

Review of Internal Audit - draft report

Bracknell Forest Council

Audit 2009/10

June 2010



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Status of our reports

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.
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Summary report

Introduction

- 1 The Audit Commission's Code of Audit Practice (the Code) requires auditors to review and report on audited bodies' financial statements, and their annual governance statements (formerly known as the Statement of Internal Control). In doing so, we are required to comply with International Standards on Auditing (ISA UK&I).
- 2 As part of our responsibilities under the Code we consider whether the audited body has put in place internal controls that are both adequate and effective in practice. We meet this responsibility by reviewing and, where appropriate, examining evidence that is relevant to these arrangements.
- 3 Internal audit is an important element in ensuring that control systems are adequate for their purpose and are operating in a satisfactory manner. We currently review the operation of internal audit on an annual basis supplemented by a more detailed review every three years to assess compliance against the professional standards for internal audit set by CIPFA. However in the case of a significant change, for example a new contractor being appointed at the Council in April 2009, a more detailed review is required at the time of change.
- 4 The Code of Practice for Internal Audit for Local Government in the United Kingdom defines it 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 organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

Background

- 5 The Council's internal audit function is provided by HW Controls and Assurance (the Contractor), and is managed by the Head of Audit and Risk Management at the Council. The contract started on 1 April 2009, and prior to that the contract was delivered by Deloitte and Touche Public Sector Internal Audit Ltd.
- 6 In 2007/08 we undertook a review of Internal Audit, assessing the team against the 11 standards which are included in the Code of Practice for Internal Audit for Local Government. The review was aimed at assessing whether we could place reliance on the work of Internal Audit for the purpose of our audit and whether their work could assist us in conducting our interim review of the Council's financial systems.
- 7 Our review concluded that Internal Audit provided a good standard service and was making good progress towards meeting the standards set out in the CIPFA code. We made some recommendations in the 2007/08 report designed to assist the Council in improving the effectiveness of internal audit.

- 8 For 2009/10, we have refreshed our assessment of Internal Audit and assessed the new contractor.
- 9 We based our work on ISA (UK&I) 610 which requires the auditor to:
 - obtain a sufficient understanding of internal audit activities to assess risks of material misstatement in the Council's Statement of Accounts; and
 - perform an assessment of the internal audit function to determine the use of internal audit and its work when making risk assessments, reviewing its:
 - organisational status;
 - scope of function;
 - technical competence; and
 - due professional care.
- 10 ISA (UK&I) 315 requires auditors to understand how the audited body monitors internal controls and highlights that internal audit usually forms part of these control arrangements.
- 11 We have also had regard to 11 standards in the Code of Practice for Internal Audit for Local Government.

Audit approach

- 12 We met several times with the Head of Audit and Risk Management and Contract Manager who were able to update us on progress in relation to our previous recommendations and who responded to queries raised on the files and documents.
- 13 We reviewed the policies and processes in place, and undertook a detailed review of Internal Audit's files in relation to the audit of three key and three non-key systems (including one IT audit) and compared these against the CIPFA standards.

Main conclusions

- 14 In our opinion Bracknell Forest Council's Internal Audit function, comprising the in house Internal Audit team and the contractor, meet the required CIPFA standards and provide a good service. Accordingly the council has satisfied the statutory requirement to have an adequate and effective internal audit provision. Our assessment has also confirmed that we can place reliance on their work for 2009/10.
- 15 Good progress has been made against the recommendations from 2007/08. The recommendations made this year are based on practice in the CIPFA Code, to strengthen further the contribution that internal audit makes to the control environment.
- 16 We have made the following 4 recommendations:
 - The Governance and Audit Committee should consider establishing a mechanism to allow the Head of Audit and Risk Management to meet privately with the Committee.

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- When reviewing its own remit and effectiveness the Governance and Audit Committee should invite the Head of Audit and Risk Management to participate.
 - The contractor should ensure all audit work is adequately documented and evidenced, to minimise potential duplication of work.
 - The annual report by the Head of Audit and Risk Management should include an assessment of Internal Audit's progress against its plan. The appropriateness of the performance indicators which are reported should be reviewed. The Head of Audit and Risk Management has agreed to consider this for future reports.
- 17 The next section of this report details our findings against each of the CIPFA internal audit standards. The recommendations made in the report are presented in Appendix 1 as an action plan for management.

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Standard 1 - Scope of internal audit

- 18** The CIPFA Code of Practice for Internal Audit for Local Government (the Code) requires that the purpose, authority and responsibility of internal audit must be formally defined by the organisation. The scope of internal audit's remit should include the organisation's entire control environment. Internal audit can also, where resources and skills exist, provide additional services including fraud related and consultancy work. This work should be defined in the terms of reference for internal audit. The Head of Internal Audit should make arrangements to be notified of all suspected or detected fraud, corruption or impropriety, to inform the Head's opinion on the internal control environment and internal audit's work programme.
- 19** From our examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 1.

Standard 2 - Independence

- 20** The Code sets out the principles of independence, the importance of internal audit being organisationally independent, the status of the Head of Internal Audit, the independence of the team and any contractors, and the importance of declarations of interest.
- 21** From our examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 2.

Standard 3 - Ethics for Internal Auditors

- 22** The Code sets out the four main principles which should be observed:
- Integrity;
 - Objectivity;
 - Competence; and
 - Confidentiality.
- 23** From our work and examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 3.

Standard 4 - Audit Committees

- 24** The Code defines the purpose of the Audit Committee and also the relationship between the Committee and internal audit.
- 25** Since our last review the Governance and Audit Committee has been established, and has been meeting since 29 April 2009 to fulfil the functions of an audit committee.
- 26** The Head of Audit and Risk Management should be seen as a key source of assurance and support to the Governance and Audit Committee. The Code states that

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"The Head of Internal Audit should have the opportunity to meet privately with the Audit Committee." The Head of Audit and Risk Management and members of the Governance and Audit Committee have not yet done this. The Governance and Audit Committee should consider establishing a mechanism to allow this.

- 27 The Code also states that "to facilitate the work of the (Audit) committee, the Head of Internal Audit should....participate in the committee's review of its own remit and effectiveness". The Head of Audit and Risk Management should consider participating in such a review.
- 28 From our work and examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 4.

Recommendation	
R1	The Governance and Audit Committee should consider establishing a mechanism to allow the Head of Audit and Risk Management to meet privately with the Committee.
R2	When reviewing its own remit and effectiveness the Governance and Audit Committee should invite the Head of Audit and Risk Management to participate.

Standard 5 - Relationships

- 29 The Code sets out the principles of good relationships, including those with management, other internal auditors, external auditors, other regulators and elected members.
- 30 From our examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 5.

Standard 6 - Staffing, Training and Continual Professional Development

- 31 The Code requires that internal audit is appropriately resourced to meet its objectives. The Code also defines requirements for training and continuing professional development. This includes the Head of Internal Audit defining the skills and competencies for each level of auditor and measuring staff against them.
- 32 From our work and examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 6.

Standard 7 - Audit Strategy and Planning

- 33 The Code requires the Head of Internal Audit to produce an audit strategy which should comprise a high level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference, and showing the links to the organisational objectives and priorities. The Head of Internal Audit should also produce a risk based plan designed to implement the strategy.

- 34 From our examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit have satisfied standard 7.

Standard 8 - Undertaking Audit Work

- 35 The Code requires audit work to be planned and agreed with the relevant managers. The work should be undertaken using a risk based approach and evidence gathered to support an independent and objective audit opinion.
- 36 The Code also requires that audit assignments must be sufficiently evidenced to support the conclusions, professional judgements and conclusions.
- 37 Our detailed review of the 6 selected files showed that the standard had been met.
- 38 However, a separate review of the Housing Benefits file as part of our walk through testing at the pre-statement visit in March 2010 revealed that the documentation and evidencing of one of the key controls was not undertaken in a satisfactory manner, and additional testing had to be undertaken by the Audit Commission in this area. This issue had already been identified by the quality review process of the in house team, and the contractor was asked to address this. However the matter was not resolved in a satisfactory manner. Audit evidence of the key control - checking and review of claims by the supervisors was not included in the file, and the spreadsheet demonstrating the control had to be obtained directly from the Housing Benefit team.
- 39 From our work and examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 8.

Recommendation

- R3** The contractor should ensure all audit work is adequately documented and evidenced, to minimise potential duplication of work.

Standard 9 - Due Professional Care

- 40 The Code defines due professional care as:
- working with competence and diligence;
 - the use of audit skills, knowledge and judgement based on appropriate experience, training, ability, integrity and objectivity; and
 - respecting and understanding confidentiality.
- 41 From our work and examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 9.

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Standard 10 - Reporting

- 42 The Code defines the principles of reporting, reporting on audit work, follow-up audits and reporting, and the annual reporting and presentation of the audit opinion.
- 43 The annual report by the Head of Audit and Risk Management does not include an assessment of Internal Audit's progress against its plan, for example audits started, completed and changes to the plan. It is important for the Governance and Audit Committee to understand the changes to the internal audit plan following updates to the risk assessment. The appropriateness of the performance indicators which are reported should be reviewed. The Head of Audit and Risk Management is to consider this for future reports
- 44 We reviewed a sample of reports produced by Internal Audit. The sample showed the reports to be of good quality and individual detailed file review found that conclusions were justified.
- 45 From our work and examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 10.

Recommendation

- R4** The annual report by the Head of Audit and Risk Management should include an assessment of Internal Audit's progress against its plan. The appropriateness of the performance indicators which are reported should be reviewed. The Head of Audit and Risk Management has agreed to consider this for future reports.

Standard 11 - Performance, quality and effectiveness

- 46 The Code sets out the principles of performance, quality and effectiveness. This includes setting out requirements in the audit manual. Quality is to be assessed at the individual level and for the internal audit section as a whole. The performance management framework (targets, feedback, assessment and reporting of these), should demonstrate continuing improvement and effectiveness of the internal audit service.
- 47 From our work and examination of the progress in implementing the 2007/08 recommendations we have concluded that overall Internal Audit has satisfied standard 11.
- 48 Detailed review of selected files also found the work of Internal Audit to be of general high quality with clear evidence of review, subject to the issue on audit documentation and evidence on file for the Housing Benefits review already raised.

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 The Governance and Audit Committee should consider establishing a mechanism to allow the Head of Audit and Risk Management to meet privately with the Committee.	2	Governance and Audit Committee		View to be obtained from the Governance and Audit Committee at meeting on 29th June.	
7	R2 When reviewing its own remit and effectiveness the Governance and Audit Committee should invite the Head of Audit and Risk Management to participate.	1	Governance and Audit Committee Head of Audit and Risk Management		View to be obtained from the Governance and Audit Committee at meeting on 29th June.	
8	R3 The contractor should ensure all audit work is adequately documented and evidenced, to minimise potential duplication of work.	3	Head of Audit and Risk Management	Yes	The contractors will be reminded of the need to ensure that work is adequately evidenced and documented.	30/6/2010
9	R4 The annual report by the Head of Audit and Risk Management should include an assessment of Internal Audit's progress against its plan. The appropriateness of the performance indicators which are reported should be reviewed. The Head of Audit and Risk Management has agreed to consider this for future reports.	2	Head of Audit and Risk Management	Yes	Steps will be taken to include more detailed information on progress against the Annual Internal Audit Plan and performance against targets in future reports from the Head of Audit and Risk Management. The appropriateness of the performance indicators will be reviewed as the contract progresses over the next few months.	31/12/2010