implications**

- 9.1. No implications noted.

## **10. Crime and disorder implications**

- 10.1. No implications noted.

## **11. Health and wellbeing implications**

- 11.1. No implications noted.

## **12. Background papers**

- 12.1. Public Sector Internal Audit Standards ([link](#)).

## **13. Report author and contact**

- 13.1. This report written by Rich Clarke, Head of Assurance, London Borough of Lewisham. [rich.clarke@lewisham.gov.uk](mailto:rich.clarke@lewisham.gov.uk). Extension 48730.
- 13.2. Appendix A written by Matt Lock, Head of Internal Audit for the City of London Corporation, with Head of Assurance responses written by Rich Clarke.

## **14. Appendices**

- 14.1. Appendix A – London Borough of Lewisham Internal Audit Performance External Quality Assessment March 2022

# London Borough of Lewisham

## Internal Audit Performance External Quality Assessment

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**Date:** March 2022

**Report Author:** Matt Lock, Head of Internal Audit, City of London Corporation

## Background and Introduction

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The Accounts and Audit Regulations 2015 came into effect on 1 April 2015 and require all Local Authorities to undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) and associated guidance.

The professional responsibilities of Internal Auditors are set out within the PSIAS, produced by the Registered Internal Audit Standards Setters (the Treasury for the UK), advised by the Internal Audit Standards Advisory Board. Supplementary instruction is also provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their “Local Government Application Note”. The Public Sector Internal Audit Standards require an External Quality Assessment to be undertaken at least once every 5 years, with a self-assessment completed every year between.

This EQA has been completed as a validated self-assessment as part of a wider peer review programme coordinated by the London Audit Group. The Assessment was undertaken by Matt Lock, Head of Internal Audit for the City of London Corporation. Matt is a fully qualified member of both CIPFA and the Chartered Institute of Internal Auditors and has worked in Local Government for over 20 years, the majority of this time being within the Internal Audit profession.

## Summary and Conclusion

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The review was initiated before the substantive Head of Assurance took up his post and was based on the self-assessment conducted by the Interim Head of Internal Audit, 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 Panel, the Chief Executive and the Executive Director of Corporate Resources. A number of Chief Officers and Senior Leaders also responded to a stakeholder survey.

The co-operation and assistance of the Internal Audit team in providing all information asked for and the contribution of those interviewed was greatly appreciated.

**Based on the work carried out it can be confirmed that Internal Audit at the London Borough of Lewisham is undertaken in accordance with the UK Public Sector Internal Audit Standards (Generally Conforms).** This outcome should be reflected in the Head of Assurance annual opinion report for the year 2021/22. Some minor observations are made in later in the report.

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## Assessment of Conformance

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This assessment was undertaken using the “CIPFA Checklist for Assessing Conformance with the PSIAS and The Local Government Application Note” within which there are 135 criteria that cover the fundamental principles to achieve and required practice. Each criterion is evaluated as either generally conforms, partially conforms or does not conform, with an overall view formed for each core element PSIAS. This is summarised in the table below:

Element of PSIAS	Generally Conforms	Partially Conforms	Does Not Conform	Total
<b>Rules of conduct – Generally Conforms</b>				
Mission of IA	1			1
Definition of IA	1			1
Core Principles	10			10
Code of Ethics	5			5
<b>Attribute Standards – Generally Conforms</b>				
1000 Purpose, Authority and Responsibility	4			4
1100 Independence and Objectivity	21			21
1200 Proficiency and Due Professional Care	10			10

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Element of PSIAS	Generally Conforms	Partially Conforms	Does Not Conform	Total
1300 Quality Assurance and Improvement Programme	15			15
<b>Performance Standards – Generally Conforms</b>				
2000 Managing the Internal Audit Activity	17			17
2100 Nature of Work	10	2		12
2200 Engagement Planning	11	1		12
2300 Performing the Engagement	6			6
2400 Communicating Results	18			18
2500 Monitoring Progress	2			2
2600 Communicating the Acceptance of Risks	1			1
<b>Total</b>	<b>132</b>	<b>3</b>		<b>135</b>

Definitions of the levels of conformance with the standards are:

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.

The overall assessment is, therefore, that the London Borough of Lewisham's Internal Audit function generally conforms to the Public Sector Internal Audit Standards. The 3 areas of partial conformance relate to Nature of Work (Audit coverage in respect of ethics and values) and Engagement Planning (approval of programmes of Audit work), set out in more detail below.

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## Areas of Partial Conformance

<b>Standard 2100 Nature of Work (extract)</b> <b>2110: Governance</b>	
Seeking to confirm that the Internal Audit activity evaluates and contributes to the improvement of the organisation’s governance, risk management and internal control processes using a systematic and disciplined approach.	
Does the internal audit activity assess and make appropriate recommendations to improve the organisation’s governance processes for: <ul style="list-style-type: none"> <li>▪ Making strategic and operational decisions?</li> <li>▪ Overseeing risk management and control?</li> <li>▪ Promoting appropriate ethics and values within the organisation?</li> <li>▪ Ensuring effective organisational performance management and accountability?</li> <li>▪ Communicating risk and control information?</li> <li>▪ Coordinating the activities of and communicating information among the board, external and internal auditors and management?</li> </ul>	<b>Evidence:</b> <ul style="list-style-type: none"> <li>▪ Yes – governance arrangements are covered in most audits. Example: Covid Governance Arrangements audit 2020/21</li> <li>▪ Yes – Risk Management audit completed in 2020/21</li> <li>▪ Audit of ethical standards has not been undertaken recently</li> <li>▪ Audit of Performance Management included in 2021/22 audit plan (See Audit Plan 3.1)</li> <li>▪ Yes – Risk Management audit completed in 2020/21</li> </ul>
<b>Assessment</b>	Partially Conforms – While it is possible to demonstrate conformance to this standard through the completion of a set of specific Audit reviews that address the bullet points above, greater conformance would be achieved through incorporating these points more generally within Audit assignments. The Head of Assurance could consider how best to incorporate auditing culture, ethics and values within the Audit methodology
<b>Head of Assurance Response</b>	I agree that targeting these areas through discrete reviews is outmoded practice. It presents a misleading impression that governance can be treated as a distinct and separate area rather than fundamental to achieving successful outcomes. We are currently revisiting our audit approach ahead of the 2022/23 audit plan. This will include documenting engagement planning to ensure these (and other) requirements receive sufficient, clearly set out, coverage in each engagement.

Questions to consider (2110 Governance)		Evidence / comments
<p>Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation’s ethics-related objectives, programmes and activities? This is an area where the CAE may be able to use other sources of assurance.</p>		<p>An audit of ethical standards has not been undertaken recently.</p> <p>However, review of HR policies was completed in 2020/21, to be followed up in 2021/22.</p>
<p><b>Assessment :</b></p>	<p>Partially Conforms – the Head of Assurance could consider incorporating more explicit coverage of this within the Audit Plan, this may also assist with raising the profile of the Internal Audit team and address the point from the key stakeholder feedback in relation to being seen as a strategic partner.</p>	
<p><b>Head of Assurance Response</b></p>	<p>See above. We will revise our audit approach in 2022/23 to ensure ethical related issues are considered at an appropriate level and extent within each and every engagement we undertake.</p>	

Standard 2200 Engagement Planning (Extract)	
2240: Engagement Work Programme	
<p>Have internal auditors developed and documented work programmes that achieve the engagement objectives?</p> <p>Do the engagement work programmes include procedures for:</p> <ul style="list-style-type: none"> <li>▪ Identifying, analysing, evaluating and documenting information?</li> </ul> <p>Were work programmes approved prior to implementation for each engagement?</p> <p>Were any adjustments required to work programmes approved promptly?</p>	<p>Work programmes to address each area of the audit scope are set up in Pentana. For less experienced auditors, these are approved prior to commencing testing</p>

Standard 2200 Engagement Planning (Extract) 2240: Engagement Work Programme	
<b>Assessment</b> :	Partially Conforms – the Standards require all work programmes to be approved prior to initiation. This was discussed with the Head of Assurance who agreed that the audit process would be updated to reflect this requirement. It is acknowledged that limited capacity of Audit Management can present challenges in timely authorisation of work, consideration could be given to making greater use of standard working papers; deploying an already approved programme of work (or elements of predesigned programmes) rather than designing fresh each time, there are arguments for and against and an investment of time required at a different time.
<b>Head of Assurance Response</b>	This was a temporary oversight which has already been corrected in practice since my arrival. It will be embedded in new procedures put together following the review noted above.

## Other Observations

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Internal Audit has good engagement with the Executive Management Team; reporting regularly on the outcomes of Internal Audit work and, from stakeholder consultation, it was established that the function is well regarded.

Both survey and interviews identified some challenges around management implementation of Audit recommendations although noting that this position has been improving over the past few years, **the Head of Assurance may wish to consider introducing a more robust challenge and escalation as part of the Audit follow-up process.**

Again, from stakeholder feedback, Internal Audit is not really seen as a “strategic partner” to the organisation. There is naturally a tension in balancing resources across a programme of core assurance work, risk focussed audits and those that align more directly to Corporate objectives or strategic priorities. The recently appointed Head of Assurance is well placed to raise the profile of the Internal Audit function, building on the positive engagement referred to above. **As part of the EQA process we discussed that making reference to strategic or Corporate objectives within the Internal Audit Plan could be of some assistance in demonstrating this alignment.**

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From discussion with the Interim Head of Internal Audit, it was established that the Internal Audit Improvement Plan has largely been formed from a gap analysis against the PSIAS self-assessment. While this meets the requirements of the standards, it perhaps overlooks the consideration of continuous improvement, particularly given the high level of conformance. **The Head of Assurance will naturally bring a new perspective and fresh ideas to the team and may wish to formalise and build on this in a more structured continuous improvement plan that incorporates changes to the Audit approach and methodology as well as any points to improve conformance with the PSIAS.**

Finally, to note that the team had been very thorough with the initial self-assessment and in the preparation of the substantial volume of evidence required to demonstrate conformance with the PSIAS.

Matt Lock  
Head of Internal Audit, City of London Corporation

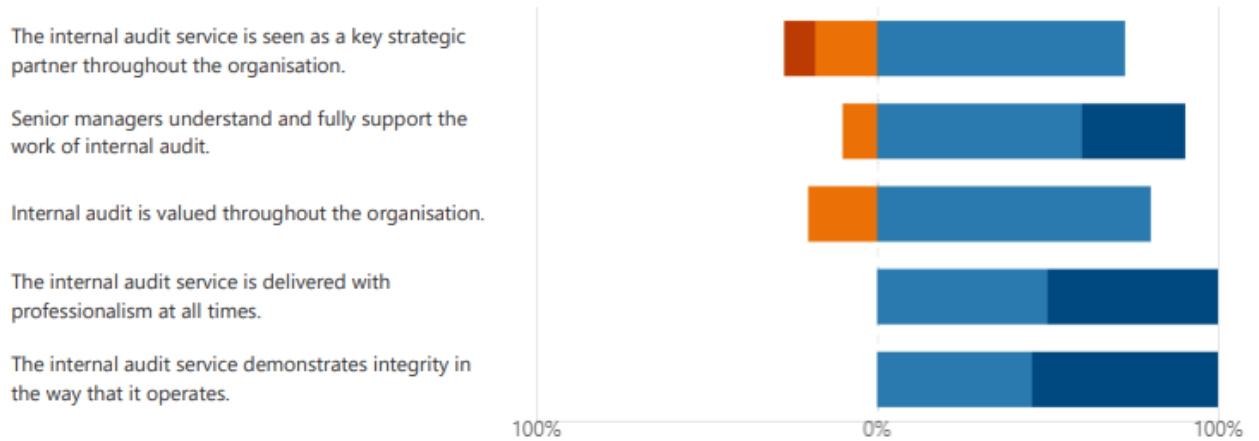
March 2022

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# Stakeholder Feedback: Survey Outcomes

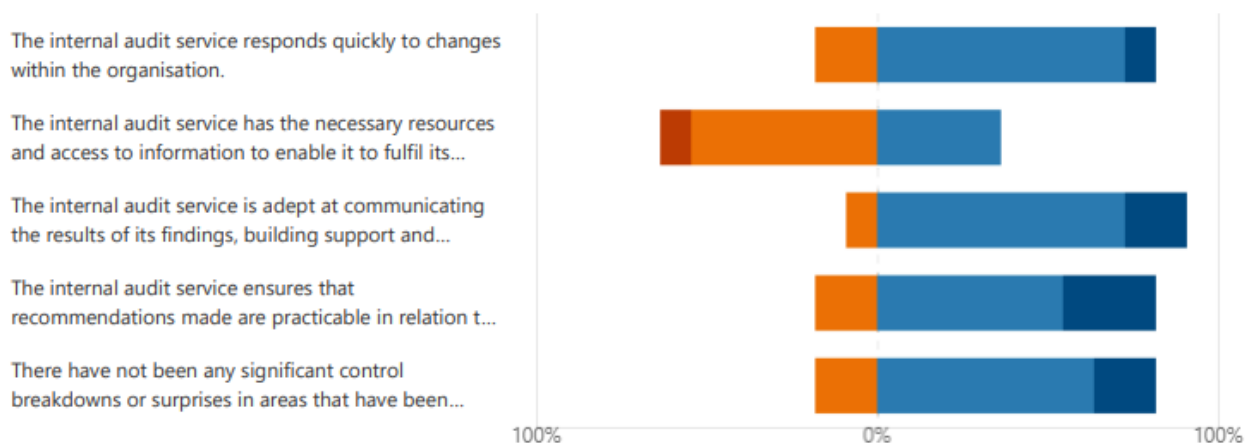
## 1. Standing and Reputation of Internal Audit

■ Do not agree 
 ■ Partially agree 
 ■ Generally agree 
 ■ Fully agree



## 2. Impact on Organisational Delivery

■ Do not agree 
 ■ Partially agree 
 ■ Generally agree 
 ■ Fully agree



### 3. Impact on Governance, Risk and Control

■ Do not agree  
 ■ Partially agree  
 ■ Generally agree  
 ■ Fully agree

