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Argyll & Bute Council

Update on Internal Audit Self-Assessment

September 2013

1 Executive Summary

1.1 Background

The Relevant Internal Audit Standard Setters including CIPFA, HM Treasury and Department of Health adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013.

The new standards encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework, inserting requirements and interpretations of the UK public sector where appropriate and replacing the existing standards in local government, including the CIPFA Code of Practice for Internal Audit in Local Government.

The standards apply to all internal audit service providers, whether in-house, shared service or outsourced and have been developed to provide coherent and consistent standards for internal audit across the UK public sector.

This report presents the initial findings of the Internal Audit team's self-assessment against the PSIAS, and proposes a plan for the remainder of the calendar year for Audit Committee consideration and approval.

1.2 Key changes under the revised standards

Existing requirements

- The chief audit executive – The chief audit executive, previously referred to as the Internal Audit Manager or Chief

Internal Auditor, must hold a professional qualification (CMAA, CCAB or equivalent) and be suitably experienced.

- Annual report – The requirement for the production of an internal audit annual report remains.
- Risk-based audit plan – There is still a requirement to produce a risk based audit plan. However, the requirement to produce an audit strategy has been removed and replaced with a risk based plan that incorporates or links to a strategic statement setting out how the internal audit service will be provided and how The Charter (see below) will link to the Council's objectives and priorities.

New requirements

- Internal Audit Charter (The Charter) – The Charter must formally define the purpose, authority and responsibility of the internal audit activity. It will also cover arrangements for avoiding conflicts of interest if internal audit performs non-audit activities.
- Quality assurance – The quality of service should be rigorously checked under a quality assurance and improvement programme which requires on-going internal assessments of all aspects of internal audit activity, as well as external assessment every five years. The programme is designed to assess the efficiency and effectiveness of internal

audit as well as identify opportunities for improvement. There is a requirement for the chief audit executive to include a section on the quality assurance and improvement programme within the internal audit annual report.

- Internal assessment – There will be an increase in the level of assessments which will involve monitoring the departments activity and will be in line with the current quality review procedures.
- External assessment – The assessment will need to be performed by qualified and independent assessors or assessment teams that are external to the organisation. They can be undertaken as a full external evaluation or a self-assessment with independent external validation, but it cannot be carried out on a rolling basis.
- Effective communication – Standards specify a requirement for “effective communication” between the chief audit executive and the audit committee and there is specific reference to effective communication with the committee chair.

In this context “effective communication” refers to the engagement of the committee’s membership, and of the chair in particular, in discussions with the chief audit executive about:

- the Council’s risks and assurance requirements
- the level of assurance provided
- issues of concern raised by audit work undertaken; and
- the implementation of agreed recommendations and the enhanced assurance arising.

1.3 Outcomes of the self-assessment

During July and August 2013, the Council’s internal audit team conducted a self-assessment against the requirements of the PSIAS. The team’s review was subject to support and challenge from Grant Thornton/CIPFA, the Council’s internal audit partners.

The Chief Audit Executive has not yet been able to review or agree the team’s findings. This report therefore presents our initial findings, and proposals for response over the period to December 2013.

1.4 Proposed improvement plan

Section 2 of this report highlights our findings and the improvements actions proposed to support the internal audit team to meet the PSIAS requirements by 1st April 2013. Our findings identify 3 areas of high risk, relating to the approach to risk assessment and scoping individual audits, training and development for the internal audit team, and linking work performed to core aspects of risk and control.

We also recognise the need to respond to other factors, including:

- the Council’s revised approach to strategic risk management
- a delay in the completion of the audit plan as a result of the PSIAS self-assessment, vacancies and other factors which have reduced available resources to date..

Our proposed improvement actions for the remainder of the calendar year focus on:

1. an intensive period of refresher training and development of the team

2. reviewing the audit process from risk assessment, determining the scope and objectives of audits and ensuring that key risks and controls are identified and assessed
3. considering the impact and outcomes of the audit process, including reporting arrangements and how the performance of the team is monitored.

Whilst staff in the Internal Audit team will continue to work on delivery of the audit plan at the same time as taking forward the improvement actions there may be a further impact on the audit plan. The Head of Strategic Finance has agreed to make additional funding of approximately £50,000 available from elsewhere in his budget to secure additional resources to try and offset any reduction in audit resource. We will report progress on the improvement plan and the annual audit plan to the December meeting of the Audit Committee. This report will also set out proposed amendments to the audit plan for the remainder of the 2013-14 year based on the current plan amended to incorporate improvements from the action plan such as links to the strategic risk management process, and clarity on the risks and objectives associated with each review. Any resource implications will be set out in the report such as additional costs or reduced days input. The objective will be to optimise the effectiveness of Internal Audit for remainder of 2013-14 and the assurance provided by them.

2 Detailed Findings

Attribute Standards

1000	Purpose, Authority and Responsibility	Medium
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Finding and Implication	Proposed action
<p>The Internal Audit Team has an audit manual in place which is reviewed on an annual basis and meets the requirements of the 2006 Code.</p> <p>Under the PSIAS, internal audit must develop an Audit Charter which will make explicit links to the Council's objectives and priorities.</p>	<p>An Audit Charter will be developed which confirms how the work of internal audit contributes to the achievement of the Council's objectives and priorities by:</p> <ul style="list-style-type: none"> ■ considering the nature of assurance provided to the Audit Committee and service departments by the work of internal audit ■ clarifying reporting responsibilities; and ■ ensuring that audit activity is focused on the key risks facing the Council. <p>Drafted by December 2013</p>

1200	Proficiency and due professional care	High
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Finding and Implication	Proposed action
<p>The Internal Audit Team participate in the Council's PDR/ PRD programme and have attended relevant training provided. Individual auditors ensure that their CPD requirements are fulfilled, but there is no systematic approach to developing and maintaining internal audit skills.</p> <p>There is no up to date induction programme for members of staff who join the team.</p>	<p>We will review training requirements both across the team and individually. We propose a period of intensive refresher training and development on:</p> <ul style="list-style-type: none"> ■ internal audit core skills ■ identifying and managing risk ■ audit tools and techniques, including the use of IDEA ■ Best value and performance audit (including value for money audit techniques). ■ Training programme complete by December 2013

1300	Quality Assurance and Improvement Plan	Low
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Finding and Implication	Proposed action
<p>The QAIP is a new requirement under PSIAS. The Internal Audit Team has a team plan in place, and reports on performance using the Council's Pyramid performance management system.</p> <p>There is, however, scope to improve the performance monitoring framework.</p>	<p>We will review the key performance indicators and targets in place and consult with the Audit Committee and Senior Management Team to establish indicators that are more focused on the outcomes and impact of internal audit work.</p> <p>Proposed indicators submitted to December Audit Committee.</p>

Performance Standards

2000	Managing the internal audit activity	High
Finding and Implication		Proposed action
<p>The Internal Audit Team has a methodology in place for risk assessment and identifying audit work to be performed each year.</p> <p>The risk assessment is based on financial materiality, risk, controls effectiveness and performance management. We have, however, identified that there is scope for improvement, including the relative weighting of factors.</p>		<p>We will revisit the risk assessment and audit planning process. This process will include:</p> <ul style="list-style-type: none"> ■ a risk management workshop to ensure the team fully understand the core principles, and the risks facing Argyll & Bute Council ■ consideration of alternative approaches at other councils ■ an assurance mapping exercise to ensure that each internal audit adds value to the Audit Committee <p>Revised risk assessment process as outlined above in place and reported to Audit Committee in December.</p>
2100	Nature of work	Medium
Finding and Implication		Proposed action
<p>Where Internal Audit can make use of CIPFA matrices, a full systematic and disciplined approach is taken and can be evidenced.</p> <p>Where this is not possible, we found that there is not always a link to key aspects of risk and internal control.</p>		<p>We will use refresher training to ensure that risks and mitigating controls are identified on each audit. An updated audit approach will be adopted to ensure that each audit considers key risks and controls, and is supported by a strong and systematic evidence base.</p>

1.	Executive summary
2.	Detailed Findings
3.	Appendices

2100	Nature of work	Medium
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Finding and Implication	Proposed action
	Actioned by December 2013

2200	Engagement Planning	High
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Finding and Implication	Proposed action
<p>Audit Agreement Documents are prepared for each engagement, but in some instances the reasons for the audit, the objectives and the key risks and controls were not identified.</p> <p>We are clear that the same level of rigour needs to be applied to every audit undertaken by the team.</p>	<p>As part of the consideration of risk assessment and audit planning processes, we will identify a prioritised revised audit plan for the remainder of 2013-14. The revision will be based on the current plan but will present our rationale for coverage, and the risks and objectives associated with each review.</p> <p>Engagement planning will make direct reference to the risks associated with each audit area and our revised audit approach will ensure that each risk is addressed in a systematic and evidence based manner.</p> <p>New approach in place from December 2013</p>

2300	Performing the engagement	Medium
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Finding and Implication	Proposed action
<p>Auditors currently use discussions with management to prepare the Audit Approach Document and to identify key information necessary for the audit. There is a limited approach to documenting:</p> <ul style="list-style-type: none"> ■ a testing strategy ■ work required to fulfil the engagement objectives ■ work performed and findings 	<p>We will review the approach to planning and documenting internal audit work used by other teams, including Grant Thornton and other Councils.</p> <p>As above, we will develop a revised audit approach which ensures that each risk is addressed in a systematic and evidence based manner.</p> <p>New approach developed and in place from December 2013</p>

2400	Communicating results	Medium
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Finding and Implication	Proposed action
<p>Audit reports are prepared for every engagement within timescales agreed with services. The reports are distributed to key stakeholders including service management, senior management, external audit and the audit committee.</p> <p>We found that there is scope to improve the focus of reporting to ensure that:</p> <ul style="list-style-type: none"> ■ each risk is identified and addressed ■ findings include a clear and evidence based audit opinion ■ audit reports are clear, focused on risk and control and provide the audit committee with the assurance they need 	<p>We will use our work on risk assessment and engagement planning to propose a revised audit report format.</p> <p>Consideration will be given to the development of a rating system to allow for objective monitoring and comparison of audit reports across the Council, and comparison to previous audits.</p> <p>We will consult with services and the audit committee to ensure that changes to the format meet the needs of our users.</p> <p>Revised format of reports submitted to Audit Committee in December for approval.</p>

2600	Communicating acceptance of risk	Low
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Finding and Implication	Proposed action
<p>As for 2400, we found that it is not always clear within reports that internal audit has made a judgement on the level of risk within each review, and therefore whether that level of risk is acceptable to the organisation.</p>	<p>As above, we will ensure that the audit opinion and assessment of managed and unmanaged risk is incorporated within a revised audit report format.</p> <p>Revised format of reports submitted to Audit Committee in December for approval.</p>

A Appendices

Our Rating System

Rating	Description	Features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	<ul style="list-style-type: none"> Key control not designed or operating effectively Potential for fraud identified Non compliance with key procedures / standards Non compliance with regulation
Medium	Important findings that are to be resolved by line management.	<ul style="list-style-type: none"> Impact is contained within the department and compensating controls would detect errors Possibility for fraud exists Control failures identified but not in key controls Non compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures.	<ul style="list-style-type: none"> Minor control weakness Minor non compliance with procedures / standards
Inprovement	Items requiring no action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"> Information for department management Control operating but not necessarily in accordance with best practice



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