



**External Quality Assessment of Haringey Council's Internal Audit
Service's Conformance with the Public Sector Internal Audit
Standards**

Final Report – 24th May 2022

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1. Introduction

- 1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). In local government, the way internal audit services operate is more flexible than in other parts of the public sector where there is a large degree of central control. To ensure local authority internal audit services apply the PSIAS in a uniform way, CIPFA has produced the local government application note (LGAN) which provides additional detail for each of the individual standards. The LGAN is mandatory for local authorities.

All public sector internal audit services are required to assess their performance on conforming to the Standards and this can be achieved by undertaking periodic self-assessments, or external quality assessments, or a combination of both methods. However, the PSIAS stipulates that an external quality assessment (EQA) by an external reviewer must be undertaken at least once in a five-year period. This can be in the form of a full assessment or the validation of the internal audit service's own self-assessment.

2. Background

- 2.1 Haringey Council's Internal Audit Service is managed by the Head of Audit and Risk Management and is supported by a Deputy Head of Audit and Risk Management. At the time of the EQA, Internal Audit were providing internal audit services to the Council and were also carrying out all of the audits for Homes for Haringey, the Council's Housing arm's length management organisation (ALMO) although this would be ceasing operation during 2022 and transferring back under direct management by the Council. All planned audits are undertaken by the Council's delivery partner, Mazars LLP (Mazars), through the London Borough of Croydon's APEX contract. Both the Head of Audit and Risk Management and the Deputy are very experienced internal audit professionals who hold chartered level professional accountancy and internal audit qualifications, as required by the Standards.
- 2.2 Operationally, the Head of Audit and Risk Management reports directly to the Director of Finance (Section 151 Officer) and has direct access to the Chief Executive and the Chair of the Corporate Committee. Regular reports are made to the Corporate Committee on the progress being made on the delivery of the audit plan, including any changes made to the plan, plus the Head of Audit and Risk Management's annual outturn report and opinion.
- 2.3 The Service has been operating under PSIAS since its launch in 2013, and this is the second external quality assessment that they have commissioned.
- 2.4 The Service relies on its delivery partner, Mazars, to undertake its planned audits. They use standard templates for their engagement working papers and testing schedules, engagement terms of reference, action plans and audit reports. All working papers are held in Mazar's audit management system. Supervision of the live audit engagements is carried out by Mazars' managers who also ensure that draft audit reports are produced for the Deputy Head of Audit and Risk Management to review and quality check.

3. Validation Process

3.1 The self-assessment validation comprises a combination of a review of the evidence provided by the Service; a review of a sample of completed internal audit engagements, chosen by the assessor; survey questionnaires that were sent to and completed by a range of stakeholders; and virtual interviews using MS Teams with the Council's Section 151 Officer, the Chair of the Corporate Committee, the Head of Legal and Governance (Monitoring Officer); the Head of Information Technology and the Head of Organisational Resilience, and the Chair of the Audit and Risk Committee for Homes for Haringey. The questionnaire and interviews focussed on determining the strengths and weaknesses of Internal Audit and assessed the Service against the four broad themes of purpose and positioning within the organisation(s); their structure and resources; audit execution; and impact on the respective organisations.

3.2 The Service provided a comprehensive range of documents that they used as evidence to support their self-assessment, and these were available for examination prior to and during this validation review. These documents included the:

- self-assessment against the Standards and the CIPFA Local Government Application Note;
- documentary evidence used to support the self-assessment;
- the audit charters;
- the annual reports and opinions;
- the audit plans and strategies;
- progress and other reports to the Corporate Committee and the Audit committee for Homes for Haringey;
- a sample of planned audits for the Council and Homes for Haringey.

All the above documents were examined during this EQA.

3.3 The validation process was carried out during March and April 2022.

4. Opinion

It is our opinion that the Internal Audit Service's self-assessment is accurate and, as such, we conclude that Internal Audit FULLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the Local Government Application Note.

The table below shows Internal Audit’s level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	Fully Conforms
Core principles	Fully Conforms
Code of ethics	Fully Conforms
Attribute standard 1000 - Purpose, Authority and Responsibility	Fully Conforms
Attribute standard 1100 - Independence and Objectivity	Fully Conforms
Attribute standard 1200 - Proficiency and Due Professional Care	Fully Conforms
Attribute standard 1300 - Quality Assurance and Improvement Programmes	Fully Conforms
Performance standard 2000 - Managing the Internal Audit Activity	Fully Conforms
Performance standard 2100 - Nature of Work	Fully Conforms
Performance standard 2200 - Engagement Planning	Fully Conforms
Performance standard 2300 - Performing the Engagement	Fully Conforms
Performance standard 2400 - Communicating Results	Fully Conforms
Performance standard 2500 - Monitoring Progress	Fully Conforms
Performance standard 2600 - Communicating the Acceptance of Risk	Fully Conforms

5. Areas of full conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

5.1 Mission Statement and Definition of Internal Audit

The mission statement and definition of internal audit from the PSIAS are included in the audit charter.

5.2 Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate an internal audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance Standards of the PSIAS.

From this EQA it is evident that the Service conforms to the Core Principles, and this is part of their overarching culture and underpins the way they operate.

5.3 Code of Ethics

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.

From this EQA it is evident that the Service conforms to the Code of Ethics, and this is part of their overarching culture and underpins the way they operate.

5.4 Attribute Standard 1000 – Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). The internal audit charter must be reviewed regularly and presented to senior management and the audit panel for approval.

The Internal Audit Service has an audit charter in place for the Council and a separate one for Homes for Haringey. We reviewed these and the processes used to present them to the respective committees for approval. We found the audit charters covered the main elements of attribute standard 1000 and the LGAN and, as such, are fit for purpose.

5.5 Attribute Standard 1100 – Independence and Objectivity

Standard 1100 states that the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is understood by the Head of Audit and Risk Management and the Deputy Head of Audit and Risk Management, forms an integral part of their culture and working practices, and is covered in the audit charter. The Head of Audit and Risk Management reports in his own name and directly to the Council's senior management team (SMT) and the Corporate Committee. Similar arrangements are in place at Homes for Haringey. Both officers sign a declaration of interest each year and declare any potential impairment to independence or objectivity. All employees of Mazars that work on the Haringey contract are required to conform to the Mazars' code of ethics and operating practices regarding independence and objectivity. Notwithstanding the above, it is good practice to

include a statement in the annual report to confirm that there have not been any impairments to their independence, or that of the delivery partner, during the year covered by the report. Alternatively, if there have been impairments, include a statement that sets out what they were, and the action that was taken by the Service to manage the scenario.

We have reviewed the current audit charter, the annual report and opinion, the Service's methodologies and standard documentation, a sample of completed audits, and the Service's reporting lines and positioning within Council and Homes for Haringey. We are satisfied that the Internal Audit Service conforms with attribute standard 1100 and the LGAN. We have, however, made one observation of good practice in section 8 of the report regarding the inclusion of a statement in the annual report on impairments to independence. **(Action 1)**

5.6 Attribute Standard 1200 – Proficiency and Due Professional Care

Attribute standard 1200 requires the Internal Audit Service's engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

It is evident from this EQA that Internal Audit and its delivery partner are an experienced, professional and competent Service. The Council currently uses Mazars as its delivery partner and they have been procured through the Croydon APEX contract which currently runs until 2024. Although there is an option for Croydon to extend this contract for a further two years, there is no guarantee that they will wish to do this or indeed that Mazars will wish to remain the preferred supplier. If the contract is terminated by either party in 2024, the Council may find itself in a position where it does not have any resources to deliver the internal audit service. The lead time for procuring another delivery partner or indeed bringing the delivery service back in-house can be quite a lengthy process and, as such, it would be prudent for the Head of Internal Audit and Risk Management to start to explore the options available to the Council should the scenario arise in 2024 and to draw up an appropriate contingency plan. We have made one suggestion in section 8 of this report for this observation. **(Action 2)**

In the self-assessment, the Head of Audit and Risk Management has identified the need to expand the use of data analytics during the audits and intends to discuss this with the delivery partner. There are many advantages to using electronic methods to audit systems that involve large amounts of data held in electronic formats as it not only frees up resources to undertake audits that can only be audited by manual methods, but it also provides enhanced confidence and assurance by facilitating the testing of all the transactions and records in a data base rather than just a sample. As the Service has already identified this observation, we have not included an action in section 8 of the report. It is evident from this review that the Service performs their duties with due professional care and, as such, they conform to attribute standard 1200 and the LGAN.

5.6 **Attribute Standard 1300 – Quality Assurance and Improvement Programmes**

This standard requires the Head of Audit and Risk Management to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

The Internal Audit Service has an effective quality assurance process in place that ensures engagements are performed to an acceptable standard within the available resources. This is supported by assessments of the Service's compliance with the Standards through periodic self-assessment and the quinquennial external quality assessment. In the self-assessment, the Service has identified an issue relating to the delivery partner not providing the required data to enable the Head of Audit and Risk Management to assess their performance against the performance indicators set out in the operating protocol. The provision of relevant and timely information relating to performance is a key element to assessing an internal audit service's performance. As the Service have already identified this observation, we have not included an action in section 8 of the report, however, they should ensure that it is added to the Service's quality assurance and improvement programme.

It is evident from this review that the Service performs their duties with due professional care and, as such, they conform to attribute standard 1300 and the LGAN.

5.7 **Performance Standard 2000 – Managing the Internal Audit Activity**

The remit of this standard is wide and requires the Head of Audit and Risk Management to manage the internal audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when internal audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Head of Audit must produce an audit plan for each client, and communicate this and the Service's resource requirements, including the impact of resource limitations, to senior management and the Audit Committee for their review and approval. The Head of Audit and Risk Management must ensure that Shared Internal Audit Services' resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Head of Audit and Risk Management to establish policies and procedures to guide the internal audit activity, and to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Last, but by no means least, the standard requires the Head of Audit and Risk Management to report periodically to senior management and the Audit Committee on internal audits activities, purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the audit committees.

The Internal Audit Service has methodologies in place that meet the requirements of the PSIAS. They have developed comprehensive planning processes that take into

consideration the client's risks, objectives, and governance frameworks; other relevant and reliable sources of assurance; any key issues identified by service managers; their own audit universe and risk and audit needs assessments; and the resources that are available to undertake the audits. From this information, they produce audit plans that are designed to enhance the client's risk management and governance frameworks and control processes; and provide them with objective and relevant assurance. The audit plan for the Council is reviewed and approved by SMT and the Corporate Committee, and by SMT and the Audit Committee for Homes for Haringey.

Details of the completed audits and the risk and control issues found, together with the progress being made on delivering the audit plan and the performance of the Service, is regularly reported to the Council's Corporate Committee, or in the case of Homes for Haringey, their Audit Committee, together with the annual reports and opinions at the end of the year.

The clear indication from this EQA is the Internal Audit Service is managed effectively and conforms to standard 2000 and the LGAN.

5.8 Performance Standard 2100 – Nature of Work

Standard 2100 covers the way the internal audit activity evaluates and contributes to the improvement of the organisation's risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

This is the approach adopted by the Internal Audit Service. During this EQA, we selected a sample of completed audit engagements and examined them to see if they conformed to standard 2100. We found that the sample audits complied with both.

Internal audit's credibility and value is enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact on the organisation. Overall, the feedback from the interviewees was good with clients valuing the professional and objective way the Service fulfilled its role in carrying out audit reviews and investigations.

From the audit planning process, it is evident that Internal Audit takes into consideration the key risks from the Council's risk registers,

Notwithstanding the observations above, the indication from this EQA is that Internal Audit does, overall, conform to performance standard 2100 and the LGAN.

5.9 Performance Standard 2200 – Engagement Planning

Performance standard 2200 requires internal auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

The Service's delivery partner has a set of standard documents in place that are underpinned by sound audit methodologies, all of which ensure that audit engagements are planned effectively. Their methodologies cover most aspects required by standard 2200 although the audit terms of reference could be enhanced by the addition of an indicative distribution list for the final audit report. There is one

suggested enhancement included in section 8 of this report relating to this standard.
(Action 3)

During this EQA, we selected a sample of completed audit engagements and found they all conformed to the Standards. We therefore conclude that the Service conforms to performance standard 2200 and the LGAN.

5.10 **Performance Standard 2300 – Performing the Engagement**

Performance standard 2300 seeks to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

During this EQA, we selected a sample of completed audit engagements and examined them to see if they conformed to the Standards. We found that they all conformed to the Standards and therefore we conclude that Internal Audit conforms to performance standard 2300 and the LGAN.

5.11 **Performance Standard 2400 – Communicating Results**

This standard requires internal auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the expectations of their senior management, the audit committees and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”.

The audit methodologies in place within the Service cover the communication of results and these meet the requirements of the PSIAS. We selected a sample of completed audit engagements and examined them to see if they conformed to the Standards and found that they all did although the audit reports could be enhanced by the addition of a distribution list for the final audit report. We have made one suggestion in the action plan in section 8 of the report relating to this observation.
(Action 4)

We therefore conclude that the Internal Audit Service conforms to performance standard 2400 and the LGAN.

5.12 **Performance Standard 2500 – Monitoring Progress**

There is a follow-up process in place to monitor management’s progress towards the implementation of agreed actions. The results of the follow-up reviews are reported to the Corporate Committee for the Council and to the Audit committee for Homes for Haringey. From this EQA, it is evident that the Service conforms to performance standard 2500 and the LGAN.

5.13 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the Head of Audit and Risk Management has concluded that management has accepted a level of risk that may be unacceptable to the respective organisations.

If such a scenario was to arise, the Head of Audit and Risk Management would raise the matter with the Section 151 Officer and if necessary, through to the Chief Executive and the Corporate Committee for the Council, and to the SMT, Board and the Audit Committee for Homes for Haringey. Situations of this kind are expected to be rare, consequently, we did not see any evidence of these during this EQA. From this external quality assessment, it is evident that the Service conforms to performance standard 2600 and the LGAN.

6. Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

- 6.1 There are no areas of partial conformance with the Public Sector Internal Audit Standards

7. Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

- 7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards.

8. Action Plan

1. Include a statement of impairments to independence in the annual report (Advisory)	
Rationale	Agreed Action
<p>The audit charter underpins the work of internal audit and sets out the independence and objectivity of the Internal Audit Service. The audit charter is a forward-looking document, whereas the Head of Audit and Risk Management’s annual report and opinion looks back at the work of Internal Audit in the year just finished. It is therefore good practice to include a statement in the annual report to confirm that there have not been any impairments to the independence and objectivity of the Service. Alternatively, if there have been any impairments, the annual report should set these out together with the action that was taken. At present a statement is not included to confirm that there have not been any impairments. We suggest that consideration is given to including such a statement in the annual report.</p>	<p>Agreed</p>
Action Responsibility	Head of Audit and Risk Management
Deadline	31 July 2022

2. Consider the options available should the London Borough of Croydon or Mazars LLP opt to terminate the APEX framework contract in 2024 and prepare a contingency plan to ensure continued delivery of an internal audit service should this happen (Advisory)	
Rationale	Agreed Action
The Council currently uses Mazars as its delivery partner and they have been procured through the Croydon APEX contract which currently runs until 2024. Although there is an option for Croydon to extend this contract for a further two years, there is no guarantee that they will wish to do this or indeed that Mazars will wish to remain the preferred supplier. If the contract is terminated by either party in 2024, the Council may find itself in a position where it does not have any resources to deliver the internal audit service. The lead time for procuring another delivery partner or indeed bringing the delivery service back in-house can be quite lengthy and, as such, it would be prudent for the Head of Internal Audit and Risk Management to start to explore the options available to the Council should the scenario arise in 2024 and to draw up an appropriate contingency plan. We have made one suggestion in section 8 of this report for this observation	Agreed
Action Responsibility	Head of Audit and Risk Management
Deadline	31 Dec 2022

3. Include an indicative distribution list for the final audit report in the audit terms of reference (Advisory)	
Rationale	Agreed Action
Include an indicative distribution list for the final audit report in the audit terms of reference. The rationale for this is to enhance transparency by ensuring that all parties involved in the audit are aware of who is expected to receive a copy of the final audit report. The list may, of course, change during the course of the audit.	Agreed
Action Responsibility	Head of Audit and Risk Management
Deadline	31 May 2022

4. Include a report distribution list in the final audit report (Advisory)	
Rationale	Agreed Action
Include a distribution list in the final audit report. The rationale for this is to enhance transparency by ensuring that all readers of the final report are aware of who has received a copy. This list may be different to the initial distribution list set out in the audit terms of reference.	Agreed
Action Responsibility	Head of Audit and Risk Management
Deadline	31 May 2022

9. Definitions

Assessment Opinion	Criteria
Fully Conforms	The internal audit service complies with the Standards with only minor deviations. 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 of the Standards in all material respects with only minimal departures and minor issues to resolve.
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 and conformance to the Standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many of the elements of the Standards. These deficiencies will usually have a significant adverse 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 board.

Action Priorities	Criteria
High priority	The internal audit service needs to rectify a significant issue of non-conformance with the Standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The internal audit service needs to rectify a moderate issue of conformance with the Standards. Remedial action to resolve the issue should be taken, ideally within six months.
Low priority	The internal audit service should consider rectifying a minor issue of conformance with the Standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	These are issues identified during the course of the EQA that do not adversely impact on the internal audit service's conformance with the Standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

The co-operation of the Audit and Risk Manager and the Deputy Audit and Risk Manager, in providing the information requested for this EQA, is greatly appreciated. Our thanks also go to the Chair of the Corporate Committee for the Council and the Chair of the Audit and Risk Committee for Homes for Haringey, and the stakeholders that made themselves available for interview and those that completed questionnaires.

Ray Gard, FCCA, FCIIA, CPFA, DMS

24th May 2022

This report has been prepared by Gard Consultancy Services Ltd at the request of Haringey Council. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues that exist with their conformance to the Public Sector Internal Audit Standards, or all the improvements that may be required.

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