

Validera



Internal Audit
External Quality Assessment

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Version History

Version	Issued	Description
DR v1.0	01/07/24	Draft Report issued for review and comment.
V1.1	28/08/24	Final version with agreed responses.



Executive Summary

Background, Scope, and Methodology

The global Institute of Internal Auditors (IIA) has established the International Professional Practice Framework (IPPF). To state that an internal audit service is compliant with the IPPF professional standards it must undertake an External Quality Assessment (EQA) at least every five years.

Within the UK public sector, the IPPF is supplemented by the Public Sector Internal Audit Standards (PSIAS). The PSIAS are mandatory for all central government departments, agencies and executive NDPBs.

The PSIAS are based on the mandatory elements of the IIA IPPF and are intended to promote further improvement in the professionalism, quality, consistency, and effectiveness of internal audit across the public sector. The Standards were last revised in March 2017 to reflect the changes in the IPPF.

Public sector internal audit services are required to assess their performance in terms of the PSIAS. This is achieved by annual self-assessment and periodic external quality assessment of that self-assessment or a full external assessment, or a combination of both methods.

Conformance with professional standards is essential in performing the responsibilities of an internal audit function in a fit and proper manner. It provides a measure of confidence that auditors are operating to a code of ethics, defined professional standards and rules, and that they are suitably trained and continuously enhance their professional skills.

Moving forward from 9th January 2025 the current IPPF will be retired and replaced by the new Global Internal Audit Standards (GIAS). Most elements of the new standards are an iteration of the existing arrangements, with the previous standard and implementation guidance being merged into a single document. The UK public sector Internal Auditing Standards Advisory Board (IASAB) has committed to reviewing the PSIAS in line with the new GIAS, with consultation material issued by September 2024 at the latest.

Our review, therefore, aimed to assist Tower Hamlets Council Internal Audit ensure it complies with the existing PSIAS during the transition period. Conformity with the current standards will help ensure that the Council can move to compliance with the

new PSIAS with relative ease.

To demonstrate conformity with professional standards an internal audit function can choose an external review in the form of a full assessment or validated self-assessment, where the external assessor reviews evidence.

This EQA was undertaken based on the latter and sought to conduct interviews with relevant key internal audit stakeholders, including the Chief Executive, Corporate Director of Resources (s151 Officer), Chair and Members of the Audit Committee.

Our review has considered conformance with:

- Public Sector Internal Audit Standards (including the Definition of Internal Auditing)
- Code of Ethics
- Chartered Institute of Public Finance and Accountancy's Local Government Application Note

To complete the EQA, we have:

- Defined requirements and agree the scope of assessment.
- Consulted with key stakeholders.
- Evaluated the delivery and effectiveness of internal audit.
- Assessed conformance to applicable standards.
- Benchmarked the maturity of the internal audit function.
- Reported on the findings; and
- Delivered insights and recommend ideas for performance improvement.

To accomplish the objectives of the EQA, our assessment team has:

- Reviewed the Council's internal audit team's PSIAS self-assessment.
- Made additional enquiries of internal audit to clarify understanding.
- Prepared an information request to seek supporting evidence.
- Reviewed the information provided by the team to validate the self-assessment.
- Issued an online evaluation to achieve maximum coverage of core stakeholders inviting all Corporate Directors, and all Audit Committee members to participate in the EQA process.
- Sought to conduct individual interviews with selected key stakeholders, including the Chief Executive, Deputy Chief Executive, Corporate Director of Resources (s151 Officer), Monitoring Officer, and Chair of the Audit Committee.
- Review a sample of audit assignments / projects and associated work papers and reports to verify compliance.

- Reviewed survey data received from stakeholders.
- Benchmarked practices against standards.
- Prepared the EQA report, providing an opinion on conformance to the IPPF and PSIAS, detailing areas of for improvement and potential actions for management action.
- Held a feedback meeting with the Head of Internal Audit, Risk and Anti-Fraud and his Deputy to collaborate on agreement of the Action Plan; and
- Provided advice and support in respect of improvements.

We assessed the extent to which the internal audit service:

- Reflects the IPPF and PSIAS standards in its operations.
- Focuses on performance, risk and value adding.
- Operates with effectiveness and efficiency.
- Implements its Quality Improvement Programme; and
- Coordinates and maximises assurance across the Council.

The EQA Team

Our team comprised primarily of three experienced internal audit professionals; two ACCA qualified individuals and one IIA qualified. The team members have held various Head of Internal Audit roles in large organisations, both as in-house and out-sourced providers, giving them experience of working with a vast range of clients, executive teams, and Audit Committees across the UK private and public sectors.

Stakeholder Feedback

To gain stakeholder insight into their relationship with internal audit we sought to hold a number of interviews and undertook a stakeholder surveys; despite considerable chasing and reminders, overall participation in the survey was disappointing we achieved 20 responses from 70 invites, comprising of 2 Councillors and 18 management team members.

We held meetings with the Chief Executive Officer and Chair of Audit Committee.

We appreciate that the Council is in the process of a best value review and as such stakeholders have a number of priorities to address at the current time.

The feedback resulted in several key takeaways, summarised as follows:

Leadership

Participants commented on the effective leadership, committed, hardworking and professional service, reflected that they appreciate the team's efforts. Comments included: "We have a good, solid IA service with good systems and processes. It gives me the assurance that when IA recommends improvements, they'll be the right thing to do, and when they report that processes and procedures are effective, then I can take that assurance." and the survey responses included positive comment in respect of greater focus since the appointment of the current Head of Audit, Risk and Anti-Fraud.

Independence

There was positive feedback in relation to independence. Comments included: "Internal audit are empowered to do their job...the governance structure is there to enable it, with a new IA Charter, and very solid line between exec and non-exec functions, with the Audit Committee available for internal audit to go to directly to discuss matters as they require."

Collaboration

Participants provided positive feedback on relationships and collaboration. However, there is a recognition within that some of the current changes and uncertainties at the Council may impact upon the ability of internal audit to provide assurance. Comments included: "This area presents some complexity, and there may be opportunities to enhance collaboration between internal audit and the senior management team to align with Tower Hamlets' strategic outcomes. Improved cooperation between strategy makers and internal audit in developing audit strategies and plans focused on essential deliverables could strengthen assurance on critical matters. Having said that, there is currently a lack of focus, lack of clarity within the local authority regarding strategic priorities, which hinders internal audit, through no fault of their own, in truly being able to provide effective assurance on key objectives."

Evaluation

There was feedback that the evaluation of internal audit's effectiveness is an area which could be improved upon. Whilst the internal audit team seek feedback from auditees, there could be enhanced evaluation by senior management and Audit Committee to help strengthen relationships and collaboration across the Council. The internal audit team themselves commented upon low response rates to the feedback process and are keen to gain greater participation.

Comments included: “The usual quantitative measures – days, reviews, recommendations, is probably too quantitative. Need for more qualitative measures.” and “This is an area that could, and should, be improved. At present it is all very informal and mostly centred around discussion.”

Communication

Feedback through the survey was overall positive, however, a theme of improved communication ran through the response to various questions.

The comments identified opportunities to better engage with stakeholders in respect of audit plans, the scoping of reviews, timing of reviews and progress reporting during reviews.

Key Achievements

The Council’s internal audit activity is well-established and effective, valued by key stakeholders in its client and partners. The governance exercised over internal audit activities is suitably mature, with Audit Committee oversight, regular monitoring, and reporting arrangements in place.

The service is led by a qualified and experienced Head of Audit, Risk and Anti-Fraud, supported by an in-house team comprising of the following posts: Audit Manager, three Senior Auditors, two Internal Auditors and an Audit Apprentice. There is currently one vacant post. Additionally, the service contracts with a co-sourced partner, BDO, who provide further support in the areas of systems, IT, and school audits.

The team members have diverse backgrounds, experience, and skills, and undertake a wide range of assignments flexibly and effectively.

Our stakeholder survey results were positive, providing valuable and practical comments, with minimal areas for improvement identified. Individuals commended the team’s professionalism, objectivity, ethics, and reporting.

We are pleased to report that the Council’s internal audit team could reasonably demonstrate conformance in all respects of adherence to Standards, adopting a risk-based approach, focusing on value add to the Council’s services and continuous improvement, and coordinating and maximising assurance.

Opinion on Conformance with Standards

The mandatory elements of the Standards comprise the Definition of Internal Auditing, Core Principles, Code of Ethics, Attribute Standards and Performance Standards.

Our overall opinion is that the internal audit function of the Council, ‘Generally Conforms’ with the mandatory aspects of the Standards. We have identified some opportunities for further improvement, also detailed within this report, however, none of them represent a failure to reasonably meet the requirements of the Standards.

‘Generally Conforms’ is the highest grade of conformity. Further information can be found in Appendix A – Global IIA Grading Definitions.

The opinions and suggestions contained within this report are based upon our testing of restricted samples of records and our discussions with officers responsible for the processes reviewed.

Supporting Continuous Improvement – Action Plan

We made the following observations during the assessment:

1. Audit Management Software			
Observation	Suggested Improvement	Management Comment	Action
<p>The team do not currently utilise a formal electronic audit working papers solution; rather audits are recorded utilising Microsoft Office products. Whilst our review of audit files did not identify any specific concerns, the audit trail in respect of review and approval of audit working papers is limited in the use of Office products.</p>	<p>Efficiency and effectiveness could be further enhanced if the team seek to implement an electronic means of evidencing management review of audit work, considering the use of working paper 'date stamp' functionality.</p>	<p>The audit team previously utilised the Galileo audit management software. However, its use was discontinued in 2020 due to cost and operational reasons.</p> <p>In the short-term, we will review the effectiveness of the current procedures for reviewing and approving engagement briefs, audit working papers, draft reports and final reports to ensure that complete audit trails are preserved in the audit file for each audit assignment.</p> <p>In the medium-term, we will research the market to establish the likely costs involved and whether a suitable system can be procured – potentially linking with the purchase of new or updated Risk Management software.</p>	<ol style="list-style-type: none"> 1. Complete a review of current procedures for working paper review and approval process (by 31/12/24). 2. Undertake soft market research to determine whether there is a robust outline business case to procure Audit Management Software (by 31/03/25) <p>Owner/s: Head and Deputy Head of Internal Audit</p>

2. Stakeholder Engagement			
Observation	Suggested Improvement	Management Comment	Action
<p>To gain stakeholder insight into their relationship with internal audit we sought to hold several interviews and undertook a stakeholder surveys. Despite considerable chasing and reminders, overall participation was disappointing. We appreciate that the Council is in the process of a best value review and as such senior management have several</p>	<p>Internal audit should seek to improve levels of stakeholder engagement. This could be done by reviews of the client surveys to identify areas for improvement, continuously monitoring quality of assignments and taking prompt steps where improvements could be actioned, proactively seeking opportunities for consulting assignments, hold regular</p>	<p>It is acknowledged that this is a challenging area and that improvement is required.</p> <p>We intend to use attendance at DLTs as the main driver for getting better engagement and traction with the Internal Audit process.</p>	<ol style="list-style-type: none"> 1. The Internal Audit feedback survey will be redesigned to better provide insight into stakeholder's views (by 31/03/25) 2. Internal Audit will use DLTs to drive better engagement and improve information exchange with key stakeholders. As part of this, programmed attendance at DLTs will

<p>priorities to address at the current time.</p> <p>We discussed our experience with the internal audit team who confirmed that the auditee post audit satisfaction survey completion rate was also low, estimated at around a third. Organisational value from internal audit is best achieved when stakeholders actively engage with internal audit.</p>	<p>catch up meetings with clients, clearly defining value delivered to clients in the audit reports, reporting outcomes to the Audit Committee.</p> <p>Audit Committee and senior management should also help drive stakeholder engagement with internal audit and qualitative assessment in respect of the impact and value of its work.</p>	<p>The Internal Audit feedback survey will be reviewed and updated.</p>	<p>be arranged to coincide with Risk Management updates to DLTs (by 31/03/25).</p> <p>3. Any concerns around stakeholder engagement with the Internal Audit process will be discussed, as appropriate, with CMT and the Audit Committee (ongoing).</p> <p>Owner/s: Head and Deputy Head of Internal Audit.</p>
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3. Time Recording

Observation	Suggested Improvement	Management Comment	Action
<p>There is currently no process of recording time spent on audits. Monitoring the time spent on audits can assist in the improvement of team economy, efficiency, and effectiveness.</p>	<p>Internal audit should seek to capture, analyse, and review time recording data to inform management's planning, budgeting, performance, and training activities.</p>	<p>A time recording system was integrated with the Galileo Audit Management Software that the team used until 2020. When use of Galileo was discontinued an output-based measurement system was put in place.</p> <p>We will consider the costs and benefits of implementing a system for recording and monitoring of audit time.</p>	<p>We will consider whether there is a viable business case for the implementation of time recording software. This will be considered alongside the actions for Observation 1 in relation to Audit Management Software (by 31/03/25).</p> <p>Owner/s: Head and Deputy Head of Internal Audit.</p>

4. Staff Utilisation & Use of Resources

Observation	Suggested Improvement	Management Comment	Action
<p>The team are utilising the services of BDO to supplement the delivery of systems, IT and school audits.</p> <p>Whilst some areas, such as IT, may benefit from specialist skills which may not exist or have sufficient resource internally,</p>	<p>The introduction of a time recording solution (Observation 3) and monitoring of contracted hours against delivery would enable the Council to ensure that it is utilising and leveraging its own resources to best affect. This would inform better direction and utilisation of its co-sourced</p>	<p>BDO provides co-sourced resource for routine audits such as Schools audits as they have a pool of staff providing schools audits to other Councils as well. This is a cost-effective solution as the volume of schools to be audited can be large and currently Internal Audit is not</p>	

areas such as school audits are uncomplicated and the investment in co-source delivery may potentially be better directed elsewhere.	partner BDO in the delivery of services to support its annual audit plan. Co-sourcing usually achieves best value through access to specialist skills or with a goal of skills transfer to build an in-house expertise.	resourced to carry out school audits in large number. BDO is allocated IT audits and other specialist audits like Treasury Management, Pensions, Efficiency Savings audits etc. The contract for BDO will come to an end in March 2025 and when we re-procure , we will factor this in.	We will consider these issues as part of the co-source retender which is due to commence in September 2024 for a new contract from 1 st April 2025 (by 30/09/24). Owner/s: Head and Deputy Head of Internal Audit.
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5. Strategic Audit Planning

Observation	Suggested Improvement	Management Comment	Action
The Council is going through a period of change and there is a recognition that clarity could be improved across the authority regarding strategic priorities. This, in turn, impacts the ability of internal audit to plan effectively and deliver assurance focused upon the core risks surrounding the delivery of strategic priorities, through no fault of their own.	Internal audit must continue to build upon its foundations and promote its purpose and reason for being across the changing management team, to enable it to align its work to the Council's developing strategic priorities, effectively contribute to the management of risk in the achievement of those priorities and deliver best value.	Internal Audit will continue to align its work to the Council's strategic priorities by focusing its work to meet key objectives and priorities.	<ol style="list-style-type: none"> We will build engagement with key stakeholders through better structured working with DLTs (see also Observation 2). This should also provide Internal Audit with better real-time insights of strategic priorities and risks (ongoing). We will continue to refine our risk-based planning approach to ensure better ongoing alignment with strategy and risks (ongoing). Owner/s: Head and Deputy Head of Internal Audit.

6. Communication

Observation	Suggested Improvement	Management Comment	Action
Feedback through the survey was overall positive, however, a theme of improved communication ran through the response to various questions.	Implement or strengthen the key points of communication with the senior management team throughout the audit process including:	As previously noted, we will use DLTs as the main vehicle for communicating with key stakeholders. Other channels of communication will also be reviewed to	<ol style="list-style-type: none"> We will build engagement with key stakeholders through better structured working with DLTs (see also Observation 2). This should also

<p>The comments identified opportunities to engage better with stakeholders in respect of audit plans, the scoping of reviews, timing of reviews and progress reporting during reviews.</p> <p>It is recognised that the internal audit team has been delivering during a period of significant change across the Council, and as such some of its efforts in this regard may have gone unnoticed.</p>	<ul style="list-style-type: none"> ▪ Promotion of the Internal Audit Plan ▪ Timing of individual assignments ▪ Seeking input to the scope of reviews ▪ Keeping management informed of progress throughout reviews 	<p>ensure that messaging is clear, frequent and reaching the target audience.</p>	<p>provide Internal Audit with better real-time insights of strategic priorities and risks (ongoing).</p> <p>2. We will develop a high-level communications plan to set out the various communication and media channels available and how we can best utilise them for messaging (by 31/03/25).</p> <p>Owner/s: Head and Deputy Head of Internal Audit.</p>
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Appendix A – Global IIA Grading Definitions

We assessed the level of conformance at each stage of assessment in accordance with the IIA grading methodology:

Generally Conforms



“Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.

Complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the 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



“Partially Conforms” means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

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



“Does Not Conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The 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 service’s effectiveness and its potential to add value. These represent significant opportunities for improvement, potentially including actions by senior management or the board.

INFORMATION

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Responsibility

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