

Swindon Internal Audit Services

Performance Management and Quality Assurance Framework

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Date: October 2008

Version: 1.2

Introduction

The purpose of this document is to set out how the Head of Internal Audit will ensure the effective performance of the Internal Audit section.

The document sets out what arrangements are in place to assess the performance, quality and effectiveness for individual audits and for the service as a whole.

Effective audit management involves:

- the setting and communication of clear objectives for internal audit;
- adequate planning so that it is known what has to be done to achieve those objectives;
- allocating and maximising the efficient and effective use of resources in delivering the audit service;
- the setting of standards for audit work;
- monitoring the implementation of audit recommendations;
- having a robust system in place to review the performance, quality and effectiveness of:
 - individual audit assignments; and
 - for the internal audit service as a whole.

Our framework for ensuring that arrangements are in place to ensure effective management is set out below.

Setting and Communicating Clear Objectives - Internal Audit Strategy

In accordance with the CIPFA [Code of Practice for Internal Audit in Local Government in the United Kingdom 2006](#) (Section 7.1), Internal Audit has produced an Audit Strategy.

The Strategy communicates the contribution that internal audit makes to the organisation and includes:

- Internal Audit objectives and outcomes;
- how the Head of Internal Audit will form and evidence his opinion on the control environment to support the annual governance statement;
- how Internal Audit's work will identify and address significant local and national issues and risks;
- how the service will be provided i.e. internally, externally or a mix of the two;
- the resources and skills required to deliver the service.

The strategy is kept up to date to reflect the organisation and its changing priorities and is reported to, and approved by, the audit committee on an annual basis.

The section has regular team meetings and training sessions. The strategy and objectives of the section are communicated in these meetings at relevant parts of the

parts of the year. The section as a whole contribute to the development of the section's business plan that sets out to address any issues relating to the strategy and objectives.

Business and operational plans

An annual Business plan sets out the key objectives for the internal audit service for the year. The plan reflects the internal audit strategy and includes key service objectives, targets, resource implications and performance indicators reported to, and monitored by, management. The Business Plan also includes a risk register for the service that is linked to organisational objectives.

An annual risk-based plan is produced by the Head of Internal Audit in consultation with client departments, the Council's Section 151 Officer and Monitoring Officer, as well as External Audit. The plan is reported to and approved by Corporate Board and Audit Committee.

Internal Audit resources are appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on service delivery. How regularly systems and processes are reviewed varies depending on the associated risk, materiality and dependency which they carry. The annual plan has placed reliance on the Corporate and Group risk registers.

The plan estimates the level of resources required to deliver each individual audit assignment. This allows individual work plans to be drawn up for each member of staff. Work is allocated to individual auditors by a process of matching appropriate skills, experience and competence while ensuring that there is adequate rotation of audit work.

These plans are monitored to assess the performance and effectiveness of individual auditors and the internal audit section as a whole.

It should be noted that different models are used by some organisations, although the key principles may be similar or the same.

Setting standards for audit work

An internal audit manual has been produced and is reviewed annually by the Head of Internal Audit. The manual sets out policies and procedures to guide staff in performing their duties and helps to ensure that the section comply with the requirements of the [Code of Practice for Internal Audit in Local Government in the United Kingdom \(CIPFA, 2006\)](#). The Standards are covered at least annually in the in-house training programme.

The Code of Practice sets out the standards expected over eleven separate headings:

- scope of internal audit
- independence
- audit strategy and planning
- undertaking audit work

- ethics for internal auditors
- audit committees
- relationships
- staffing, training and CPD
- due professional care
- reporting
- performance, quality and effectiveness

The Code defines the way in which the internal audit service should undertake its functions and the Code's requirements are reflected in the audit manual.

Monitoring the implementation of audit recommendations

The section has a process in place to monitor the implementation of audit recommendations, to ensure that appropriate management action is being taken to address control weaknesses and to ensure that risks are being mitigated to acceptable levels. In the light of limited resources, concentration is around the reporting and monitoring of high priority recommendations. The system includes the recording of recommendations made and accepted, the reporting of high priority recommendations to audit committee and a formal process to undertake follow up reviews.

Follow up reviews to previous audits can take the form of actual follow up audits that focus on the key recommendations, or the issuing of follow up forms for the relevant client to complete giving details of the current status of implementation of the audit recommendation along with relevant supporting documentation.

Where inadequate action is taken to address serious control issues, these should be reported to audit committee, included in the annual audit report and used to inform the audit planning process.

Control of individual audit assignments

The planning process is complemented by a sound system designed to ensure that approved audit plans are achieved. A proper system of monitoring time spent on individual audit assignments together with meeting target deadlines for audit work is in place. This involves regular 1:1 meetings between managers and auditors to establish progress on audit assignments along with the use of a time recording system (APACE).

The time recording system splits time between chargeable and non-chargeable and provides details of when audits were started, how much time has been spent etc. This system also assists in benchmarking the service through the CIPFA Benchmarking Club.

Deviations from approved plans require prior approval by the officer managing the audit or the Head of Internal Audit. However, audits should not be closed at the end of their planned time without a reasonable degree of assurance that audit objectives have been achieved.

There is regular contact between the auditor and their manager regarding progress on the audit. Where serious problems are encountered discussions take place promptly and action determined e.g. additional resources, extension of time, etc.

Before completing each part of an audit, the auditor must be satisfied that audit objectives have been achieved. Audit management needs to know progress against plans: it may be necessary to institute a formal system to achieve this. The control of individual audit assignments is fundamental to the effectiveness of internal audit. This includes:

- good communications between audit staff at all levels;
- regular meetings between audit management and staff;
- formal and informal training sessions;
- formal guidance (for instance an audit manual) on the policies, principles, practice and techniques of internal audit;
- adequate supervision, by trained and experienced auditors, involving monitoring, and reviewing work, developing staff skills and ensuring that performance is in line with standards and plans;
- formal reviews of working papers, etc;
- co-ordination of the results of audit assignments;
- the prompt reporting of the audit.

Review of individual audit assignments

The review of all work is an integral part of audit work. Review continues throughout an audit so that a more senior auditor always appraises the work of another. The extent of review will vary with the experience of staff and the nature of the assignment but it should be such that the Head of Internal Audit, who may undertake a final review of the draft report, can be satisfied that the conclusions are sound and are demonstrably supported by relevant, reliable and sufficient audit evidence. There should also be evidence that all elements of the plan have been satisfactorily achieved and that the audit file has been reviewed.

In addition to an ongoing review the officer managing the assignment will also undertake a review at the end of the assignment. The review will consider the quality of the audit, ensuring that documents have been completed in accordance with the section's policies and to the standard set out in the CIPFA Code of Practice. The manager will also ensure that there is sufficient evidence to support the findings and ensure that the recommendations are practical. Audit management will ask such questions as:

- How well did staff carry out the work plan?
- Did they meet targets?
- What obstacles did they meet?
- Were quality standards met?

In order to assess the validity of the plan they will also need to ask:

- Were the targets realistic?
- Was the time allotted too short or too long, in total or part?
- Were the planning assumptions justified?

A critical review may reveal deficiencies that need to be remedied. This may involve staff training, better planning, the use of other techniques, different approach, change in management style, etc. Audit management should determine any need for additional guidance, implications for other audits and the effect on audit plans. The view of line management is helpful in assessing audit performance and should be encouraged.

Performance and Effectiveness of the Internal Audit Section

In order to assist the Head of Internal Audit to assess the performance and effectiveness of the service provided the following performance indicators have been agreed with Corporate Board and Audit Committee:

- Key indicators that are reported at Audit Committee meeting:
 - Overall completion of annual audit plan: target is to complete 90% of the number of audits included in the annual audit plan
 - Completion of managed (main financial system) audits: target is to complete 100% of these audits.
 - Customer feedback: to obtain an overall assessment of 'Good' from our customer feedback forms (see below).
- Other local indicators that will be reported on an annual basis are:
 - Issuing final reports: target to issue all final reports within 10 working days of agreeing the draft report
 - Issuing draft/draft for discussion reports – to issue a draft, or draft for discussion report within 2 months (60 days) of starting fieldwork on an audit.
 - Implementation of recommendations – to ensure that 100% of agreed high priority recommendations are implemented within agreed timescales.
 - Productivity – to ensure that the section's productive time amounts to at least 80% of available time
 - Management responses received within agreed timescales – 3 weeks for main financial system and Corporate Risk register audits; 2 weeks for other audits

The Audit Committee maintains a monitoring role regarding the performance of the Internal Audit section by considering the key performance indicators for the section at each meeting of the Committee. Also, at least one individual audit report is presented to the Committee who are then able to question the relevant Director/Group Director regarding progress on implementing Internal Audit recommendations but also judge the quality of the audit report and its findings and recommendations.

Customer feedback questionnaires are issued after each audit to obtain client feedback on the quality and usefulness of the audit report and the performance of the auditor. The questionnaires are examined by the member of staff managing the audit who will assess whether the responses raise any issues that need to be addressed, either by way of praise or identification of possible training needs. The Head of Internal Audit maintains a summary of all returned questionnaires that he monitors to identify trends and possible training needs etc. The questionnaires are also used to assist the Head of Internal Audit in nominating staff for individual awards as part of the Council's award process.

A survey of senior management and Members of the Audit Committee is carried out annually, the results of which feed in to both the section's business (action) plan and annual audit plan.

The Head of Internal Audit reviews the section's performance, annually, against the Cipfa Code of Practice and the strategy for Internal Audit. This assessment is reported to Audit Committee annually. The results of this assessment are used to inform future strategy and plans.

The Head of Internal Audit will compare the performance and effectiveness of the service over time, in terms of the achievement of targets and the quality of the service provided to the user. The results of the performance management and quality assurance programme will be included in the Head of Internal Audit's annual audit report.

The Head of Internal Audit provides evidence from their review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit using the checklist included in the Code of Practice as a basis for self-assessment and independent external review.

In accordance with the [Accounts and Audit Regulations 2006](#), an annual review of the system of internal control for the organisation is undertaken and published within the Council's annual governance statement. A new requirement in 2006 was Regulation 6, which requires bodies to review the effectiveness of their system of internal audit once a year and for the findings to be considered by a committee of the relevant body, as part of the consideration of the system of internal control.

The Council's External Auditors also undertake an annual review of Internal Audit, with a detailed review every three years. The findings of these reviews also inform the Head of Internal Audit on the effectiveness of the system and identify areas for improvement.

The section subscribes to the Cipfa Benchmarking Club for Internal Audit. This provides a useful way of reviewing performance by allowing comparison to other unitary authorities and to compare aspects of their performance against best practice. The outcome of this benchmarking exercise is reported annually to Audit Committee

Review

This Performance Management and Quality Assurance Framework will be reviewed at least annually by the Head of Internal Audit and reported to Audit Committee for approval.