

Review of Internal Audit Partnership

Ashford/Maidstone Borough Council

Audit 2008/09

Date **January 2009**

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction and background

- 1 Regulation 6 of the Accounts and Audit Regulations 2006 requires the Council to "maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control". The guidance accompanying the legislation states that proper internal audit practices are those contained within CIPFA's "Code of Practice for Internal Audit in Local Government in the United Kingdom 2006" (the CIPFA Code).
- 2 Internal audit is defined by the CIPFA Code as "an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisations objectives."
- 3 The CIPFA Code sets out definitions and principles in the form of eleven standards which establish how a professional Internal Audit service should operate. These eleven standards form two groups. The first six encompass the organisational and structural aspects of Internal Audit; the second five encompass the activity and operation of Internal Audit.
- 4 Our work is governed by the International Standards of Auditing for the UK and Ireland (ISA UK&I). Compliance with the ISAs (UK&I) is mandatory. In particular ISA (UK&I) 610: Considering the work of Internal Audit, requires external auditors to:
 - consider the activities of internal auditing and their effect, if any, on external audit procedures;
 - obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures; and
 - perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment.
- 5 We are also required to undertake a detailed review of Internal Audit every three years, supplemented by annual updates and assessments of coverage. Our last review was undertaken in 2005/06; therefore we are required to undertake a detailed review in 2008/09.
- 6 This review is designed to determine if we can place reliance on the work completed by Internal Audit in performing our external audit procedures. This work will also inform our Use of Resources assessment later in the year.
- 7 The audit function at Ashford BC and Maidstone BC is provided by a partnership arrangement between these authorities. Our review and assessment is therefore relevant to both organisations, and we have indicated in our report where there are any differences in structure or organisational arrangements between the two authorities.

Audit approach

8 In order to make our assessment we gathered evidence from a number of sources:

- a review of Internal Audit's self-assessment against the CIPFA Code and associated supporting evidence;
- cumulative audit knowledge from reviews of completed audit files; and
- discussions with the Head of Internal Audit Partnership and his team.

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Main conclusions

Internal Audit and the CIPFA Code of Practice

9 The table below shows our assessment of Internal Audit against the CIPFA Code.

Table 1 Standards for Internal Audit

CIPFA Code Internal Audit Standard	Performance against the IA Standard
Organisational standards	
1. Scope of internal audit	Met
2. Independence	Met
3. Ethics for Internal Auditors	Met
4. Audit Committees	Met
5. Relationships	Met
6. Staffing, Training and Continuing professional Development	Met
Operational standards	
7. Audit Strategy and Planning	Met
8. Undertaking Audit Work	Met
9. Due Professional Care	Met
10. Reporting	Met
11. Performance, Quality and Effectiveness	Met

10 As all of the eleven standards have been met, in our opinion, Internal Audit is complying with the professional and statutory duties set out in the CIPFA (Code).

11 Internal Audit have been very pro-active in ensuring that they are compliant with the new CIPFA code, completing a self-assessment and engaging with another Council to facilitate a peer review of the arrangements.

12 We have identified suggested improvements in relation to some of the standards. Our findings and recommendations are shown in the 'Detailed Report' section below.

Detailed report

13 This section sets out our detailed findings in relation to each organisational and operational standard. The recommendations form the basis of the action plan shown at Appendix 2.

Standard 1 - Scope of Internal Audit

- 14** The objectives and scope of Internal Audit are set out in the Internal Audit Charter and its terms of reference, which have been approved by the appropriate committee (Audit Committee at Ashford and Audit Committee and Cabinet at Maidstone). The role of Internal Audit is also appropriately set out in the Councils' Constitutions.
- 15** Our review has found that the objectives and scope are appropriate to Internal Audit's function within the Councils.
- 16** One aspect that requires strengthening relates to Internal Audit's access rights to all records. At present this is reflected in the terms of reference as: 'scope of Internal Audit includes all of the Council's own operations, resources, services and also its responsibilities in relation to other bodies'. This should more explicitly refer to its rights of access to records as follows: 'Internal Audit has the right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities'.
- 17** The Councils Financial Procedure Rules do highlight the requirements of the Accounts and Audit Regulations 2003 stating that documents, records, information and explanations must be provided for the purposes of audit. However, there is a need to expand this to include partner organisations.

Recommendation

R1 Strengthen the wording regarding Internal Audit's right of access to records in the Terms of Reference.

Standard 2 - Independence

- 18** The Head of Internal Audit Partnership and his team have appropriate status within the Councils. However, at Maidstone the Head of Internal Audit also has an operational responsibility for Risk Strategy. This issue was discussed and it was identified that, if work was completed at Maidstone in relation to risk management, the work would be completed by auditors within the Internal Audit Partnership and the Head of Internal Audit Partnership would invite a peer from another Council to complete a review of this work. We are satisfied that this arrangement should ensure an appropriate level of independence is maintained.

Detailed report

- 19 The Head of Internal Audit Partnership reports directly to the Chief Executive at both Councils. His relationship with the respective s151 Officers is clearly set out in Appendix 1 of the Terms of Reference.
- 20 Appropriate arrangements are in place for Internal Audit staff to record their declarations of interest and these are reviewed by the Head of Internal Audit Partnership.

Standard 3 - Ethics for Internal Auditors

- 21 We found adequate arrangements in place in relation to ethical responsibilities, integrity and confidentiality. Guidance is included within codes of conduct, policies and the audit manual.
- 22 Internal Audit staff have suitable knowledge, skills and experience, and there are adequate planning, control and quality assurance arrangements in place to ensure the work is carried out competently.
- 23 An area covered within this standard relates to confidentiality. There are arrangements in place for permanent staff to sign a confidentiality agreement. The Internal Audit Partnership also employs contractors who are expected to fulfil the same duties as permanent staff and hence have the same access rights. It would therefore be best practice to extend this requirement to include these contractors..

Recommendation

R2 Extend the requirement for confidentiality agreements to include contractors.

Standard 4 - Audit Committees

- 24 Each Council has an independent Audit Committee, which the Head of Internal Audit Partnership and team leaders regularly attend.
- 25 The Audit Committee approves the audit plan and monitors progress against the plan at each meeting. The Head of Internal Audit Partnership presents regular reports to the Audit Committee including a review of the effectiveness of Internal Audit, and Interim and Annual Reports detailing the major outcomes from the audit work.

Standard 5 - Relationships

- 26 Internal Audit has appropriate arrangements in place with management, members, (including those charged with governance), and external auditors. These are characterised by formal protocols, regular meetings and effective relationships.
- 27 The protocols with external audit have been reviewed and updated as part of this audit.

Standard 6 - Staffing, Training and Continuing Professional Development

- 28 Internal Audit is appropriately staffed in terms of numbers, grades, qualification levels and experience in order to deliver the audit service to the required standards and meet its objectives.

- 29** Training requirements are identified during the course of the year with more formal continuing professional development reviewed as part of the annual appraisal process. The CIPFA "*Excellent Internal Auditor*" good practice guide has been informally used as a guide for assessing skills and competencies within the team. In the self assessment it was recognised that these arrangements should be formalised for 2008 to make the process more robust.
- 30** However, since this review a wider corporate review of the approach to personal development plans (PDPs) has been initiated at Maidstone. This will create the more robust process in which Internal Audit can continue to fulfil the requirements of this standard. The scheme will incorporate detailed skills and competency requirements for each level of auditor, together with arrangements for monitoring these. To date this has been completed for trainee auditors and needs to be extended to the other grades. There is now a similar corporate review taking place at Ashford.

Recommendation

- R3** Fully implement the new 'skills and competences' PDP arrangements for all audit staff within the Internal Audit Partnership.

Standard 7 - Audit Strategy and Planning

- 31** The Internal Audit Partnership has an Audit Strategy in place which is agreed with the appropriate committee (Audit Committee at Ashford and Audit Committee and Cabinet at Maidstone).
- 32** There is an annual plan in place at each site, which is risk based and has been approved by the Audit Committee. For 2008/09 the Ashford plan is a transitional one as the two plans are brought into line to enable maximum benefits from parallel plans. The plans meet the standards required by the Code and are monitored by the Audit Committees.

Standard 8 - Undertaking Audit Work

- 33** Internal Audit adopts a risk based approach to its audit work, with detailed audit briefs completed for all audit assignments. Audit findings are considered and reported as appropriate.
- 34** Although the audit briefs set out the proposed work to be completed, they do not set out the reporting framework. It would be best practice to include this in the brief so that it is clear as to the timeframe for drafting the report, the period within which officers will be required to respond, the timing of the final report and which Audit Committee will receive it.
- 35** Internal Audit use an electronic working papers package (TeamMate) which enables clear working papers to be produced and strengthens the audit trail for preparation and review. Our review of internal audit files during the year found that the standard of Internal Audit documentation was good and an internal quality review process is in place.

Detailed report

- 36** Also covered by this standard are the policies concerning retention of data and the access rights to audit files and records. Reliance is currently placed on corporate documents which give limited reference to audit. With the sensitivities often surrounding audit documentation, it would be best practice if specific reference to the policies was included within Internal Audit documentation, e.g. the Audit Manual.

Recommendation

- R4** The audit brief should include a timetable for drafting audit reports, response period for officers, period for finalising the report and the timing of the Audit Committee which will receive the report.
- R5** The policies followed by Internal Audit in relation to data retention and access rights to audit files and records should be incorporated within the Audit Manual.

Standard 9 - Due Professional Care

- 37** Internal Audit has appropriate procedures in place to ensure that high ethical standards are clearly set out, understood by staff, adhered to and monitored.

Standard 10 - Reporting

- 38** The Head of Internal Audit Partnership has determined the way audit findings will be reported and has set local standards for all reports. Our file reviews found that a report was drafted for each assignment. The report was based on the issues identified during the audit and in each case was found to meet the requirements of the standard.
- 39** Internal Audit undertakes follow-up audits to check that recommendations made are being implemented. The original assessment of audit assurance is reviewed and a revised assessment made based on the impact of the implemented recommendations. If little or no progress is made, there are escalation procedures in place which require service managers to attend the Audit Committee at Ashford and the Corporate Governance Group at Maidstone to explain why this is the case.
- 40** The Head of Internal Audit Partnership produces an annual report which is presented to the Audit Committee.
- 41** Where an audit is given a minimal/limited assurance opinion, there is the potential that a strategic or operational risk may be identified that needs to be included in the risk register and mitigated.
- 42** It would be best practice if the process for notifying risk owners of the risks identified in Internal Audit reports is formalised and documented.

Recommendation

- R6** Formalise and document a process for notifying risk owners of the risks identified in Internal Audit reports to ensure that they are reflected in the Councils Strategic and Operational Risk Registers.

Standard 11 - Performance, Quality and Effectiveness

- 43 There is an audit manual in place that assists auditors to carry out their day-to-day audit work and comply with the Code. Internal Audit has a review process in place, which assesses the performance and effectiveness of each individual audit.
- 44 Performance of the internal audit service is monitored using performance indicators which are reported to the Audit Committee. These relate to the core audit functions and provide an appropriate measure of the overall effectiveness of the service. The Audit Partnership is involved in a benchmarking exercise run by the Kent Audit Group against other Kent authorities to put their performance into perspective.

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Acknowledgements

- 45 We would like to take this opportunity to thank the staff of the Internal Audit Partnership for their assistance during our audit.

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The way forward

- 46 Where a matter has arisen during the course of the audit, we have included the details in the Action Plan at Appendix 1. This will serve to monitor action on the issues raised, aided by your assignment of a responsible officer and a target date for implementation.
- 47 The next planned review is scheduled for 2011/12 although with the likelihood that there will be significant developments in the Internal Audit Partnership we will need to assess the requirement to carry out additional reviews during the interim period.

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Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Strengthen the wording regarding Internal Audits right of access to records in the Terms of Reference.	2	Brian Parsons	Yes		31 May 2009
7	R2 Extend the requirement for confidentiality agreements to include contractors.	2	Brian Parsons	Yes		31 May 2009
8	R3 Fully implement the new 'skills and competences' PDP arrangements for all audit staff within the Internal Audit Partnership.	1	Brian Parsons	Yes		31 May 2009
9	R4 The audit brief should include a timetable for drafting audit reports, response period for officers, period for finalising the report and the timing of the Audit Committee which will receive the report.	2	Brian Parsons	Yes		31 May 2009
9	R5 The policies followed by Internal Audit in relation to data retention and access rights to audit files and records should be incorporated within the Audit Manual.	2	Brian Parsons	Yes		31 May 2009
9	R6 Formalise and document a process for notifying risk owners of the risks identified in Internal Audit reports to ensure that they are reflected in the Councils Strategic and Operational Risk Registers.	2	Brian Parsons	Yes		31 May 2009

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