

Final Report for the external assessment of the internal audit function

Telford and Wrekin Council

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Standards & Guidance**

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Review of Telford and Wrekin Council's Internal Audit service (January 2017)

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 and were revised on 1 April 2016. The standards require periodic self-assessments and an assessment by an external person at least every five years. Telford and Wrekin Council's external assessment must be completed by 31 March 2018 and it was agreed with the Audit Committee that the review would take place in January 2017 so that any recommendations could be incorporated for 2017/18 processes and where appropriate 2016/17 annual reporting. 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 as appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed seven audits carried out during the 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to the Audit Committee.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. All auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added. The Audit Committee understands the audit process and their engagement was among the best that I have come across. However, the brevity of the audit notification and scope documents, and the latter's focus on compliance with controls did not reflect the breadth of planning undertaken for each audit, and did not fully evidence the auditee's contribution to this planning. In addition, some of the planning discussions, both for the annual plan and for individual audits, were not documented and so there is no evidence that they happened. I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards, in particular revising the audit scope to reflect the planning undertaken before each audit. The Audit, IG, Insurance and Investigation Team SDM (abbreviated to CAE in this report) will need to take action to implement them and an action plan is included as appendix 1.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Code of Ethics	Full	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity The code of ethics does not list the seven standards of public life and the reference in the	List the seven standards of public life in the procedure (and maybe not in the Charter)	S1

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		Charter is just to the standards with no further details		
Mission	Full	The Charter includes the newly developed internal audit mission		
Core principles of internal audit	Full	No significant problems were identified with following the new core principles, although improving the current audit planning documents will aid compliance. Further work will be needed to demonstrate compliance in the annual report for 2016/17	Expand the audit brief as indicated	R1
			Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	R2
Attribute standards				
1000 Purpose, authority and responsibility	Partial	Standards 1000.A1 and C1 The nature of assurance and consultancy work are not clearly defined in the Charter	Define assurance work in the Charter Either define or rule out consultancy work in the Charter	R3 R4
1100 Independence and objectivity	Full	The independence and objectivity of the audit section was emphasised by all interviewees Standard 1111 The CAE has free access to the Audit Committee chair and members but does not meet the committee in private formally	Hold annual formal private meetings between the audit committee and the CAE	S2
1200 Proficiency and due professional care	Partial	Standard 1210.A2 None of the audits that I reviewed included any evidence of consideration of fraud risks, although I was assured by both auditors and auditees that these were looked at	Expand the audit scope as indicated	R1

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>Standard 1220.A1 and A3 The audit notification and scope state only a high-level objective and the controls to be checked for compliance. As a result there is insufficient clarity about the risks to be audited. The recently introduced proforma gives more detail regarding audit planning</p>		
<p>1300 Quality assurance and improvement programme</p>	Full	<p>Standard 1310 and LGAN 11.3.1 and 11.3.2 There is no overarching documented QAIP framework, summarising all the quality checking that is undertaken</p> <p>Standard 1311 Internal audit is reviewed by itself and by external audit but there have been and are no plans for reviews by peers from within the council</p> <p>Standard 1320 Internal audit has identified areas of weakness in its internal review and there is an indication of the activities that are being undertaken to address them, but the lack of detail will make it harder for the audit committee to hold audit to account for improvements</p>	<p>Develop an overarching QAIP framework document</p> <p>Include internal peer reviews of audit by officers or members within the five year cycle</p> <p>Where areas of weakness are identified in QAIP reviews, give greater detail regarding the issue and planned actions to the audit committee</p>	<p>R5</p> <p>S3</p> <p>S4</p>
Performance standards				
<p>2000 Managing the internal audit activity</p>	Partial	<p>Standard 2010 The annual audit plan is risk appraised, but no explicit link is made to the Council's risk registers</p>	<p>Identify the link between the strategic, and other, risk registers in the annual plan and individual audit scopes</p>	<p>R6</p> <p>R1</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>Standard 2010.A1 The risk appraisal used to develop the annual plan is not documented</p> <p>Standard 2040 and LGAN 11.1.1 The audit procedures include only minimal guidance on how to conduct an audit, although some of this information is available elsewhere. The procedures contain no reference to complying with the LGAN or PSIAS. The procedures are undated.</p> <p>Standard 2050 The audit plan contains no reference to using other sources of assurance</p> <p>LGAN 8.2.3 The audit procedures do not show how management should be informed of serious interim findings</p>	<p>Document the annual plan risk appraisal</p> <p>Include guidance on how to conduct an audit in the procedures</p> <p>Refer to the LGAN and PSIAS in the procedures</p> <p>Date the audit procedures</p> <p>Develop the audit plan to recognise and make use of other sources of assurance</p> <p>Include guidance in the procedures on informing management about serious interim findings</p>	<p>R7</p> <p>R8</p> <p>R8</p> <p>R8</p> <p>S5</p> <p>R8</p>
<p>2100 Nature of work</p>	<p>Partial</p>	<p>Standard 2110.A1 Audit has undertaken no specific reviews of ethics although other work does touch on this area</p> <p>Standard 2120 Audit has not reviewed risk management arrangements recently</p> <p>Standard 2120.A1 & A2 and 2130.A1 There was no reference to organisational objectives in any of the audits reviewed. In addition, fraud risks are not identified in audits. Compliance with policies is not</p>	<p>Undertake ethics work, either separately or clearly identified as part of broader governance work and be more overt about ethical matters considered in individual audits</p> <p>Undertake periodic audits of risk management arrangements</p> <p>Expand the audit scope as indicated</p>	<p>R9</p> <p>R10</p> <p>R1</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		included in audit plans		
2200 Engagement planning	Non compliant	Standard 2201, 2210 and 2220 The brevity of the audit notification and scope means that many key areas are not documented to demonstrate that they have been considered Note that this has had an impact on a number of other standards	Expand the audit scope as indicated	R1
		Standard 2240 Work programmes are developed for each audit, but these are compliance and control rather than risk based. They are not always approved before being implemented	Move the emphasis in work programmes to risk, using the revised scope	R11
			Approve all work programmes before implementation	R12
2300 Performing the engagement	Full	The review showed that audits are well-performed and well-documented		
2400 Communicating the results	Partial	Standard 2410 Audit reports met all the expected criteria but do not identify the audit's objectives as these are not part of the current scope Standard 2440.A1 The CAE is responsible for communicating the results of audits and her name is included on most reports, but as a reviewer as opposed to the disseminator Standard 2450 The form of the annual opinion is not that used for individual audits and lacks context	Expand the audit scope as indicated	R1
			And include audit objectives in the final report	R13
			Include the CAE's name on audit reports as the person responsible for issuing it	S6
			Consider using the same opinion for audit reports and for the annual audit opinion	S7
			Break the opinion down into different aspects of activity	S8
If "reasonable assurance" is retained,	S9			

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
			show where that sits on a scale of good to bad	
2500 Monitoring progress	Full	Standard 2500.A1 The follow up process is robust and works well and auditees are asked to attend audit committees to discuss outstanding actions	Stop following up low priority and best practice recommendations	S10
2600 Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at the council on audit findings		

The Audit, IG, Insurance and Investigation Team SDM has details of the findings, standard by standard.

Elizabeth Humphrey CPFA

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Expand the audit scope to cover: <ul style="list-style-type: none"> • Service contribution to strategic objectives • Objectives of the service • Objectives of the audit • Links to any council risk registers • The criteria used to judge the service, eg performance measures, best practice guidance, legal framework, etc • Risks to be examined, including fraud and errors • Compliance with laws, regulations, policies, procedures and contracts • Achievement of strategic objectives • Reliability and integrity of financial and operational information • Safeguarding assets • Consideration of relevant systems, records, personnel and physical properties • Adding value and value for money, including effectiveness and efficiency of operations and programmes 	Accept	CAE & team	31/03/17
R2	Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	Accept	CAE & Team	During 2017/18
R3	Define assurance work in the Charter	Accept	CAE	31/03/17

No	Recommendation	Response	Responsible officer	Action date
R4	Either define or rule out consultancy work in the Charter	Accept	CAE	31/03/17
R5	Develop an overarching documented QAIP framework document	Accept – all the elements of the QAIP required by the Standards are undertaken but not summarised in a framework document	CAE	31/03/17
R6	Identify the link between the strategic, and other, risk registers in the annual plan	Accept	CAE	April 2017
R7	Document the annual plan risk appraisal	Accept	CAE	31/03/17
R8	Update the Audit Procedures to: <ul style="list-style-type: none"> • Include guidance on how to conduct an audit • Refer to the LGAN and PSIAS in the procedures • Include guidance in the procedures on informing management about serious interim findings • Show when they were last updated 	Accept and will continue to date procedures when updated	CAE & Team	31/05/17
R9	Undertake ethics work, either separately or clearly identified as part of broader governance work and be more overt about ethical matters considered in individual audits	To be agreed with the MD; MO and CFO as to the most appropriate form to add value.	CAE	31/03/18
R10	Undertake periodic audits of risk management arrangements	To be agreed with the MD; MO and CFO	CAE	31/03/18
R11	Move the emphasis in work programmes to risk, using the revised scope	Accept	CAE	31/03/17
R12	Approve all work programmes before implementation	Partial acceptance - Procedures to define which work programmes need to be approved by the CAE or Principal Auditor will be developed based on risk due to resource implications.	CAE & team	May 2017
R13	Include audit objectives in the final report	Accept	CAE & team	30/04/17

Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	List the seven standards of public life in the procedure (and maybe not in the Charter)	Will review this as part of the procedure review but these apply to all public sector officials not just Internal Auditors	CAE & Team	31/05/17
S2	Hold annual formal private meetings between the audit committee and the CAE	Will raise with the Audit Committee and record their response	CAE	31/03/17
S3	Include internal peer reviews of audit by officers or members within the five year cycle	Will raise with the Audit Committee and record their response	CAE	31/03/17
S4	Where areas of weakness are identified in QAIP reviews, give greater detail regarding the issue and planned actions to the audit committee	Where appropriate will be included in update reports to Audit Committee	CAE	2017/18
S5	Develop the audit plan to recognise and make use of other sources of assurance	Already taken into account but will ensure that it is fully documented as part of the risk appraisal process	CAE	31/03/17
S6	Include the CAE's name on audit reports as the person responsible issuing it	Will consider changing the title of report to make it clear that from Internal Audit and issued on behalf of the CAE.	CAE	31/03/17
S7	Consider using the same opinion for audit reports and for the annual audit opinion	Will be applied as appropriate for the 2016/17 Annual report with full consideration for the 2017/18 Annual report	CAE	31/05/17 31/05/18
S8	Break the opinion down into different aspects of activity	Will consider this as part of revised individual reports and Annual report for 2017/18 onwards	CAE & team CAE	30/04/17 31/05/18
S9	If "reasonable assurance" is retained, show where that sits on a scale of good to bad	Will consider this as part of revised individual reports and Annual report for 2017/18 onwards	CAE & team CAE	30/04/17 31/05/18
S10	Stop following up low priority and best practice recommendations	Accept	CAE & Team	01/04/17

Appendix 2: interviewees

Person	Position
Kim Barton	Auditor
Jo Britton	AD, Children's Safeguarding
Adam Bunting	Manager, KPMG
Sandy Brazier	ICT Business Improvement & Change Manager
Ken Clarke	CFO/s151 Officer
Tracey Drummond	Principal Auditor
James Dunn	SDM Estates & Investments
Jonathan Eatough	Monitoring Officer
Cllr Ian Fletcher	Audit Committee member
Kathy Fergusson	Compliance Officer
Chris Goulson	SDM Property & Design
Toni Guest	Housing, Nuplace & Commercial Projects SDM
Pauline Harris	Finance SDM – Corporate Finance & Customer Service
Marc Jones	Senior Surveyor
Kirsty King	ICT SDM
Katherine Kynaston	AD, Business Development and Employment
Jenny Marriott	Audit, IG, Insurance and Investigation Team SDM
Fliss Mercer	AD Commercial Services
Rob Montgomery	IG & Insurance Team Leader
Richard Partington	Managing Director
Jon Power	Organisational Delivery & Development SDM
Cllr Kuldip Sahota	Audit Committee member
Cllr Rob Sloan	Chair of Audit Committee
Cllr Charles Smith	Vice Chair of Audit Committee
Cllr Bill Tomlinson	Audit Committee member
Sue Watts	Auditor
Michelle Webb	Facilities Management Team Leader
Cllr David Wright	Audit Committee member
Angela Yapp	Placement SDM