

CITY OF LONDON  
CHAMBERLAIN'S DEPARTMENT  
INTERNAL AUDIT SECTION

**HILLINGDON BOROUGH COUNCIL  
INTERNAL AUDIT  
PEER REVIEW**

Date Issued: 15<sup>th</sup> June 2012

Issued to: Head of Audit & Enforcement

Audit Committee 26 June 2012  
PART I – MEMBERS, PUBLIC & PRESS

## CONTENTS

<u>SECTION</u>	<u>PAGE</u>
SECTION A: Background and Approach	
- Background	1
- Review Objectives	1
- Review Approach	2
SECTION B: Findings and Conclusions	
- Executive Summary	3
- CIPFA Code of Practice	4
- The Role of the Head of Internal Audit in Public Sector Organisations	6



## **SECTION A : BACKGROUND AND APPROACH**

### **Background**

1. A peer review of the Hillingdon London Borough Council internal audit function, by the City of London, Head of Audit & Risk Management was agreed to facilitate the annual review of the effectiveness of internal audit as required by the Accounts and Audit Regulations 2011.
2. Two key documents establish the standards by which internal audit is provided in Local Government. These are the Code of Practice for Internal Audit in Local Government (the CIPFA Code) and the more recent CIPFA statement on The Role of The Head of Internal Audit in Public Sector Organisations which complements and is consistent with the CIPFA code of practice. CIPFA recommends that bodies use these statements as a framework to assess compliance with good practice and report publicly on this.
3. Compliance with the CIPFA Code was reviewed last year by the Hillingdon Audit Committee at a special meeting arranged for this purpose on the 3<sup>rd</sup> May 2011. The review confirmed that Internal Audit was compliant with the standard.

### **Review Objectives**

4. The objectives of peer review were as follows:-
  - To review the Hillingdon London Borough Council internal audit function compliance with the 2006 Code of Practice for Internal Audit in Local Government, identifying any areas of non-compliance for consideration for improvement action.
  - To identify any points of good practice from the more recent CIPFA statement on The Role of The Head of Internal Audit in Public Sector Organisations that the internal audit function should consider focusing on.

### **Review Approach**

5. The following work was undertaken to meet these objectives:-
6. Interviews were held as follows:-
  - Helen Taylor, Head of Audit & Enforcement
  - John Morley, Audit Committee Chairman
  - Paul Whaymand, Deputy Director, Finance
7. Review and examination of
  - Audit Committee reports and minutes



- internal audit section manuals and procedures
- sample of audit staff objectives and learning and development plans
- small sample of internal audit review files and discussion with Audit Managers
- internal audit section team minutes and APACE Audit planning, risk assessment and time recording system

## **SECTION B: Findings and Conclusion**

### **Executive Summary**

8. It has been concluded that the Hillingdon LBC internal audit function meets all material aspects of the CIPFA Code of Practice and the requirements of the CIPFA statement on The Role of The Head of Internal Audit in Public Sector Organisations. The review concluded that the internal audit function was a well organised, regulated and professional operation, with clear procedures which adhere to good practice. From interviews with the Deputy Director, Finance and Audit Committee chairman the service provided is well regarded.
9. A few minor areas have been proposed to enhance the oversight of the function by the Head of Audit & Enforcement and one more significant consideration has been raised relating to the positioning of the internal audit function in respect of the Hillingdon Borough Council Change Agenda.

### **CIPFA Code of Practice**

10. There are two areas where there is partial compliance with the CIPFA Code of practice. These issues have been previously noted in assessments against the code of practice and reported to Members.
11. As well as being responsible for the internal audit function, The Head of Audit is responsible for the management of Corporate Fraud Team and the Planning Enforcement Team (CIPFA Code ref 2.1.1). The potential compromise of independence is addressed by any audits in this area having a TOR (Terms of Reference) agreed directly by the audit team with the Deputy Chief Executive and Corporate Director, Central Services and audit results reported directly to her without interference from the Head of Audit & Enforcement.
12. There is no protocol that defines the working relationship with external audit and other external inspectors (CIPFA Code ref 5.1.2/5.5.1). It is understood, however, that there are good working relationships with External Auditors and there are no relevant external inspectors with which it is felt a meaningful on-going relationship could be established that would warrant and benefit from a formal protocol.
13. Whilst not a compliance issue with regard to the CIPFA Code of practice two suggestions have been made to the Head of Audit & Enforcement as part of this review as follows.
14. For each audit, a brief is prepared, discussed and agreed with relevant managers setting out the objectives, scope and timing of the audit assignment. This will be prepared by Auditors and reviewed by Audit Managers. Currently the Head of Audit & Enforcement does not currently review these briefs, although this would be common practice in most internal audit sections.
15. ***It has been suggested the Head of Audit & Enforcement reviews and signs off audit briefs for major audit reviews to ensure these are planned with the appropriate level of coverage to deliver the required assurance.***

16. The Head of Audit & Assurance has established Quality Assurance arrangements to ensure that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff. The extent of supervision depends on the competence and experience of the individual auditor. Clear standards for reporting, including the format of reports, quality assurance within the internal audit service and the process for agreeing reports with the recipient have been established. Reliance is placed on Audit Manager review of internal audit work, prior to the Head of Audit & Enforcement reviewing draft reports. If particular issues arise in the quality of the draft report from the Head of Audit & Enforcement review, she will 'call in' the audit file to review the underlying evidence for the audit findings, conclusion and recommendations. There is a small risk that a well drafted audit reports, may not have the required level of substantiating evidence and be less likely to be identified by the Head of Audit & Enforcement's own QA process. Is it therefore suggested that:-
17. ***Consideration be given to occasionally calling in audit files for Head of Audit & Enforcement QA reviews on a random basis in addition to those where concerns are identified from review of draft audit reports.***

### **The Role of The Head of Internal Audit in Public Sector Organisations**

18. From review of the functioning of the internal audit section, the positioning of the Head of Audit, and execution of that role no areas were identified where it was considered the role was not being fulfilled in accordance with the CIPFA statement.
19. One area of emphasis has been identified for consideration, in the context of the role of internal audit in public sector organisations which are going through significant change. Principle 1 of the CIPFA statement refers to the Head of Audit championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments. It goes on to say
- “HIAs must be asked to consider the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks. HIAs should be made aware of major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and appropriate controls built in. The HIA should consider what if any audit work needs to be done and also how the proposals fit with the organisation's strategic objectives. The HIA should be involved at the outset to ensure any advice they give can be actioned. Giving advice over proposed developments is inevitably a less precise business than giving assurances on existing systems. Managers and the HIA must therefore be clear on the scope of any internal audit work here and of the kind of advice that is given.”*
20. The Head of Audit & Enforcement and her supporting Audit Managers keep sight of emerging issues through attendance at Directorate SMT and the Head of Audit being a member of the Organisational Managers Group (OMG), which is chaired by the DCEO Central services and comprises of all the Heads of Service across the council. The OMG discusses emerging issues in all services and up and coming legislation. Future audit issues are identified through these forums and by attending other professional forum, and scanning relevant media, CIPFA on-line forums etc. These issues are then considered for future inclusion in audit plans.



21. There are many examples of where internal audit advice was given on risks and controls within new processes and systems at a detailed level of the past few years, however the overall allocation of audit resources to this area appears relatively low. For the 2012/13 audit plan there were no specific system development audits identified, with only 25 days allocated to advice & guidance work from 1660 chargeable days, although it is understood audit work is planned on the new Council Tax discount arrangements.
22. Hillingdon Borough Council like most other public sector organisation is seeking to achieve considerable savings through the Hillingdon Improvement Programme. Internal audit potentially can provide a very valuable input to major change projects, helping shape good governance and control at the outset.
23. ***It is suggested that Hillingdon review the positioning of its internal audit function in relation to the significant change projects within the council, and consider whether it should seek a more significant role, and indeed whether it has the skills and capacity to engage in projects at a more strategic level, whilst maintaining its primary assurance role.***
24. I would like to thank Helen Taylor and the staff at Hillingdon Borough Council for their full co-operation and support in undertaking this review.

Paul Nagle, CPFA

Head of Audit and Risk Management, City of London