Tilia Solutions
CORPORATE GOVERNANCE CONSULTANCY

FINAL

Review of

The West Suffolk councils' Internal Audit Team

03 April 2018

Elizabeth Humphrey CPFA

Review of the West Suffolk councils' Internal Audit Team (March 2018)

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 have been further revised on 1 April 2017. The standards require periodic self-assessments and an assessment by an external person every five years. This is the West Suffolk councils' audit team's first such review. 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 seven audits carried out during the 2016/17 and 2017/18 financial years and I examined key documents including the Charter and reports to the Performance and Audit Scrutiny Committee (PASC).

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. Council officers clearly value audit's input, requesting reviews, support and advice. Audits are planned according to risk and their potential to help the Councils achieve their strategic objectives but this is not always clear from the detailed planning documents: I have recommended changes to the audit brief to reflect audit's contribution to achievement of the Councils' plans. I have also identified a few minor areas where the standards have not been followed and have made some practical and pragmatic medium priority recommendations (R) to address these together with a number of best practice, lower priority suggestions (S). The Service Manager – Internal Audit 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
Mission	Complies	The Charter includes the newly developed internal audit mission		
Core principles of internal audit	Complies	No problems were identified in addressing the majority of the Core Principles. Being clearer about the strategic and risk-based focus of audits will support further delivery of the Principles	See R5, R10, S7 and S10 below	
Code of Ethics	Complies	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity The Audit Charter and Manual both refer to the *Seven Principles of Public Life* but only as a link to the website	Include details of the *Seven Principles of Public Life* in the Manual, showing how the activities of the audit team are delivered in accordance with them	S1

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Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Attribute standards				
1000 Purpose, authority and responsibility	Partially complies	**Standards 1000.A1 and C1** The Charter refers to both assurance and consultancy work but does not include clear definitions of either, making the distinction between them	Include definitions of the nature of assurance and consultancy activities in the Charter	R1
		Standard 1010 The Charter contains the required references to the Core Principles and the Code of Ethics, but no detail is given about what these cover and what they mean in relation to audit activities	Include further details about the Core Principles and how they are met in the Charter	S2
			Include further details about the Code of Ethics and how that is met in the Charter	S3
		The mandatory elements of the PSIAS are not highlighted to senior management	Amend section 4 of the Charter to include reference to the Core Principles	S4
		See also Standard 1112 regarding safeguards to be included in the Charter for non-audit work	As part of the presentation of the Annual Report and Plan, and/or when the Charter is next presented, highlight the mandatory elements of the PSIAS to senior management	R2
1100 Independence and objectivity	Complies	**Standards 1010, 1112 and 1130.A2** The audit team occasionally carries out fraud investigations: under the standards, these are non-audit activities and could compromise audit's independence and objectivity. The audit team should only undertake such activities if safeguards have been put in place to manage this and the safeguards must be reported to the PASC for their review and approval	Safeguards regarding non-audit work should be discussed with and approved by the PASC and included in the Audit Charter	R3

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
1200 Proficiency and due professional care	Partially complies	**Standards 1210.A1 and A3 and 2110.A2** The audit team has general IT skills but does not have the specialist knowledge needed to undertake technical IT audits. Reliance is currently placed on testing commissioned by IT, which is focussed on network security **Standards 1210.A2, 1220.A1, 1220.A3, 2110, 2120.A2, 2210.A1 and A2** Although audits are planned on a risk basis, including fraud risks, this could be made more explicit in the audit briefs for individual audits, thus encouraging both auditors and auditees to focus on risk rather than on controls	Commission an expert appraisal of the IT risks and assurance against those risks to identify gaps in the assurance framework. The Councils can then decide if they are prepared to accept those unmitigated risks or wish to obtain expert advice to address them Make risk the core of all audit planning, identifying the risks to the objectives of the activity being audited and opportunities for the audit to add value	R4 R5
1300 Quality assurance and improvement programme (QAIP)	Complies	**Standard 1321** Audit reports currently state that they are performed in accordance with accounts and audit regulations but do not refer to the PSIAS **LGAN p13** Performance indicators have recently been developed but have yet to be reported. When they are reported, this should include reporting over time, showing trends	Revise the statement in audit reports to show that audits are conducted following the expectations of the PSIAS Show trends over time when reporting performance indicators in the Annual Report	S5 R6

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Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Performance standards				
2000 Managing the internal audit activity	Partially complies	**Standards 2010 and 2010.A1** Annual audit planning is carried out using a structured risk-based methodology and meets the requirements of the Standards. However, the report does not refer to how the service is developed nor does it sufficiently emphasise the risk-based approach	Refer to internal audit development in the annual plan	S6
			Provide more information about the risk-based planning that underpins the audit plan in reporting that plan	S7
		Standard 2010.A2 and 2450 Audit provides an opinion on each audit and also on the overall level of assurance at the year end. Some of those interviewed did not understand the distinction between the annual audit opinion, included in the annual audit report, and the overall governance conclusion in the AGS: the annual audit opinion could be revised to make this clearer	Review the current form of the audit opinion (annual and for individual audits) and discuss options with the LT and PASC	R7
		LGAN p15 The annual audit plan gives no details about the time estimated for the activities in the audit plan, making it harder for the PASC and LT to comment usefully about the way in which work is prioritised for the year. In addition, it is not clear from the plan which work supports the annual audit opinion (assurance work) and which work does not	Report the allocation of resources in the audit plan, in outline and/or by assignment	R8
			Clarify which work supports the provision of assurance	S8

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Standard	Compliance	Findings	Recommendations and suggestions	Rec no
2100 Nature of work	Partially complies	**Standards 2110 and 2110.A1** There has been no auditing of ethics-related objectives, programmes and activities	Build audits of ethical objectives, programmes and activities into relevant individual audits or as stand-alone audits in the annual plan	R9
		Standard 2120 Audit undertakes a number of activities in relation to risk management but has not carried out a formal review of risk management arrangements recently. One is planned for the coming audit year	Build examination of risk management activities into individual audits as relevant	S9
			Making reference to strategic risks in individual audits and audit activity against these	S10
		Standards 2120.A1 and 2130.A1 Achievement of the Councils' strategic objectives is considered in the annual audit planning but not in individual audits	Be more explicit about links to strategic objectives, especially in individual audit planning	R10
2200 Engagement planning	Complies	**Standards 2201 and 2210.A3** Planning of individual audits is thorough but could be more focussed on risk (see above), strategic objectives (see above), the objectives of the activity itself and opportunities for audit to add value	See R5 and R10	
2300 Performing the engagement	Complies	The review showed that audits are well-performed and clearly documented		
2400 Communicating the results	Complies	**Standard 2420** There can be delays between completion of the fieldwork and the draft report and between the draft and final reports. This has been identified and performance indicators developed to monitor progress		

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Standard	Compliance	Findings	Recommendations and suggestions	Rec no
2500 Monitoring progress	Complies	**Standard 2500.A1** The follow-up process complies with the standards but there is no monitoring system to ensure that audit recommendations are followed up promptly. In addition, PASC chairs felt that they could be given more information regarding recommendation implementation to enable them to challenge more effectively	Develop a monitoring system to identify when recommendations are due for follow up Provide PASC with greater detail regarding recommendation implementation	S11 S12
2600 Communicating the acceptance of risks	Complies	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at the Councils on audit findings		

The Service Manager – Internal Audit has details of the findings, standard by standard.

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Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include definitions of the nature of assurance and consultancy activities in the Charter	Agree – this will be included when the Charter is next reviewed.	Service Manager – Internal Audit	By May 2019
R2	As part of the presentation of the Annual Report and Plan, and/or when the Charter is next presented, highlight the mandatory elements of the PSIAS to senior management	Agree – this will be highlighted when the Annual Report and Audit Plan is next presented to Performance and Audit Scrutiny Committee.	Service Manager – Internal Audit	By May 2018
R3	Safeguards regarding non-audit work should be discussed with and approved by the PASC and included in the Audit Charter	Agree - this will be included when the Charter is next reviewed.	Service Manager – Internal Audit	By May 2019
R4	Commission an expert appraisal of the IT risks and assurance against those risks to identify gaps in the assurance framework. The Councils can then decide if they are prepared to accept those unmitigated risks or wish to obtain expert advice to address them	Agree that this is an area to be looked into - we will investigate options available, and costs, and decide accordingly on the best course of action.	Service Manager – Internal Audit	By May 2019
R5	Make risk the core of all audit planning, identifying the risks to the objectives of the activity being audited and opportunities for the audit to add value	Agree – the template for audit briefs will be revised accordingly.	Service Manager – Internal Audit	By April 2018
R6	Show trends over time when reporting performance indicators in the Annual Report	Agree – the suite of performance indicators has been increased from April 2018 and the Annual Report will include comparative figures / trends over time in subsequent years.	Service Manager – Internal Audit	By May 2020
R7	Review the current form of the audit opinion (annual and for individual audits) and discuss options with the LT and PASC	Agree – this will be reviewed and covered in the 2017-18 Annual Report.	Service Manager – Internal Audit	Options considered by May 2018
R8	Report the allocation of resources in the audit plan, in outline and/or by assignment	Agree – allocation of audit resources will be reported in the audit plan.	Service Manager – Internal Audit	By May 2018

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No	Recommendation	Response	Responsible officer	Action date
R9	Build audits of ethical objectives, programmes and activities into relevant individual audits or as stand-alone audits in the annual plan	Agree – we will build on existing plans for ethics related audit work and increase coverage as appropriate in future audit plans.	Service Manager – Internal Audit	By May 2018
R10	Be more explicit about links to strategic objectives, especially in individual audit planning	Agree - links to strategic objectives have already been included in the 2018-19 audit plan and these links will be explicitly stated in individual audit planning documents and other documents / reports where appropriate.	Service Manager – Internal Audit	By April 2018

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Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Include details of the *Seven Principles of Public Life* in the Manual, showing how the activities of the audit team are delivered in accordance with them	Agree – this will be included in Internal Audit's internal working procedures document, the Audit Manual.	Service Manager – Internal Audit	By July 2018
S2	Include further details about the Core Principles and how they are met in the Charter	Agree – to be included in a revised Internal Audit Charter	Service Manager – Internal Audit	By May 2019
S3	Include further details about the Code of Ethics and how that is met in the Charter	Agree – to be included in a revised Internal Audit Charter	Service Manager – Internal Audit	By May 2019
S4	Amend section 4 of the Charter to include reference to the Core Principles	Agree – to be included in a revised Internal Audit Charter	Service Manager – Internal Audit	By May 2019
S5	Revise the statement in audit reports to show that audits are conducted following the expectations of the PSIAS	Agree – appropriate wording to be included	Service Manager – Internal Audit	By April 2018
S6	Refer to internal audit development in the annual plan	Agree – appropriate wording to be included	Service Manager – Internal Audit	By May 2018
S7	Provide more information about the risk-based planning that underpins the audit plan in reporting that plan	Agree – appropriate wording to be included	Service Manager – Internal Audit	By May 2018
S8	Clarify which work supports the provision of assurance	Agree – appropriate wording to be included	Service Manager – Internal Audit	By May 2018
S9	Build examination of risk management activities into individual audits as relevant	Agree – Internal Audit already consider strategic risks and some project risks through other audit activities but risk management will also be considered more explicitly in individual audits where appropriate.	Service Manager – Internal Audit	By April 2018
S10	Making reference to strategic risks in individual audits and audit activity against these	Agree – see above.	Service Manager – Internal Audit	By April 2018
S11	Develop a monitoring system to identify when recommendations are due for follow up	Agree – where an audit is undertaken annually the follow up work will be undertaken as part of the following year's audit, however where that is not the case we will look to ensure that we have a simple but	Service Manager – Internal Audit	By July 2018

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No	Suggestion	Response	Responsible officer	Action date
		effective system to alert us when individual recommendations are due for follow up.		
S12	Provide PASC with greater detail regarding recommendation implementation	Agree – more detail will be included, starting with the 2017-18 Annual Internal Audit Report.	Service Manager – Internal Audit	By May 2018

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Appendix 2: interviewees

Person	Position
Pia Bertie-Snell	Senior Auditor
Cllr Sarah Broughton	Chair, PASC, St Edmundsbury Borough Council
Cllr Louis Busuttil	Chair, PASC, Forest Heath District Council
Bernadette Dashper	Senior Auditor
Ian Gallin	Chief Executive
Teresa Halliday	Service Manager – Shared Legal
Rachel Mann	Assistant Director of Finance
Leah Mickleborough	Monitoring Officer
Mark Russell	EY Audit Manager
Jon Snares	Service Manager – Internal Audit
Kevin Taylor	Service Manager – ICT
James Wager	ICT Infrastructure Support Manager
Alex Wilson	Director