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CORPORATE GOVERNANCE CONSULTANCY



FINAL

Review of

Warwick District Council's Internal Audit Team

18 January 2021

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Review of Warwick District Council's Internal Audit Team (January 2021)

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 1 April 2013, were revised on 1 April 2016 and further revised on 1 April 2017. The purpose of the PSIAS is to improve the professionalism and standing of internal audit, to support good governance in local government and to add value. The standards require periodic self-assessments and an assessment by an external person every five years. Warwick District Council's internal audit team was last reviewed in April 2016 and a re-evaluation was therefore due. The review also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The review was carried out through a process of interview and document review. A list of interviewees is included at appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed eight audits carried out during the 2019/20 and 2020/21 financial years and I examined key documents including the Charter and reports to the Finance and Audit Scrutiny Committee (F&ASC).

Internal audit at Warwick District Council **partially conforms with the PSIAS** (see appendix 3 for details of the PSIAS ratings). I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity and the team is well-regarded in the council. It was pleasing to see the progress that the team has made since the last review, especially the shift from an entirely compliance-driven approach to some consideration of risk. The team does, however, now need to become risk-driven and only carry out compliance work where a risk appraisal indicates that this is necessary. It also needs to address the changes made to the standards since its last review, especially safeguards for audit when carrying out non-audit work (standard 1112), the mission and the core principles. These will be big changes for the team and for its clients, who value the compliance-based check and challenge that is currently provided. I suggest that they are made over time to allow everyone to become used to the new approach and to recognise the support that audit can give to Warwick and its activities to deliver its corporate objectives and improve services. The proposed amalgamation with Stratford's internal audit function might be a useful impetus to begin making these changes. I have made 14 recommendations (R) and two suggestions (S) to support this. The Audit and Risk Manager (referred to as the CAE below) will need to take action to implement these and an action plan is included as appendix 1.

Summary findings and recommendations

Standard	Conformance	Findings	Recommendations and suggestions	Rec no
Mission	Non-conforming	There is no recognition of the mission in the Charter or other audit documents.	Quote the mission and/or demonstrate how it is delivered in the Charter	R1
Core principles of internal audit	Partially conforms	The team generally conforms to the majority of the core principles of internal audit but the principles are not recognised in any of the key documents (especially the Charter and the Audit Manual) and more needs to be done to deliver to them. The recommendations made elsewhere will support this.	Highlight the Core Principles in the Charter and other relevant documents, identifying how the audit function delivers against them See also R5, R7, R8, R9, R10, R11	R2
Code of Ethics	Conforms	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity.		
Attribute standards				
1000 Purpose, authority and responsibility	Partially conforms	<p>The Charter is missing some of the required information:</p> <ul style="list-style-type: none"> Reference to the Core Principles and the Code of Ethics (Standard 1010) Details of safeguards for non-audit work (Standard 1112). <p>Audit resources should be determined by the CAE, not by the Head of Finance and the F&ASC as currently specified in the Charter (Standards 1010 and 2030).</p>	<p>See R2 and R6 Revise the Charter to refer to the Code of Ethics</p> <p>The CAE should determine the resources needed by the audit function and set out how this is done in the Charter and the annual audit plan</p>	R3 R4

Standard	Conformance	Findings	Recommendations and suggestions	Rec no
<p>1100 Independence and objectivity</p>	<p>Partially conforms</p>	<p>LGAN Ideally, to safeguard his independence, the CAE should report to a second-tier officer, i.e. one of the deputy chief executives, or the chief executive. The current arrangements work because of the people involved and the CAE has unhindered access to senior staff, but these arrangements should be built into the organisational structure.</p> <p>Standards 1010, 1112, 1130.A2 and LGAN Risk, insurance and counter-fraud come under the leadership of the CAE which could compromise audit's independence and objectivity when undertaking audits of these areas. There should be safeguards put in place to manage this.</p> <p>Independence and objectivity are otherwise well managed.</p>	<p>Examine alternative and more senior reporting arrangements for the CAE</p> <p>Safeguards, including independent audit arrangements and/or alternative reporting arrangements (for example, to another member of the management team), should be put in place to manage audit's independence and objectivity when they carry out non-audit activities. These should be discussed with and approved by the F&ASC and included in the Audit Charter</p>	<p>R5</p> <p>R6</p>
<p>1200 Proficiency and due professional care</p>	<p>Conforms</p>	<p>Audits are well-planned, well-structured, well-documented and easy to follow. Shifting to a risk-centric approach, as opposed to a compliance-driven one, would increase the value provided by audit's activities to the Council.</p>	<p>See R8, R9, R10, R11</p>	

Standard	Conformance	Findings	Recommendations and suggestions	Rec no
1300 Quality assurance and improvement programme (QAIP)	Partially conforms	Internal audit performs and reports QAIP activities as indicated in the Standards but its failure to recognise the updates to the Standards shows some weaknesses in the approach.	Develop a robust programme of QAIP activities that cover all the Standards on a rolling basis and involve all members of the audit team in this work	R7
Performance standards				
2000 Managing the internal audit activity	Partially conforms	<p>Standards 2010, 2010.A1 and the LGAN Internal audit works from a rolling three-year plan which is revised each year to make any changes to reflect the current position of the Council. There is some flexibility in the plan for in-year changes (for example for the pandemic) and also contingency time for ad hoc work. The plan has a general risk reference for each audited area but does not go into details about the risk, its level, to prioritise audit work, or the links to the council's risk registers. It also cross refers to the council's corporate strategy but the strategy is not obviously used as a driver for the audit.</p> <p>Standard 2030 The audit plan should set out how internal audit's resource requirements have been assessed</p> <p>Standard 2050 The annual audit plan does not set out where audit works with other assurance providers (for example, IIP assessors, cyber security reviews, external audit, etc.) to reduce duplication</p>	<p>Develop the risk focus of the annual plan to describe the risk relating to each audit more fully, show the relative priority of each audit based on a risk score and indicate the links to the council's risk registers.</p> <p>Make the link to the council's activities, priorities and strategies clearer, both in the annual plan and in individual engagement plans</p> <p>See R4</p> <p>Indicate other sources of assurance in the audit plan</p>	<p>R8</p> <p>R9</p> <p>S1</p>

Standard	Conformance	Findings	Recommendations and suggestions	Rec no
<p>2100 Nature of work</p>	<p>Conforms</p>	<p>Internal audit's work covers the areas required by the PSIAS and LGAN. It could be improved by increasing the links to the Council's priorities and risks, so demonstrating the contribution that internal audit makes to delivery for the Council and auditees. In particular, it should ensure that it audits against any identified fraud risks (standards 1210.A2 and 2120.A2).</p>	<p>Include an examination of the ways in which fraud risks are managed in relevant audits See also R8, R9 and R11</p>	<p>R10</p>
<p>2200 Engagement planning</p>	<p>Partially conforms</p>	<p>Standards 2201, 2210.A1 and 2210.A2 Engagement planning documents all include a risk appraisal, but that appraisal could be extended to consider risk more broadly (it is under set headings) and the risks identified are not always carried through to the audit testing, especially when the audit focus is on compliance to CIPFA matrices (ICQs), which have not been updated for many years. All audits cross-refer to the Council's priorities, but these are not then a focus of the audit work.</p> <p>Standard 2240.A1 Detailed and clear work programmes are developed for each audit but these are not formally reviewed until the draft audit report is produced. They must be signed off before implementation to check that audit plans are properly focused and practical.</p>	<p>Strengthen risk planning for audit engagements, to address the risks identified in the annual plan and to think broadly about all risks relevant to the audited area. Ensure the audit is carried out against those risks</p> <p>If ICQs are used, tailor them to Warwick's circumstances</p> <p>See R9</p> <p>Sign off the work programme before audit testing starts, perhaps as part of approving the brief</p>	<p>R11</p> <p>R12</p> <p>R13</p>

Standard	Conformance	Findings	Recommendations and suggestions	Rec no
2300 Performing the engagement	Conforms	The review showed that audits are well-performed and clearly documented. It was straightforward to follow audits through from planning to reporting.		
2400 Communicating the results	Conforms	Audit reports are clear and complete. They report all areas examined and, although long, the level of detail is valued by auditees and other readers.	Consider ways to make audit reports punchier (bullet points and similar) and shorter (putting details about the audited area in an appendix)	S2
2500 Monitoring progress	Partially conforms	Audits are formally followed up when they are next reviewed as part of the audit cycle and they are informally followed up on their due dates. This could mean a delay of up to three years before a high-priority recommendation is chased up and it may mean that one-off audits and pieces of consultancy are never followed up formally. The process is not described in the audit manual.	A formal and timely follow-up process should be implemented and set out in the audit manual. As a minimum, high priority/limited assurance recommendations should be formally checked for implementation at their due dates, with evidence being obtained where relevant	R14
2600 Communicating the acceptance of risks	Conforms	There was no evidence that risks have been left unmitigated following an audit, highlighting the priority given to audit findings.		

The Audit and Risk Manager has details of the findings, standard by standard.

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Appendix 1: action plans

Recommendations

No	Recommendation	Comments	Responsible officer	Action date
R1	Quote the mission and/or demonstrate how it is delivered in the Charter	The Charter will be updated to reflect this in time for the production of the new Plan and Charter.	Audit and Risk Manager	March 2021
R2	Highlight the Core Principles in the Charter and other relevant documents, identifying how the audit function delivers against them	The Charter and the audit manual will be updated accordingly.	Audit and Risk Manager (Charter) Principal Internal Auditor (Manual)	March 2021 September 2021
R3	Revise the Charter to refer to the Code of Ethics	The Charter will be updated accordingly.	Audit and Risk Manager	March 2021
R4	The CAE should determine the resources needed by the audit function and set out how this is done in the Charter and the annual audit plan	The resources will be reviewed to ensure that the service for both Warwick and Stratford can be delivered.	Audit and Risk Manager (Charter) Principal Internal Auditor (Manual)	For 2022/23 financial year
R5	Examine alternative and more senior reporting arrangements for the CAE	The Chief Executive and the Deputy Chief Executive & Monitoring Officer have reaffirmed their support for the following arrangements, viewing that the safeguards that are in place and the culture of the organisation	Chief Executive / Deputy Chief Executive & Monitoring Officer / Head of Finance	April 2021

		<p>mitigate the risk: The Audit and Risk Manager reports directly to the Head of Finance (Section 151 Officer). If the Audit and Risk Manager requires, however, he can report to the Chief Executive and/or Deputy Chief Executive & Monitoring Officer. This is set out in the Internal Audit Charter as well as other documents. (The Code of Financial Practice will be updated to strengthen this.) In addition, the Audit and Risk Manager can approach any member of the senior management team directly and can, if necessary, report directly to Members comprising the Leader of the Council, the Chair of Finance and Audit Scrutiny Committee and the Finance Portfolio Holder. In addition, as required, the Audit and Risk Manager meets regularly with the Chair of Finance and Audit Scrutiny Committee on matters of internal audit</p>		
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		business as a matter of routine, as required by the Public Sector Internal Audit Standards.		
R6	Safeguards, including independent audit arrangements and/or alternative reporting arrangements (for example, to another member of the management team), should be put in place to manage audit's independence and objectivity when they carry out non-audit activities. These should be discussed with and approved by the F&ASC and included in the Audit Charter	The 'safeguards' in place will be formally set out within the new Charter	Audit and Risk Manager	March 2021
R7	Develop a robust programme of QAIP activities that cover all the Standards on a rolling basis and involve all members of the audit team in this work	To be done in consultation with the team	Audit and Risk Manager	May 2021
R8	Develop the risk focus of the annual plan to describe the risk relating to each audit more fully, show the relative priority of each audit based on a risk score and indicate the links to the council's risk registers.	The format of the plan will be amended accordingly with the review coinciding with the setting of the plan for Stratford DC when the service is taken on.	Principal Internal Auditor	For 2022/23 financial year
R9	Make the link to the council's activities, priorities and strategies clearer, both in the annual plan and in individual engagement plans	The format of the plan will be amended accordingly with the review coinciding with the setting of the plan for Stratford DC when the service is taken on. The audit brief will be revised to take these issues into account.	Principal Internal Auditor	Revision to audit brief: April 2021 Amendment to format of the plan: For 2022/23 financial year.
R10	Include an examination of the ways in which fraud risks are managed in relevant audits	Where fraud risks are identified (and are recorded	Principal Internal Auditor	April 2021

		on the audit brief), the scope of the work and the testing programme will be set accordingly.		
R11	Strengthen risk planning for audit engagements, to address the risks identified in the annual plan and to think broadly about all risks relevant to the audited area. Ensure the audit is carried out against those risks	The format of relevant documents (i.e. the audit brief, programme and report) will be amended to ensure that risk becomes the focus of the work.	Principal Internal Auditor	For 2022/23 financial year
R12	If ICQs are used, tailor them to Warwick's circumstances	Agreed.	All team members	From 2021/22 financial year
R13	Sign off the work programme before audit testing starts, perhaps as part of approving the brief	Agreed. Work programme will accompany brief and the format of the brief will be amended so that this can be recorded.	Audit and Risk Manager (work programme) Principal Internal Auditor (brief)	April 2021
R14	A formal and timely follow-up process should be implemented and set out in the audit manual. As a minimum, high priority/limited assurance recommendations should be formally checked for implementation at their due dates, with evidence being obtained where relevant	A process making better use of the intranet form is being drawn up. This will require the relevant officer to provide an update on the recommendation as soon as it has been addressed and to provide supporting evidence via completion of the intranet form.	Audit and Risk Manager and Principal Internal Auditor	April 2021

		<p>Reminder emails will be sent to relevant staff on a monthly / quarterly (to be confirmed) basis if they have not provided an update.</p> <p>The reporting process to F&A will also change so that recommendations that were due to be completed in the preceding quarter are reported on as opposed to all recommendations contained within audit reports produced within a certain timeframe.</p> <p>Where recommendations have not been addressed in a timely manner, the relevant officer will be required to provide a new date by which they aim to complete the action, and they will again be expected to provide an update via the intranet form once completed.</p> <p>If the recommendation has not been addressed by this revised date, consideration is being given as to how this will be escalated / reported.</p>		
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Suggestions

No	Suggestion	Comments	Responsible officer	Action date
S1	Indicate other sources of assurance in the audit plan	To be done in conjunction with the rest of the team and after 'surveying' heads of service	Audit and Risk Manager and Principal Internal Auditor	For 2022/23 financial year, to deliver Stratford's internal audit service from 1 April 2022
S2	Consider ways to make audit reports punchier (bullet points and similar) and shorter (putting details about the audited area in an appendix)	Will consider but auditees, managers and Members like format of current Internal Audit reporting style and format.	Audit and Risk Manager	Immediately and ongoing.

Appendix 2: interviewees

Person	Position
Richard Barr	Audit and Risk Manager
Jemma Butler	Internal Auditor
Ian Davy	Principal Internal Auditor
Tracy Dolphin	Head of People and Communications
Chris Elliott	Chief Executive
Andrew Jones	Deputy Chief Executive and Monitoring Officer
Nathan Leng	Internal Auditor
Tarandeep Mahal	HR Business Partner
Caroline Russell	Landlord Services Manager
Mike Snow	Head of Finance
Karen Weatherburn	Learning and Development Officer
Andrea Wyatt	Benefits and Customer Services Manager

Appendix 3: conformance gradings

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, at least comply with the requirements of the section in all material respects.
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.
Non-conforming	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all 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 audit committee.