

# **Review of Internal Audit**

**Swindon Borough Council**

**Audit 2007/08**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

External audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **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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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Introduction

- 1 Internal Audit is an integral part of a council's corporate governance arrangements. Each year when planning our audit we assess Internal Audit's work. In the initial year and then every third year we also undertake a more detailed review of Internal Audit against professional standards to:
  - assess the effectiveness of Internal Audit as part of the Council's arrangements for internal control;
  - determine whether we can place reliance on their work in carrying out our own audit responsibilities; and
  - provide members with an independent opinion as to the adequacy of their system of Internal Audit.
- 2 This report identifies the main findings from our triennial review carried out in February/March 2008.

## Background

- 3 ISA 610 requires external auditors to consider the activities of Internal Audit and their effect on external audit procedures. It requires external auditors to obtain a sufficient understanding of Internal Audit activities to assist in planning the audit and developing an effective audit approach. The ISA requires external auditors to assess the Internal Audit function if they consider it may be possible and desirable to rely on Internal Audit work. It also requires external auditors, when using specific Internal Audit work to reduce the extent of their audit procedures, to evaluate that work to confirm its adequacy for their purposes.

## Audit approach

- 4 Internal Audit work should be carried out in accordance with the eleven standards set out by CIPFA in their '*Code of practice for Internal Audit in local government in the United Kingdom*' ('the Code'), which was last updated in late 2006. We structured our review to assess compliance with these standards which cover the following.
- Scope of Internal Audit.
  - Independence.
  - Ethics for Internal Auditors.
  - Audit Committees.
  - Relationships.
  - Staffing, Training and Continuous Professional Development.
  - Audit Strategy and Planning.
  - Undertaking Audit Work.
  - Due Professional Care.
  - Reporting.
  - Performance, Quality and Effectiveness.
- 5 Our review was conducted through discussions with the Head of Internal Audit, discussions with Internal Audit staff, a review of key documents, and a review of Internal Audit reports and files.

## Main conclusions

- 6 Arising from our work we have concluded that Swindon Borough Council has an effective Internal Audit function, which fully complies with all eleven standards set out in the CIPFA Code.
- 7 A summary of our review is set out below and our more detailed findings are covered in the following section of the report.

**Table 1 Compliance with the CIPFA Code standards**

Internal Audit, based on the work undertaken, meet the required standards

Standard	Standard achieved?
Scope of Internal Audit	Yes
Independence	Yes
Ethics for Internal Auditors	Yes
Audit Committees	Yes

Standard	Standard achieved?
Relationships	Yes
Staffing, Training and Development	Yes
Audit Strategy and Planning	Yes
Undertaking Audit Work	Yes
Due professional care	Yes
Reporting	Yes
Performance, Quality and Effectiveness	Yes

- 8 Our review confirms that Internal Audit provides the Council with an independent assessment of the adequacy and effectiveness of the internal controls operating within the Borough. It also confirms that we are able to continue to place reliance on the work of Internal Audit for our own purposes.

## Findings

### Scope of Internal Audit

- 9 Our conclusion is that Internal Audit's arrangements comply with this standard of the Code. The Internal Audit Terms of Reference were approved by the Audit Committee in May 2007. This document formally sets out the purpose, authority and responsibility of Internal Audit, and fully complies with the requirements of the Code. It is evident from our review that the scope of Internal Audit allows for unrestricted coverage of all the Council's activities.

### Independence

- 10 Internal Audit's arrangements comply with the Code. All auditors are free from operational duties and the Head of Internal Audit has direct access to those charged with governance. Our review considered if the external work done by Internal Audit impacted on their independence, and we concluded it did not.

### Ethics for Internal Auditors

- 11 All Internal Audit staff underwent training on the CIPFA Code in Spring 2007, which sets minimum standards for the conduct of all Internal Auditors. Most of the audit staff are also members of professional institutes, and as such must comply with set ethical responsibilities as a clause of their membership. A Declaration of Interests form is completed annually by each member of Internal Audit. These are reviewed by the Head of Internal Audit to assess if there are any risks to objectivity or integrity. We concluded that the Internal Audit department is aware of its ethical responsibilities, and the Head of Internal Audit makes sure that these responsibilities are met.

## **Audit Committee**

- 12 Swindon Borough Council has an independent Audit Committee, which meets bi-monthly. All Internal Audit reports and reviews are submitted to the Audit Committee so that conclusions and recommendations can be noted. The Audit Committee approved the 2007/08 Audit Strategy and Annual Audit Plan, and regular progress reports are provided to committee meetings by the Head of Internal Audit. All Audit Committee meetings are attended by the Head of Internal Audit, who also has access to meet privately with the Committee if required.

## **Relationships**

- 13 Evidence gained during this review suggests that the Head of Internal Audit co-ordinates with other parties to ensure the most effective audit coverage, therefore complying with this standard of the Code. Management are included in the audit process throughout, and feedback forms give an average rating of 'good', suggesting that management are happy with how the Internal Audit function performs.
- 14 A Liaison Protocol was set up in February 2008 which sets out the working relationship that should exist between internal and external audit. Discussions occurred between the Head of Internal Audit and the external audit manager at the beginning of the audit to ensure that wherever possible work would not be duplicated.

## **Staffing, training and development**

- 15 Internal Audit is sufficiently staffed, with an appropriate staff mix including an IT auditor. At the time of the review there was one vacant senior auditor post within the department which was being filled by a temporary member of staff. The Head of Internal Audit is an ACCA fellow, AAT and IA qualified, and has 23 years audit experience. Principal Auditors all have relevant professional qualifications and sufficient experience of audit. Of the eleven audit staff, only one does not have and is not studying for a professional qualification. The training needs of all staff are considered in weekly one-to-one's with their manager, and through the annual appraisal process.

## **Audit strategy and planning**

- 16 Both the Audit Strategy and 2007/08 Annual Audit Plan were approved by the Audit Committee in April 2007. The Head of Internal Audit used a risk based approach when compiling the Plan, in order to concentrate resources on areas of risk. Both documents have been reviewed and have been found to comply with the requirements as set out in the Code.
- 17 Internal Audit completed 88 per cent of the planned audits in 2007/08, falling just short of its 92 per cent target. This was due to staff vacancies in the year. However Internal Audit still completed 100 per cent of the fieldwork required by the external auditors on the main financial systems.

## **Undertaking audit work**

- 18 The Audit Notification Sheet for an audit sets out the objectives, scope and timing of the audit and reporting arrangements. A review of Internal Audit files showed that they were of a good standard and that Audit Notification Sheets were agreed with the relevant manager for each of the audit assignments.
- 19 Internal Audit's risk-based approach to assignments is set out in the Internal Audit Strategy and complies with requirements. Our review of audit assignments showed that the actual work undertaken also met requirements.

## **Due professional care**

- 20 The Internal Audit function complies with this standard. Professional body requirements, internal training and staff management processes are in place to ensure that Internal Audit staff are aware of and act in accordance with the behaviours expected of them.
- 21 Each piece of audit work is reviewed by a relevant manager, in order to ensure that due professional care is maintained at all times. Staff are also aware of the procedures to follow if there are suspicions of fraud, corruption or improper conduct.

## **Reporting**

- 22 A review of a sample of Internal Audit files provided evidence to show that the work undertaken covered the required areas and that Internal Audit reports:
- set out the scope and purpose of the audit;
  - are reviewed by managers prior to issue;
  - are issued promptly and within the agreed timescales; and
  - are agreed, along with recommendations and action plans, with relevant managers.
- 23 The Head of Internal Audit's Annual Report for 2006/07 was presented to the Audit Committee in June 2007. A review of this report against the Code criteria ascertained that the report complied with the Code. The report includes an assessment of the risk relating to all those systems examined in the year. It concluded that the internal control arrangements relating to all the Council's main financial systems were found to be satisfactory and the level of overall risk in these areas was 'moderate'. Any systems work which produces an assessment of 'significant risk' is the subject of a report to the Audit Committee and the relevant Lead Member.

## **Performance, quality and effectiveness**

- 24 We have assessed Internal Audit as complying with this standard. The code requires that arrangements to assess performance, quality and effectiveness should be in place for individual audits and for the service as a whole, and the Internal Audit function has been assessed as meeting these requirements.



- 25 The Audit Manual was updated in February 2008 by the Head of Internal Audit. This ensures that all audit staff have ready access to the latest audit approach and are clear what is expected of them.
- 26 When assessing Internal Audit against this standard, it was discovered that there is no specific Performance Management and Quality Assurance Framework in place. On review of other documents, the relevant pieces of information were found to be contained within either the *Annual Internal Audit Plan* or the *Internal Audit Strategy* document. It is suggested that Internal Audit produce a Performance Management and Quality Assurance Framework to include the following information:
- targets in place to measure performance, developed in consultation with appropriate parties;
  - mechanisms in place to obtain feedback for each individual audit and periodically for the whole service;
  - details of the periodic review of Internal Audit to be undertaken against its strategy and the achievement of its aims and objectives;
  - details of quality reviews to be undertaken periodically to ensure compliance with the Code and the Audit Manual; and
  - action planning to implement improvements.

<b><i>Recommendation</i></b>
<i>R1 Bring together all performance and quality policies and procedures into a single document that sets out the performance and quality assurance framework.</i>

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Bring together all existing performance and quality policies and procedures into a single document that sets out the performance and quality assurance framework.	2	Nick Hobbs (Head of Internal Audit)	Yes	Will ensure that this is done and included in a report to the Audit Committee.	December 2008