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London Borough of Lewisham  
Internal Audit Service

Public Sector Internal audit Standards  
External Quality Assessment

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## 1. Introduction & Background

Along with other UK public sector bodies, Local authorities have adopted the Public Sector Internal Audit Standards (PSIAS) from 1 April 2013.

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

Definition of Internal audit
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Code of Ethics	
1. Integrity	2. Confidentiality
3. Objectivity	4. Competency

Public Sector Internal Audit Attribute Standards	
<ul style="list-style-type: none"> <li>• 1000 Purpose, Authority and Responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• 1200 Proficiency and Due Professional Care</li> </ul>
<ul style="list-style-type: none"> <li>• 1100 Independence and Objectivity</li> </ul>	<ul style="list-style-type: none"> <li>• 1300 Quality Assurance and Improvement Programme</li> </ul>

Public Sector Internal Audit Performance Standards	
<ul style="list-style-type: none"> <li>• 2000 Managing the Internal Audit Activity</li> </ul>	<ul style="list-style-type: none"> <li>• 2400 Communicating Results</li> </ul>
<ul style="list-style-type: none"> <li>• 2100 Nature of Work</li> </ul>	<ul style="list-style-type: none"> <li>• 2500 Monitoring Progress</li> </ul>
<ul style="list-style-type: none"> <li>• 2200 Engagement Planning</li> </ul>	<ul style="list-style-type: none"> <li>• 2600 Communicating the Acceptance of Risks</li> </ul>
<ul style="list-style-type: none"> <li>• 2300 Performing the Engagement</li> </ul>	

Standard 1300 emphasises the importance of quality assurance:- *“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity”*.

Standard 1312 go on to state that: *‘External assessments must be conducted at least every five years by a qualified, independent reviewer or assessment team from outside the organisation. The chief audit executive must discuss with the board:*

- *The form of external assessments; and*
- *The qualifications and independence of the external assessor or assessment team, including and potential conflict of interest’.*

## 2. Form of External Assessment

The London Borough of Lewisham (LBL) Internal Audit Service has chosen to undertake a self-assessment based on a local authority developed checklist that follows the PSIAS. The external assessor has been used to verify the completeness and accuracy of the self-assessment. This has been done by inspecting documentary evidence and interviewing key personnel.

### 3. External Assessor

The assessment has been completed by Derek Corbett, CPFA, Managing Director of London Audit Consortium (LAC).

LAC is an NHS based internal audit consortium hosted by Barts Health NHS Trust. LAC was established in 2008 but the predecessor organisations from which it developed date back to 1986 in the earliest instance. LAC provides internal audit, counter fraud, security management and consultancy services to a number of NHS and other public sector and voluntary sector clients.

Derek Corbett, CPFA, is a qualified accountant with over 30 years' experience of directing internal audit services in public sector organisations. He has managed LAC since its formation and previously directed London City Audit Consortium from 1997 until its merger with two other London NHS audit consortia to form LAC in 2008.

Derek has contributed to the development of the Public Sector Internal Audit Standards through his membership of two NHS national groups, HFMA Governance and Audit Committee and The Internal Audit Network (TIAN).

TIAN is a confederation of the 14 NHS internal audit consortia operating in England. It was founded in 2011. Derek proposed the creation of the group and has chaired its executive committee since its inception. TIAN members collectively hold around 60% of market share for NHS organisations and employ around 600 staff.

### 4. LBL Internal Audit Service Background

The internal audit service is strategically and operationally managed by an in house team comprising the Head of Internal Audit (HIA), David Austin and the Internal Audit Contract Manager (IACM), Julie Heatherington.

The HIA has significant other non-audit duties including responsibility for:

- Insurance;
- Risk management;
- Strategic Finance;
- Procurement;
- Health and Safety;
- Counter Fraud.

This is therefore a risk to internal audit independence and objectivity but it is managed by:

- granting the IACM direct access to the Chief Finance Officer (CFO), Chief Executive Officer (CEO) and chair of the audit Panel;
- allowing the IACM to plan and audit all areas under the control of the HIA without the involvement of the HIA, including the right to report directly to management on any findings, conclusions and recommendations.

Some operational work is undertaken by the Internal Audit Contract Manager although the majority is completed by two contractors, Mazars and Royal Borough of Greenwich (RBG)

Internal Audit Service. The Mazars contract lead is David Phillips, Audit Manager and operational management is provided by Tuoyo Dada, Assistant Manager.

LBL has developed a charter and internal audit manual that describes standard working practices.

Mazars was appointed through a framework agreement. LBL has developed an internal audit protocol for Mazars. This specifies its service requirements to Mazars, including compliance with the PSIAS. Mazars has also specified its understanding of its service obligations to LBL through an engagement letter. Mazars staff follow an ISO9001 accredited internal audit and quality manuals. These have been designed to comply with the PSIAS. Internal and external inspection processes seek to measure compliance with the manuals.

The RBG team has been engaged by LBL to conduct school audits. A SLA sets out the service requirements of LBL. The RBG service provider provides circa 140 days of the 950 day plan. LBL has set out its service requirements for RBG in a service level agreement.

## 5. Objectives, Scope & Approach

The overall objective was to provide an independent external assessment of LBL compliance with the Public Sector Internal Audit Standards.

The approach comprised:

1. Self-assessment to be completed by LBL, including compilation of evidence to support the assessment;
2. Structured desk top review of documentation;
3. Interviews with the Head of Internal Audit, Internal Audit Contract Manager, Mazars contract lead and manager;
4. Draft report for discussion;
5. Presentation of final report.

RGB Internal Audit Service is unfortunately unable to deliver internal audit services to LBL from April 2016. A review of their working practices was therefore not considered appropriate by LBL due to the timing of this decision and this assessment.

Any information and documentation provided by LBL to conduct this review is commercially sensitive, will remain confidential and will not be used for commercial gain.

## 6. Findings, Conclusions and Recommendations

We are pleased to report that the external assessment has concluded that the LBL Internal Audit Service is compliant with the requirements of the PSIAS.

Key findings, conclusions and recommendations for every individual standard are detailed below at **Appendix A**.

A detailed working paper, prepared by LBL and the external assessor provide further support to this report. This has been passed across to Julie Hetherington, IACM.

A handwritten signature in black ink, appearing to read "Derek Corbett". The signature is fluid and cursive, with a large initial 'D' and 'C'.

Derek Corbett CPFA  
Managing Director  
**London Audit Consortium**

**APPENDIX A**

Ref	Conformance with the Definition of internal Auditing	Y	P	N	Recommendations
1	<p><b>Definition of Internal Auditing</b> Evidence has been provided to demonstrate overall compliance.</p> <p><u>Observations:</u></p> <ul style="list-style-type: none"> <li>The HIA has non audit duties. This is managed by compensating control that allows the IA Contract Manager to review such systems without the involvement of the HIA. This is assessed within the attribute standard 1100 below.</li> <li>Mazars do not provide evidence of their declarations of interest to LBL.</li> </ul>	X			<b>R1</b> Mazars to share declarations of interest with LBL or complete LBL pro-formas

Ref	Conformance with the Code of Ethics	Y	P	N	Evidence
2	<p><b>Code of Ethics</b></p> <p><b>Integrity</b> Evidence has been provided to demonstrate compliance</p>	X			<b>R2</b> Mazars should be asked to provide details of their internal

Ref	Conformance with the Code of Ethics	Y	P	N	Evidence
	<u>Observation</u> Mazars do not presently share details of their ISO9001 internal or external inspections and do not therefore provide assurance as to their compliance with IA standards.				and external quality review audits that presently demonstrate compliance with their ISO9001 quality system and through this, compliance with IA standards.
	<b>Objectivity</b> Evidence has been provided to demonstrate compliance.  <u>Observation:</u> Mazars maintain a gifts and hospitality register for their staff. LBL is presently not sighted on pertinent details.	X			<b>R3</b> Mazars should be asked to either share their gifts/ hospitality register or be required to participate in the LBL system.
	<b>Confidentiality</b> Evidence has been provided to demonstrate compliance	X			
	<b>Competency</b> Evidence has been provided to demonstrate compliance.	X			

Ref	Conformance with the Attribute standards	Y	P	N	Recommendations
3.1	1000 Purpose, Authority and Responsibility				

Ref	Conformance with the Attribute standards	Y	P	N	Recommendations
	Evidence has been provided to demonstrate compliance.	X			
3.2	<p><b>1100 Independence and Objectivity</b></p> <p>Evidence has been provided to demonstrate compliance with objectivity. The configuration of the service, where the HIA has non audit duties does potentially impact on independence. However, compensating controls are in place.</p> <p><u>Observations:</u></p> <ul style="list-style-type: none"> <li>The configuration of the service, where the HIA has non audit duties could potentially impact on independence. However, compensating controls are in place. These could be further strengthened by clarifying further in the Audit charter the independence of the IACM and improving the support afforded to the IACM from the CFO and Audit Panel Chair.</li> <li>Mazars do not provide evidence of their declarations of interest to LBL</li> <li>Audit ToRs and IA reports do not report independence of the auditor undertaking the work.</li> <li>Although the Chair of the Audit Panel has been requested to provide feedback on the performance of the HIA, it is unclear to the HIA whether this has been</li> </ul>	X			<p><b>R4</b> So as to improve clarity, paragraph 5.5 of the Audit Charter should be reworded thus:  <i><b>As the HIA has line management responsibility for a number of operational activities not relating to internal audit, to safeguard audit objectivity whenever these systems are audited by the internal audit team, the IACM will operate independently of the HIA and will for these matters report directly to the CFO.</b></i></p> <p><b>R5</b> Consideration should be given to renaming the Internal Audit Contract Manager post as <b>Operational HIA</b> to make clearer the remit of the post. The job description could also state:</p> <ul style="list-style-type: none"> <li>the post holder’s authority to act independently of the HIA in regard to audits of systems managed by the HIA and the reporting line directly to the CFO in such instances;</li> <li>that the IACM will deputise for the HIA in regard to internal audit matters only.</li> </ul> <p><b>R6</b> consider introducing a standard paragraph into project ToRs and audit reports stating that the auditor has no conflict of interests. This will demonstrate that independence is considered as part of project planning. It will therefore strengthen the assurance presently made in the Audit Charter and the Annual Assurance Report that the internal audit service complies with the PSIAS (and therefore operates with appropriate independence).</p> <p><b>R7</b> The Audit Panel and Internal Control Board should consider holding in-camera meetings with the Internal Audit Contract</p>



Ref	Conformance with the Attribute standards	Y	P	N	Recommendations
	<p>provided.</p> <ul style="list-style-type: none"> <li>The IACM job description refers to deputizing for the HIA. It does not narrow the scope of this responsibility to internal audit matters, although it is understood that this is what is meant.</li> </ul>				<p>Manager to ascertain if this manager has any concerns as to the independence of the present arrangements. This should be done at least annually in general terms and whenever an audit of a system managed by the HIA is undertaken. The CFO should provide similar support to the IA Contract Manager in regard to the audit of any system managed by the HIA.</p> <p><b>R8</b> The Audit Panel should consider annually completing an effectiveness assessment that includes an assessment of the effectiveness of the internal audit service and HIA. A number of assessment templates exist. The NHS typically uses one prepared by the Healthcare Financial Management Association (HFMA).</p>
3.3	<p><b>1200 Proficiency and Due Professional Care</b></p> <p>Evidence has been provided to demonstrate compliance.</p> <p><u>Observation</u></p> <p>Mazars do not advise LBL of compliance with their staff appraisal or training programmes</p>	X			<p><b>R9</b> LBL should consider asking Mazars to periodically declare compliance with their staff appraisal and training systems (note: the need to conduct appraisals and operate training programmes for staff seem not to be in the scope of the ISO9001 system and therefore independent inspections by BSI cannot be relied upon for this purpose) .</p>
3.4	<p><b>1300 Quality Assurance and Improvement Programme</b></p> <p>Evidence has been provided to demonstrate compliance.</p>	X			

Ref	Conformance with the Attribute standards	Y	P	N	Recommendations
	<p><u>Observation</u></p> <p>The IACM does not review Mazars project working papers. Reliance is placed on the Mazars QA process being completed.</p>				<p><b>R10</b> When submitting draft reports to the IACM Mazars should provide written confirmation that the working papers and draft report have been subject to their normal quality assurance process and all review points have been addressed.</p>

Ref	Conformance with the Performance standards	Y	P	N	Recommendations
4.1	<p><b>2000 Managing the Internal Audit Activity</b></p> <p>Evidence has been provided to demonstrate compliance.</p> <p><u>Observations:</u></p> <ul style="list-style-type: none"> <li>• Liaison with external audit has recently diminished.</li> <li>• Presently a review of performance management is not included in the IA plan as it is considered too wide a remit to be able to complete.</li> <li>• The HIA commented that ASQ responses are difficult to obtain. Common methods of improving response rates include: <ol style="list-style-type: none"> <li>1. issuing the questionnaire very promptly (i.e. with the final report),</li> <li>2. using a senior manager's email address to issue the questionnaire (to demonstrate the importance of a request),</li> <li>3. explaining in the covering email that the re-</li> </ol> </li> </ul>	X			<p><b>R11</b> Liaison with external audit should be strengthened.</p> <p><b>R12</b> Performance management systems are a key component of internal control. Consideration should be given to cyclically auditing the performance management arrangements of individual directorates, if an overall review is considered too large an undertaking. A risk based approach to determining the most suitable areas for review should be adopted.</p> <p><b>R13</b> ASQs are valuable in measuring the effectiveness of the service and motivating IA staff. Efforts should be made to improve the current level of client feedback by adopting the following strategies:</p>

Ref	Conformance with the Performance standards	Y	P	N	Recommendations
	<p>sponse will only take a short time to respond (e.g. 1 minute),</p> <ol style="list-style-type: none"> <li>4. Using multiple choice rather than free text,</li> <li>5. following up promptly where returns have not been made,</li> <li>6. responding to replies very promptly to demonstrate that feedback is valued,</li> </ol> <p>Items 5 &amp; 6 are presently not followed by LBL Internal Audit. Response rates may improve if these additional points are followed.</p>				<ul style="list-style-type: none"> <li>• following up promptly where returns have not been made,</li> <li>• responding to replies very promptly to demonstrate that feedback is valued,</li> </ul>
4.2	<p><b>2100 Nature of Work</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			
4.3	<p><b>2200 Engagement Planning</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			
4.4	<p><b>2300 Performing the Engagement</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			
4.5	<p><b>2400 Communicating Results</b></p>				

Ref	Conformance with the Performance standards	Y	P	N	Recommendations
	<p>Evidence has been provided to demonstrate compliance</p> <p><u>Observation</u> The HIA commented that ASQ responses are difficult to obtain</p> <p>KPIs were not developed/ reported upon in 2015/16 due to restructuring issues relating to the creation of an in-house work force.</p>	X			<p>See <b>R13</b></p> <p><b>R14</b> Once the in house team is appointed KPIs should be developed.</p>
4.6	<p><b>2500 Monitoring Progress</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			
4.7	<p><b>2600 Communicating the Acceptance of Risks</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			

