

London Borough of Barnet

**Internal Audit Performance
External Quality Assessment**

Date: 10 February 2022

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Introduction

The Public Sector Internal Audit Standards (PSIAS) require an external quality assessment be undertaken at least every five years. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

Standard 1312 states:

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

Across London, the London Audit Group has organised a system of independent externally validated self-assessments. It was agreed that self-assessments against the standards, and where appropriate the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note (LGAN) will be completed, and that these will be externally validated by suitably qualified individuals or teams from other members of the London Audit Group.

This review of internal audit's performance at the London Borough of Barnet has been led by Paul Rock who is the Head of Internal Audit for the London Borough of Tower Hamlets and is appropriately qualified, independent and has no actual or perceived conflicts of interest. The terms of reference for this assessment were discussed and agreed with the Council's Executive Director of Resources, Executive Director of Assurance and Chair of the Audit Committee.

Conclusion

Overall, the internal audit service at the London Borough of Barnet is a well led, professional and respected service that adds value and provides evidence based, reliable assurance over the Council's governance, risk management and internal controls.

Based on the self-assessment, supporting evidence and independent validation it is the view of the lead assessor that the internal audit service for the London Borough of Barnet **generally conforms with the Public Sector Internal Audit Standards**. Definitions of all the ratings are detailed in Appendix A.

Generally Conforms

The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, comply with the requirements in all material respects.

Stakeholder Survey

During this assessment a survey of key stakeholders was undertaken. In summary the survey results were positive and have revealed the following:

- The service is delivered with professionalism and integrity.
- Issues/concerns are raised at the right level.
- Internal Audit responds quickly to changes in the organisation.
- Internal Audit has the necessary resources.
- Internal Audit is adept at communicating its work.
- The service has a positive impact on governance, risk management and control.
- Internal Audit asks challenging and incisive questions.
- The service appropriately promotes ethics and values.

The full results of the survey are shown at Appendix B.

In addition to the survey, we interviewed a series of key stakeholders. The feedback from the stakeholders (with one exception) was very positive. Internal Audit was often described as follows:

- A well led, respected, efficient and professional service.
- Internal Audit always adds value and provides an excellent service.
- The reports to Audit Committee are of high quality and are appropriately detailed.
- The service demonstrates and promotes high levels of integrity.

In terms of areas for improvement, the survey and interviews indicate that internal audit could:

- provide managers with more guidance on the role and purpose of internal audit; and
- continue to raise the profile of the whole service across the Council.

Both of which will assist in demonstrating the value internal audit adds and encourage management to be more responsive to internal audit reports and recommendations.

Areas for Improvement

The assessment has identified some minor areas for improvement which includes the following:

- Training logs for all internal audit staff should be maintained (not applicable to contractors).
- Internal Audit's planning and audit progress templates need to be updated and consistently completed in full for each audit/advisory engagement.

- The terms of reference template needs to be refreshed to include clear links between Internal Audit's planned activity and the Council objectives and related risks.
- Going forward, terms of reference should be issued for all advisory work and evidence of the terms of reference being agreed by the Head of Internal Audit prior to issue should be retained on the audit evidence file.
- The annual Head of Internal Audit report should be updated to include references to the independence of internal audit and an assertion that internal audit has conformed with the Public Sector Internal Audit Standards.
- Internal Audit's assurance and risk mapping needs to be updated.
- An explanation/assessment of internal audit's resources and their adequacy should be included when presenting the overall audit plan to senior management and the Audit Committee.
- The Head of Internal Audit should consider introducing a review of the audit work programme (referred to locally as an ECRM) before the audit or advisory work commences.

Whilst not a requirement of the PSIAS, the Head of Internal Audit may also wish to consider the following:

- Developing a three to five year strategy for the Internal Audit service.
- Auditing the Council's approach to fraud prevention, detection and investigation.

A summary of the outcomes of this assessment follows. An action plan has been developed by the Head of Internal Audit to address these areas and is included as Appendix C. Progress/completion of this action plan should be reported to senior management and the Audit Committee.

Summary Assessment

Statement	Generally Conforms	Partially Conforms	Does not Conform
Mission of Internal Audit			
Does the internal audit activity aspire to accomplish the Mission of Internal Audit as set out in the PSIAS?	✓		
Definition of Internal Auditing			
Is the internal audit activity independent and objective?	✓		
Does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓		
Core Principles			
Does the internal audit activity conform with the PSIAS by demonstrating integrity?	✓		
Does the internal audit activity conform with the PSIAS by demonstrating competence and due professional care?	✓		
Does the internal audit activity fully conform with the PSIAS by being objective and free from undue influence (independent)?	✓		
Does the internal audit activity fully conform with the PSIAS by being aligned with the strategies, objectives, and risks of the organisation?	✓		
Is the internal audit activity appropriately positioned and adequately resourced?	✓		
Does the internal audit activity demonstrate quality and continuous improvement?	✓		
Does the internal audit activity communicate effectively?	✓		
Does the internal audit activity provide risk-based assurance, based on adequate risk assessment?	✓		
Is the internal audit activity insightful, proactive, and future-focused?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Does the internal audit activity promote organisational improvement?	✓		
Code of Ethics			
Do internal auditors display integrity?	✓		
Do internal auditors display objectivity?	✓		
Do internal auditors display due respect and care by maintaining confidentiality?	✓		
Do internal auditors display competency?	✓		
Do internal auditors, whether consciously or through conformance with organisational procedures and norms, have due regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i> ?	✓		
Attribute Standards			
Does the internal audit charter conform with the PSIAS by including a formal definition of the purpose, authority and responsibility of the internal audit activity?	✓		
Does the internal audit charter conform with the PSIAS by clearly and appropriately defining the terms 'board' and 'senior management' for the purposes of the internal audit activity?	✓		
Does the Chief Audit Executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	✓		
Does the CAE have direct and unrestricted access to senior management and the board?	✓		
Are threats to objectivity identified and managed.	✓		
Does the CAE report to an organisational level equal or higher to the corporate management team? Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	✓		
Does the CAE's position in the management structure: Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?		✓	
Is the organisational independence of internal audit realised by functional reporting by the CAE to the board?	✓		
Does the CAE communicate and interact directly with the board?	✓		
Where the CAE has roles or responsibilities that fall outside of internal auditing, are adequate safeguards in place to limit impairments to independence or objectivity? Does the board periodically review these safeguards?	✓		
Do internal auditors have an impartial, unbiased attitude?	✓		
Do internal auditors avoid any conflict of interest, whether apparent or actual?	✓		
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties?	✓		
Does review indicate that work allocations have operated so that internal auditors have not assessed specific operations for which they have been responsible within the previous year?	✓		
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	✓		
Is the risk of over-familiarity or complacency managed effectively?	✓		
Have internal auditors declared interests in accordance with organisational requirements?	✓		
Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties has this been declared and investigated fully?	✓		
Does review indicate that no instances have been identified where an internal auditor has used information obtained during the course of duties for personal gain?	✓		
Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?	✓		
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	✓		
Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent? Is the CAE suitably experienced?	✓		
Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	✓		
Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	✓		
Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	✓		
Do internal auditors have sufficient knowledge of key information technology risks and controls?	✓		
Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	✓		
Do internal auditors exercise due professional care?	✓		
Do internal auditors exercise due professional care during a consulting engagement?	✓		
Has the CAE defined the skills and competencies for each level of auditor? Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	✓		
Do internal auditors undertake a programme of continuing professional development?	✓		
Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	✓		
Does the QAIP include both internal and external assessments?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	✓		
Do internal assessments include ongoing monitoring of the internal audit activity?	✓		
Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?	✓		
Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?	✓		
Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	✓		
Has an external assessment been carried out, or is one planned to be carried out, at least once every five years?	✓		
Has the CAE properly discussed the qualifications and independence of the assessor or assessment team with the board?	✓		
Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	✓		
Has the CAE reported the results of the QAIP to senior management and the board?	✓		
Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	✓		
Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	✓		
Has the CAE reported any instances of non-conformance with the PSIAS to the board?	✓		
If appropriate, has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	✓		
Performance Standards			
Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	✓		
Does the risk-based plan set out the: Audit work to be carried out?	✓		
Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	✓		
Is the internal audit activity's plan of engagements based on a documented risk assessment?	✓		
In developing the risk-based plan, has the CAE also given sufficient consideration to: Any declarations of interest (for the avoidance of conflicts of interest)? The requirement to use specialists, eg IT or contract and procurement auditors? Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	✓		
In developing the risk-based plan, has the CAE consulted with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes?	✓		
Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	✓		
Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval? Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	✓		
Has the CAE communicated the impact of any resource limitations to senior management and the board?	✓		
Does the risk-based plan explain how internal audit's resource requirements have been assessed?		✓	
Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance?	✓		
If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	✓		
Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources?		✓	
Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?	✓		
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	✓		
Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes?	✓		
Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities?	✓		
Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	✓		
Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes?	✓		
Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems?	✓		
Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	✓		
Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	✓		
Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?	✓		
Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	✓		
Do internal auditors develop and document a plan for each engagement?		✓	
Do internal auditors consider the following in planning an engagement, and is this documented: objectives, controls, risks, resources, operations, risk mitigation, adequacy, effectiveness, improvements?	✓		
Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party?	✓		
For consulting engagements, have internal auditors established an understanding with the engagement clients	✓		
Have objectives been agreed for each engagement?	✓		
Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished?	✓		
Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	✓		
Is the scope that is established for each engagement generally sufficient to satisfy the engagement's objectives?	✓		
Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	✓		
For each consulting engagement, was the scope of the engagement generally sufficient to address any agreed-upon objectives?	✓		
Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of each engagement	✓		
Have internal auditors developed and documented work programmes that achieve the engagement objectives?	✓		
Do internal auditors generally identify (sufficient, reliable, relevant and useful) information which supports engagement results and conclusions?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Have internal auditors generally based their conclusions and engagement results on appropriate analyses and evaluations?	✓		
Have internal auditors generally remained alert to the possibility of the following when performing their individual audits, and has this been documented: Intentional wrongdoing? Errors and omissions? Poor value for money? Failure to comply with management policy? Conflicts of interest?	✓		
Have internal auditors documented the relevant information required to support engagement conclusions and results?	✓		
Does the CAE control access to engagement records?	✓		
Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	✓		
Do the communications of engagement results include the following: The engagement's objectives? The scope of the engagement? Applicable conclusions? Recommendations and action plans, if appropriate?	✓		
Do internal auditors generally discuss the contents of the draft final reports with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	✓		
If recommendations and an action plan have been included, are recommendations prioritised according to risk?	✓		
Subject to confidentiality requirements and other limitations on reporting, do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice?	✓		
Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	✓		
When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	✓		
Where the CAE has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, have the risks of doing so been managed effectively, having regard to the CAE's primary responsibility to the management of the organisation for which they are engaged to provide internal audit services?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Are internal audit communications generally accurate, objective, clear, concise, constructive, complete and timely?	✓		
If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	✓		
Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?	✓		
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved? The reason(s) for non-conformance? The impact of non-conformance on the engagement and the engagement results?	✓		
Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	✓		
Has the CAE communicated engagement results to all appropriate parties?	✓		
Before releasing engagement results to parties outside the organisation, did the CAE: Assess the potential risk to the organisation? Consult with senior management and/or legal counsel as appropriate? Control dissemination by restricting the use of the results?	✓		
Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	✓		
Has the CAE delivered an annual internal audit opinion?	✓		
Does the communication identify the following: The scope of the opinion, including the time period to which the opinion relates? Any scope limitations? The consideration of all related projects including the reliance on other assurance providers? The risk or control framework or other criteria used as a basis for the overall opinion?	✓		
Does the annual report incorporate the following: annual opinion, summary of work, qualifications, impairments, comparisons, conformance with PSIAS, results of the QAIP, progress against improvement plans, summary of performance?		✓	
Where issues have arisen during the follow-up process (for example, where agreed actions have not been implemented), has the CAE considered revising the internal audit opinion?	✓		

Statement	Generally Conforms	Partially Conforms	Does not Conform
Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	✓		
If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	✓		

Appendix A – Definitions

Generally Conforms	The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, comply with the requirements 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.

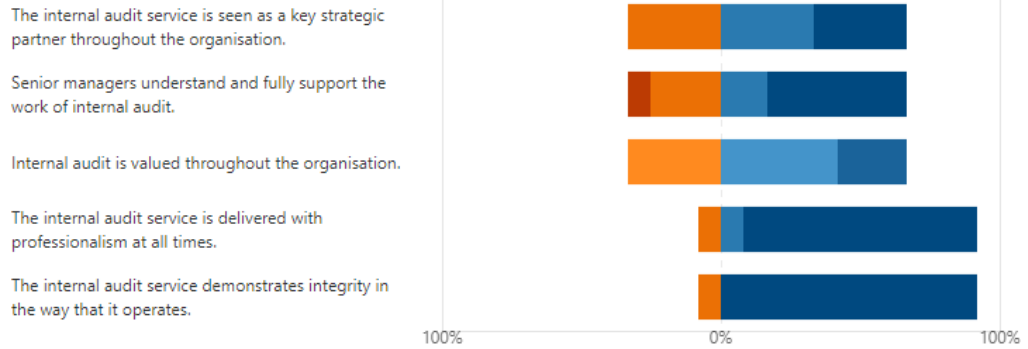
Appendix B – Survey Results

There were 12 responses to this survey.

1. Standing and Reputation of Internal Audit

[More Details](#)

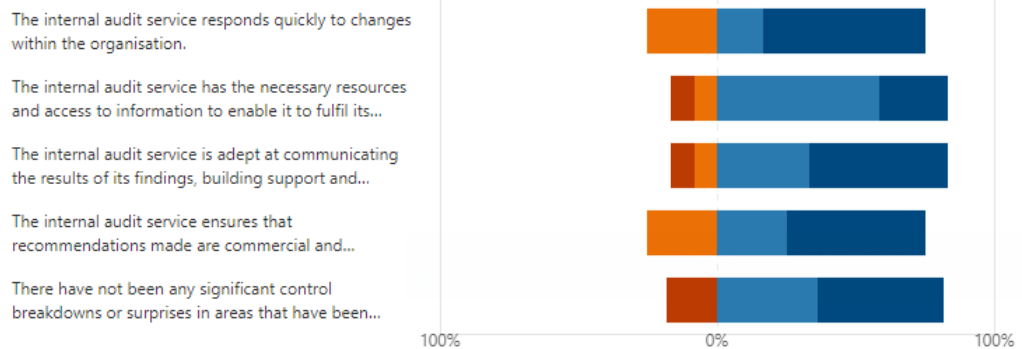
■ Do not agree ■ Partially agree ■ Generally agree ■ Fully agree



2. Impact on Organisational Delivery

[More Details](#)

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

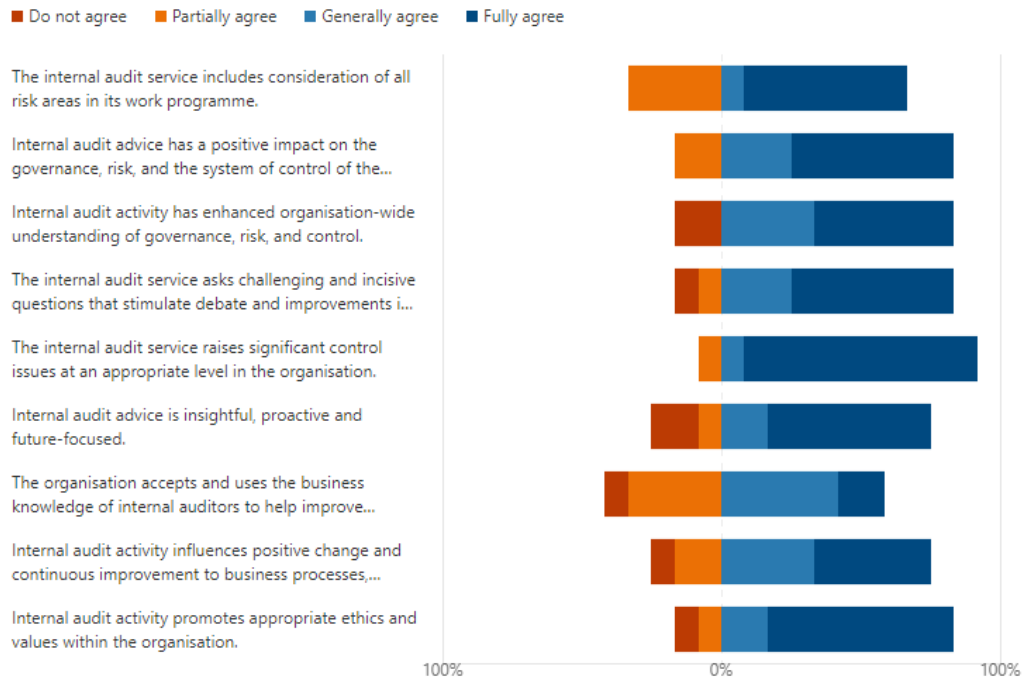


Key

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

3. Impact on Governance, Risk and Control

[More Details](#)



Further comments

Barnet internal audit service is excellent, very thorough and has a positive impact on the governance of the council.

Head of internal audit is well respected. Some of the co-sourced auditors aren't always fully up to speed with the organisation, the journey or the strategic objectives.

The internal Audit team themselves are excellent, but it isn't clear that that rest of the council responds to their findings and actions them in good time. We are constantly chasing updates, and there have been issues with the contractors not being cooperative.

In my experience the internal audit arrangements are not particularly effective in my areas. There has not been learning from inaccurate audit findings despite there being evidence presented and acknowledged - errors continue.

Appendix C – Action Plan

Area for Improvement	Planned actions	Responsible Officer & Target Date
Training logs for all internal audit staff should be maintained.	As part of this review staff have logged their training. A formal log template will be developed, and staff will be asked to use this to log all training.	Internal Audit Manager 31 March 2022
Internal Audit's planning and audit progress templates needs to be updated and consistently completed in full for each audit/advisory engagement.	The Audit checklist will be completed for all assignments and checked by the audit Manager at each stage of review to ensure it is up to date and work is compliant. This will apply to work completed by the in-house team only.	Internal Audit Manager For work completed in the 2021/22 Audit Year and going forward
The terms of reference template need to be refreshed to include clear links between Internal Audit's planned activity and the Council objectives and related risks.	The Template for the ToR has been amended to include this link.	Internal Audit Manager – Complete (subject to review) 1 February 2022
The annual Head of Internal Audit report should be updated to include references to the independence of internal audit and an assertion that internal audit has conformed with the Public Sector Internal Audit Standards.	The introduction to the 2021/22 annual opinion will confirm the independence of internal audit and conformance with the PSIAS.	Head of Internal Audit 30 June 2022

Area for Improvement	Planned actions	Responsible Officer & Target Date
Internal Audit's assurance and risk mapping needs to be updated.	The Assurance Map will be updated on conclusion of the planning process for the 2022/23 financial year.	Internal Audit Manager 30 June 2022
An explanation/assessment of internal audit's resources and their adequacy should be included when presenting the overall audit plan to senior management and the Audit Committee.	The 2022/23 internal audit plan will include commentary on internal audit resources and their adequacy. The recent London Audit Group (LAG) benchmarking will provide context for this assessment.	Head of Internal Audit 31 March 2022
The Head of Internal Audit should consider introducing a review of the audit work programme (referred to as an ECRM) before the audit or advisory work commences.	A risk-based review process for the ECRM will be introduced for the in-house team. The decision on whether this is required will be based on the complexity of the audit and the experience of the auditor carrying out the work.	Audit Manager / HIA From 1 February 2022