

Final Report for the external assessment of the internal audit function

Warwick District Council

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Standards & Guidance**

5th May 2016

Review of Warwick District Council's Internal Audit service (April 2016)

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. The standards require periodic self-assessments and an assessment by an external person every five years. Now that Warwick District Council's audit team has been operating under the standards for almost three years, this was deemed a good time for the first external review. The standards have recently been amended, with effect from 1 April 2016. This review was undertaken against the previous version of the standards.

The review was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. We reviewed seven audits carried out during the 2015/16 financial years and we examined key documents, including the Charter and reports to the Finance and Audit Scrutiny Committee.

We identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. However, we have identified three areas of non-compliance with the standards:

- Not reporting annually to the Board on independence
- Failure to be explicit about what has been ruled in and out of audits, making it difficult to judge if all areas that should be covered are being covered
- Maintaining a light-touch approach to follow ups, obtaining no evidence of recommendation implementation.

The team provides a well-regarded, sound internal audit function that, with some updating, will enable it to deliver to modern expectations. In particular:

- Revising the approach used to plan individual audits
- Broadening the scope of audits
- Introducing a more detailed terms of reference that is more widely circulated to improve the pre-audit risk evaluation and so give greater value.

We have made some practical and pragmatic higher priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards without requiring significant extra work. The Audit and Risk Manager has developed a plan to implement them which is included as appendix 1.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Attribute standards				
1000 Purpose, authority and responsibility	Partial	Standard 1000.A1 The Charter defines neither consulting nor assurance activity, although references to both are made in the Charter	Include a definition of both assurance and consulting activity in the Charter	R1
		The term 'senior management' is not defined in the Charter	Define 'senior management' in the Charter	R2
1100 Independence and objectivity	Non-compliant	Standard 1110 The annual report to the audit committee on internal audit activity does not include confirmation of the independence of internal audit	Include a declaration of independence of the internal audit activity in the annual report	R3
		There is no routine discussion of independence and objectivity within audit	Consider ways to provide support to the team to demonstrate independence, objectivity and integrity	S1
		The Finance and Audit Scrutiny Committee does not meet with internal or external audit privately	Hold annual private meetings between internal and external auditors and the FASC	S2
		Standard 1110.A1 There are no formal mechanisms to ensure that the same person does not audit the same area for a number of years	Monitor rotation of staff	S3
Standard 1120 There are no annual declarations of conflicts of interest			Maintain annual (at least) declarations of interests, including nil returns, for all audit staff	R4
		Standard 1130 There is no declaration of independence in the annual report	Include a statement in the annual report that there have been no impairments to independence	S4
1200 Proficiency and due professional care	Partial	Standard 1210.A2 and 1220.A1 The audit terms of reference does not include a standard reference to fraud risks and there was an element of complacency around such risks	Expand the terms of reference to include fraud, error, value for money, strategic organisational objectives	R5
			Consider whether further emphasis should be given to fraud risk generally	S5
		Standard 1220.A3 Broader risk	Encourage staff to think	S6

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>considerations were also limited in the terms of reference and only some use was made of the risk register to inform the audit approach</p> <p>Standard 1230 Continuing professional development is focused on only one member of the audit team</p>	<p>about broader risks when developing terms of reference</p> <p>Ensure that all members of the audit team are kept up to date on emerging audit issues</p>	R6
1300 Quality assurance and improvement programme	Full	The section carries out quality assessment work, as a result of which it states that its work is performed in accordance with PSIAS in its annual report but not on audit reports	Remove the reference to compliance with PSIAS until the recommendations from this review have been implemented	R7
Performance standards				
2000 Managing the internal audit activity	Partial	Standard 2010 The risk-based audit plan reported to members includes partial reference to risk register scores but not to audit risk appraisals	Include audit risk appraisal information on the annual plan	S7
		Standard 2010.A1 There is good cover of the standard areas in the audit plan, but little consideration of 'wicked' issues	Revise the risk universe to pick up on wicked issues	S8
		Standard 2010.A2 The audit opinion, AGS opinion and risk ratings are all different Audit opinions are not defined in audit reports	Consider ways to align risk, AGS and audit opinions Include audit opinion definitions in audit reports	S9 S10
		Standards 2020 and 2060 Internal audit plans, changes to plans and activities are reported to the Audit but not to senior managers	Put in place arrangements to highlight internal audit plans and activity to SMT	R8
		Standard 2030 There are no constraints on resources but this is not reported to members in any way	Include a reference to resources having been sufficient in the annual report	S11
2100 Nature of work	Partial	The brevity of the audit terms of reference made it difficult to check if sufficient consideration of all risk areas had been	Revise the audit terms of reference (see above)	R5

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>given in every review</p> <p>Standard 2110.A1 All the expected areas of work except for high-level ethics reviews are included in the audit universe</p> <p>Auditees and others were uncertain about the governance work, beyond the AGS, undertaken by audit as this is not highlighted in reports</p>	<p>Include higher-level ethics work in the audit universe and plan</p> <p>Highlight governance work more clearly when it is undertaken and ensure that there is no conflict of interests with the CAE's role as deputy s151 with responsibility for governance</p>	<p>R9</p> <p>S12</p>
2200 Engagement planning	Non-compliant	<p>Engagement planning seems thorough but the minimal nature of its documentation means that it is not obvious if all areas have been considered.</p> <p>Standard 2201 The scoping meeting is sometimes held after the audit brief has been prepared which may limit the auditee's input into advising areas to audit. Not sharing the brief with senior management means that they cannot input into audit planning</p> <p>Standard 2210.A2 Fraud and error are not routinely included in the terms of reference</p> <p>Standard 2210.A3 Value for money is not included in the terms of reference</p>	<p>Revise the audit brief (see above)</p> <p>Linked to R5: Formalise the approach to producing briefs and discussing the scope of the audit with auditees so that the discussion comes first</p> <p>Copy in senior management when sending out briefs</p>	<p>R5</p> <p>R10</p> <p>R11</p>
2300 Performing the engagement	Full	<p>Audits are performed effectively and detailed working papers are retained. However, some HR papers containing personal information were found on one audit file</p> <p>Standard 2340 Supervision of files is evidenced by ticks on the front sheet and also by comments on the draft report which may not be retained on file</p>	<p>Resolve the matter about what personal data can and cannot be retained and note in the manual</p> <p>Formalise supervision, for example through a review sheet to show points raised and cleared or no points arising which is retained on file</p>	<p>R12</p> <p>R13</p>
2400	Full	Reports are clear and	Use different reporting	S13

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Communicating the results		reflect the work undertaken. The same format is used for both audit and consultancy work (of which there is very little). The piece of consultancy work seen included an opinion	formats for consultancy work, clearly labelling it as such Do not give an opinion as a result of consultancy work	S14
2500 Monitoring progress	Non-compliant	Standard 2500 All audit recommendations are followed up once only and at set timescales dependent on their priority rather than delivery deadlines. The process consists of an email to the auditee to query progress. No evidence is obtained	Take a more rigorous approach to audit follow ups, obtaining evidence for high priority recommendations as a minimum	R14
2600 Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit		
Code of Ethics	Partial	There was no evidence of failures to comply with the code of ethics, but it was clear that consideration of ethics was not given priority. The Nolan principles are not included in the audit manual or elsewhere	Consider ways to provide support to the team to demonstrate independence, objectivity and integrity Include the Nolan principles in the audit manual section on ethics	S1 R15

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

Elizabeth Humphrey CPFA

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Action date
R1	Include a definition of both assurance and consulting activity in the Charter	Agreed. Charter will be updated.	May 2016.
R2	Define 'senior management' in the Charter	Agreed. Charter will be updated.	May 2016.
R3	Include a declaration of independence of the internal audit activity in the annual report	Agreed. Annual report will include declaration.	June 2016.
R4	Maintain annual (at least) declarations of interests, including nil returns, for all audit staff	Agreed. Declaration of interests will be maintained.	Immediate and ongoing.
R5	Expand the terms of reference to include fraud, error, value for money, strategic organisational objectives (see over)	Agreed. Terms of reference will be expanded	May 2016.
R6	Ensure that all members of the audit team are kept up to date on emerging audit issues	Agreed. Team will receive necessary training.	Ongoing.
R7	Remove the reference to compliance with PSIAS until the recommendations from this review have been implemented	Agreed. Compliance reference will be removed.	May 2016.
R8	Put in place arrangements to highlight internal audit plans and activity to SMT	Agreed. Quarterly activity reports will be presented to SMT.	June 2016 and ongoing.
R9	Include higher-level ethics work in the audit universe and plan	Agreed. Audit Plan will be updated.	From 2017/18.
R10	Formalise the approach to producing briefs and discussing the scope of the audit with auditees so that the discussion comes first	Agreed. Approach will be revised and formalised.	May 2016 and ongoing.
R11	Copy in senior management when sending out briefs	Agreed. Senior management will be copied in.	May 2016 and ongoing.
R12	Resolve the matter about what personal data can and cannot be retained and note in the manual	Agreed. Staff will be reminded and the Internal Audit Manual will be updated.	May 2016.
R13	Formalise supervision, for example through a review sheet to show points raised and cleared or no points arising which is retained on file	Agreed. Review sheet will be introduced to evidence reviews.	May 2016.
R14	Take a more rigorous approach to audit follow ups, obtaining evidence for high priority recommendations as a minimum	Agreed. Evidence of implementation will be obtained for high priority recommendations.	June 2016.
R15	Include the Nolan principles in the audit manual section on ethics	Agreed. Ethics section in Manual will be updated.	May 2016.

Potential additions to a revised terms of reference include:

- Objectives of the area being reviewed
- Links to the council's strategic objectives
- Risk of fraud, error and non-compliance
- Potential for the audit to add value, including in relation to value for money
- Any governance or ethics considerations
- Auditee and senior management agreement

Suggestions

No	Suggestion	Response	Action date
S1	Consider ways to provide support to the team to demonstrate independence, objectivity and integrity	Agreed. Consideration will be given.	May 2016.
S2	Hold annual private meetings between internal and external auditors and the FASC	Agreed. Arrangements will be made with Chair of FASC and external auditors.	From 2016/17.
S3	Monitor rotation of staff	Agreed. Staff rotation will be monitored.	From 2016/17.
S4	Include a statement in the annual report that there have been no impairments to independence	Agreed. Annual report will include statement.	June 2016.
S5	Consider whether further emphasis should be given to fraud risk generally	Agreed. Consideration will be given.	May 2016.
S6	Encourage staff to think about broader risks when developing terms of reference	Agreed. Staff will be trained appropriately.	May 2016.
S7	Include audit risk appraisal information on the annual plan	Agreed. Annual plan will include risk appraisal information.	From 2017/18.
S8	Revise the risk universe to pick up on wicked issues	Risk universe will be revised to include more diverse areas.	From 2016/17.
S9	Consider ways to align risk, AGS and audit opinions	Agreed. Common classifications will be applied where possible.	June 2016.
S10	Include audit opinion definitions in audit reports	Agreed. Audit reports will include definitions.	May 2016.
S11	Include a reference to resources having been sufficient in the annual report	Annual report will include reference to sufficiency, or otherwise, of resources.	June 2016.
S12	Highlight governance work more clearly when it is undertaken and ensure that there is no conflict of interests with the CAE's role as deputy s151 with responsibility for governance	Agreed. Governance work will be more clearly highlighted.	May 2016 and ongoing.
S13	Use different reporting formats for consultancy work, clearly labelling it as such	Agreed. Different reporting format will be used for consultancy work.	May 2016 and ongoing.
S14	Do not give an opinion as a result of consultancy work	Agreed. Audit opinion will not be issued for consultancy work.	May 2016 and ongoing.

Appendix 2: interviewees

Name	Position
Richard Barr	Audit and Risk Manager
John Barrott	Chair of Finance and Audit Scrutiny Committee
Ian Davy	Senior Internal Auditor
Tracy Dolphin	Head of HR and OD
Chris Elliott	Chief Executive
Gary Fisher	Development Manager
Andrew Jones	Deputy chief Executive and Monitoring Officer
John King	Senior Internal Auditor
Helen Lillington	Engagement Manager, Grant Thornton
Mike Snow	Head of Finance
Ty Walter	ICT Services Manager
Karen Weatherburn	Learning and Development Officer
Ian Wilson	Senior Internal Auditor
Stuart Winslow	Sports and Leisure Manager