

# **Final Report for the external assessment of the internal audit function**

## **Bridgend County Borough & Vale of Glamorgan Councils' Internal Audit Shared Service**

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## Review of Bridgend County Borough and Vale of Glamorgan Councils' Internal Audit Shared Service (January/February 2017)

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 and were revised on 1 April 2016. The standards require periodic self-assessments and an assessment by an external person every five years. Now that the standards have been in place for almost four years, Bridgend and Vale Internal Audit Shared Service has decided to undertake the required external 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 as 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 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to the Audit Committees.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. All auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added. However, the brevity of the audit brief did not reflect the breadth of planning undertaken for each audit, and did not fully evidence the auditee's contribution to this planning. In addition, some of the planning discussions were not documented and so there is no evidence that they happened.

I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards, in particular revising the audit terms of reference to reflect the planning undertaken before each audit. The Chief Internal Auditor (CIA) 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
<b>Code of Ethics</b>	Full	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity. However, auditors placed more emphasis on policies and procedures than on actions	Look at ways to emphasise compliance with Code of Ethics focussing on actions not processes	S1
<b>Mission</b>	Non-compliant	The Charter does not include the newly developed internal audit mission	Include the Mission in the Charter	R1

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>Core principles of internal audit</b>	Full	No significant problems were identified with following the new core principles, although improving the current audit planning documents will aid compliance. Further work will be needed to demonstrate compliance in the annual report for 2016/17	Expand the audit brief as indicated below	R2
			Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	S2
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	Partial	<b>Standards 1000.A1 and C1</b> The nature of assurance work is not clearly defined in the Charter. There is no definition of senior management and the definition of the Board lacks clarity	Define assurance work in the Charter, making the link to giving the opinion	R3
			Include a definition of senior management in the Charter	R4
			Make the definition of the Board more explicit	S3
<b>1100</b> Independence and objectivity	Full	The independence and objectivity of the audit section was emphasised by all interviewees <b>LGAN 1.4.2</b> Neither council's anti-fraud policy contains a requirement to inform audit about any suspected or detected frauds, corruption or similar	Include the requirement to inform internal audit of all suspected and detected frauds, financial or otherwise, corruption or impropriety in the each council's anti-fraud policy	R5
<b>1200</b> Proficiency and due professional care	Partial	<b>Standard 1210.A2</b> None of the audits that I reviewed included any evidence of consideration of fraud risks, although I was assured by auditors that these were looked at <b>Standard 1220.A1 and A3</b> The audit brief states only a high-level objective and the controls to be checked. As a result there is	Expand the audit brief as indicated	R2

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		insufficient clarity about the risks to be audited <b>Standard 1230</b> Auditors had mixed views on access to CPD with some taking advantage of the offer of professional training	Staff need to be encouraged to take advantage of the training offered to them	S4
<b>1300</b> Quality assurance and improvement programme	Partial	<b>Standard 1311</b> Internal audit is reviewed by itself and by external audit but there are no plans for internal peer reviews	Include peer officer or member reviews of audit within the five year cycle	S5
		<b>LGAN 11.3.2</b> Satisfaction questionnaires are sent out after each audit and performance has been reported in the past but was not included in the 15/16 annual report	Report satisfaction questionnaire results in annual report	R6
		Reviews are undertaken against the PSIAS but not against the LGAN and Manual	Include a review against the LGAN, where it goes beyond the PSIAS, and against the Manual	R7
		<b>LGAN 11.3.3</b> The key PI of achievement of the plan was not reported over time in the 15/16 annual report	Report performance indicators over time in the annual report	R8
<b>Performance standards</b>				
<b>2000</b> Managing the internal audit activity	Partial	<b>Standard 2010</b> The annual audit plan makes no reference to the delivery and development of the service, the Charter and audit's contribution to the objectives and priorities of each Council	Include reference to the delivery and development of the service, the Charter and audit's contribution to the objectives and priorities of each Council in the annual audit plan	R9
		<b>Standard 2050</b> The audit plan refers to using other sources of assurance but includes no details	Include details of other sources of assurance and the nature of those assurances in the annual plan	S6
		<b>LGAN 7.1.2</b> There is no reference in either the annual plan or Charter as to	Refer to the audit service being provided internally in the Charter	R10

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		how the service will be provided <b>LGAN 7.2.3</b> The plan does not clearly differentiate between assurance and other work	and annual plan  Differentiate between assurance and other work in the plan	R11
<b>2100</b> Nature of work	Partial	<b>Standard 2110.A1</b> Audit has undertaken no specific reviews of ethics although other work does touch on this area  <b>Standard 2120</b> Audit has not reviewed risk management arrangements recently <b>Standard 2120.A1 &amp; A2 and 2130.A1</b> There was no reference to organisational objectives in any of the audits reviewed. In addition, fraud risks are not identified in audits	Undertake ethics work, either separately or clearly identified as part of broader governance work and be more overt about ethical matters considered in individual audits  Undertake periodic audits of risk management arrangements  Expand the brief as indicated	R12  R13  R2
<b>2200</b> Engagement planning	Non-compliant	<b>Standard 2201, 2210 and 2220</b> The brevity of the audit brief means that many key areas are not documented to demonstrate that they have been considered Note that this has had an impact on a number of other standards <b>Standard 2240</b> Work programmes (control evaluation sheets) are developed for each audit, but these are compliance and control rather than risk based. They are rarely approved before being implemented	Expand the brief as indicated        Move the emphasis in work programmes to risk, using the revised audit brief   Approve all work programmes before implementation	R2        R14  R15
<b>2300</b> Performing the engagement	Partial	<b>Standard 2330</b> Working paper documentation meets the standards but there appears to be a lot of cutting and	Look at ways to streamline and summarise in audit working papers	S7

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>pasting between working papers, summary documents and the report making it difficult to identify key messages</p> <p><b>Standard 2340</b> Although there is a high level of informal supervision, audits are only routinely formally reviewed at draft report stage</p> <p><b>LGAN 11.1.1</b> The Manual includes no reference to complying with the LGAN</p>	<p>Introduce formal review at: Audit brief Work programme Draft report as a minimum</p> <p>Include the requirement to comply with the LGAN in the Audit Manual</p>	<p>R16</p> <p>R17</p>
<b>2400</b> Communicating the results	Partial	<p><b>Standard 2410.A1</b> Auditees understood the audit opinion but might obtain greater value if it were broken down into different aspects</p> <p><b>Standard 2420</b> Audit reports are generally satisfactory, but are very long and repetitive. Splitting findings from recommendations makes it harder to follow the reports</p> <p><b>Standard 2440.A1</b> The CIA is responsible for communicating the results of audits but her name is not included on reports, nor does she issue the reports herself</p> <p><b>LGAN 10.2.7</b> The CIA currently raises risk matters arising from audits for consideration in risk registers informally</p>	<p>Consider the value of splitting the opinion into different aspects and/or giving an opinion per risk and/or adding in an element of context</p> <p>Look at ways to reduce the length of the detailed report and combine findings and recommendations to ease reading</p> <p>Include the CIA's name on audit reports as the person responsible for issuing it</p> <p>Formalise the current informal arrangements regarding raising matters for inclusion in the risk register</p>	<p>S8</p> <p>S9</p> <p>R18</p> <p>S10</p>
<b>2500</b> Monitoring progress	Full	The follow-up process is robust and works well and auditees are occasionally asked to attend audit committees to discuss outstanding actions		

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>2600</b> Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at each council on audit findings		

The Chief Internal Auditor has details of the findings, standard by standard.  
 Elizabeth Humphrey CPFA

## Appendix 1: action plan

### Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include the Mission in the Charter	Agree	CAE	March 17
R2	Expand the audit brief to cover: <ul style="list-style-type: none"> <li>• Service contribution to strategic objectives</li> <li>• Objectives of the service</li> <li>• Objectives of the audit</li> <li>• Links to any council risk registers</li> <li>• The criteria used to judge the service, eg performance measures, best practice guidance, legal framework, etc</li> <li>• Risks to be examined, including fraud and errors</li> <li>• Compliance with laws, regulations, policies, procedures and contracts</li> <li>• Achievement of strategic objectives</li> <li>• Reliability and integrity of financial and operational information</li> <li>• Safeguarding assets</li> <li>• Consideration of relevant systems, records, personnel and physical properties</li> <li>• Adding value and value for money, including effectiveness and efficiency of operations and programmes</li> </ul>	Agree	CAE	June 17
R3	Define assurance work in the Charter, making the link to giving the opinion	Agree	CAE	March 17
R4	Include a definition of senior management in the Charter	Agree	CAE	March 17
R5	Include the requirement to inform internal audit of all suspected and detected frauds, financial or otherwise, corruption or impropriety in each council's anti-fraud policy	Agree	CAE / Monitoring Officers	Sept 17
R6	Report satisfaction questionnaire results in annual report	Agree	CAE	March 17
R7	Include a review against the LGAN, where it goes beyond the PSIAS, and against the Manual	Agree	CAE	June 17
R8	Report performance indicators over time in the annual report	Agree	CAE	March 17
R9	Include reference to the delivery and development of the service, the Charter and audit's contribution to the objectives and priorities of each Council in the annual audit plan	Agree	CAE	April 17



<b>No</b>	<b>Recommendation</b>	<b>Response</b>	<b>Responsible officer</b>	<b>Action date</b>
R10	Refer to the audit service being provided internally in the Charter and annual plan	Agree	CAE	April 17
R11	Differentiate between assurance and other work in the plan	Agree	CAE	April 17
R12	Undertake ethics work, either separately or clearly identified as part of broader governance work and be more overt about ethical matters considered in individual audits	Agree	CAE	During 2017/18
R13	Undertake periodic audits of risk management arrangements	Agree	CAE	During 2017/18
R14	Move the emphasis in work programmes to risk, using the revised audit brief	Agree	CAE	Plan year 2017/18
R15	Approve all work programmes before implementation	Agree	Principal Auditors	Plan year 2017/18
R16	Introduce formal review at: <ul style="list-style-type: none"> <li>• Audit brief</li> <li>• Work programme</li> <li>• Draft report as a minimum</li> </ul>	Resource permitting	CAE / Principal Auditors	Plan year 2017/18
R17	Include the requirement to comply with the LGAN in the audit manual	Agree	CAE	Immediate
R18	Include the CIA's name on audit reports as the person responsible for issuing it	Agree	CAE	Immediate

## Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Look at ways to emphasise compliance with Code of Ethics focussing on actions not processes	Agree include as part of the Section Meeting	CAE	Immediate
S2	Make the definition of the Board more explicit	Agree	CAE	Immediate
S3	Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	Agree	CAE	March 17
S4	Staff need to be encouraged to take advantage of the training offered to them	Agree and will continue to encourage.	CAE	Immediate
S5	Include peer officer or member reviews of audit within the five year cycle	Will endeavour to do so during the five year cycle, wholly dependent on resource	CAE	2020/21
S6	Include details of other sources of assurance and the nature of those assurances in the annual plan	Agree	CAE	April 17
S7	Look at ways to streamline and summarise in audit working papers	Agree, this will be ongoing during 17/18	CAE	2017/18
S8	Consider the value of splitting the opinion into different aspects and/or giving an opinion per risk and/or adding in an element of context	Will consider this during 2017/18 once resource issues are resolved.	CAE	2017/18
S9	Look at ways to reduce the length of the detailed report and combine findings and recommendations to ease reading	Will consider this during 2017/18 once resource issues are resolved.	CAE	2017/18
S10	Formalise the current informal arrangements regarding raising matters for inclusion in the risk register	Disagree. Sufficiently formal systems are already in place		

## Appendix 2: interviewees

<b>Person</b>	<b>Position</b>	<b>Organisation</b>
Lyn Archer	Auditor	Internal Audit Shared Service
Martin Bell	Unified Services Manager	Bridgend County
Filippa Daniels	Auditor	Internal Audit Shared Service
Joan Davies	Principal Auditor	Internal Audit Shared Service
Cllr Ella Dodds	Audit Committee Chair	Bridgend County
Cllr Keith Hatton	Audit Committee Chair	Vale of Glamorgan
Randal Hemingway	Head of Finance and S151 Officer	Bridgend County
Nicola Hinton	Corporate Equalities Officer	Vale of Glamorgan
Huw Isaac	Head of Performance and Development	Vale of Glamorgan
Andrew Jolley	Monitoring Officer	Bridgend County
Carys Lord	Section 151 Officer and Head of Finance	Vale of Glamorgan
Janet McNicholas	External Auditor – Bridgend Council	Wales Audit Office
Vicki Macey	Auditor	Internal Audit Shared Service
Deborah Marles	Head of Legal Services, Monitoring Officer	Vale of Glamorgan
Darren Mephram	Chief Executive	Bridgend County
Martin Morgans	Head of Performance and Partnership Services	Bridgend County
Satwant Pryce	Head of Regeneration, Development and Property Services	Bridgend County
Emma Reed	Head of Visible Services and Transport	Vale of Glamorgan
Emma Samways	Principal Auditor	Internal Audit Shared Service
Anne Sloman	Group Auditor	Internal Audit Shared Service
Helen Smith	Chief Internal Auditor	Internal Audit Shared Service
Nathan Smith	Auditor	Internal Audit Shared Service
Rob Thomas	Managing Director	Vale of Glamorgan
Sara Thomas	Auditor	Internal Audit Shared Service
David Vining	Head of Strategic ICT	Vale of Glamorgan
Richard Watkins	IT Specialist (Group Auditor)	Internal Audit Shared Service
Steve Wyndham	External Auditor – Vale of Glamorgan Council	Wales Audit Office