

# High-Level Review of Internal Audit



## Final Report

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# Executive Summary

## Introduction

- 1.1 As part of its existing work with Bury MBC, CIPFA C.Co Ltd (C.Co) was asked to review, at a high-level, the arrangements for Internal Audit within the Council. The review used a mixture of desktop review of key, standard documentation and on-site interviews and review to determine the current state of Internal Audit against best practice and the requirements of the Public Service Internal Audit Standards (PSIAS); and, where appropriate, to provide key recommendations for improvement.
- 1.2 The desktop element of the review identified 14 key lines of enquiry for consideration during the on-site activity. All 14 elements were discussed with the Audit Manager and reviewed against specific additional pieces of evidence such as Audit reports. The outcomes of the both desktop and on-site activity has informed both the overall summary below and the recommendations that follow. An evaluation of the 14 areas is contained within the body of this report.
- 1.3 The Internal Audit team, in particular its Audit Manager, are keen to deliver an effective compliant service within the Council. However, there are a number of historic, operational and cultural factors within both the team and the wider Council that inhibit the effectiveness of the team. These factors include:
  - Little evidence that audit planning is structured, risk-based and contributing to an improvement in the overall control framework
  - No evidence that the learning from individual audits is captured and shared with the wider organisation
  - Little value or worth placed by the wider organisation in the work of Internal Audit
  - No provision for follow up activity to ensure that recommendations are implemented, with no consequence for non-implementation
- 1.4 The proposed recommendations, if implemented, may go some way to addressing the issues identified. However, some of the issues are cultural and will require a structured process of addressing organisational understanding of the role of Internal

Audit, its consultancy capability and opportunity to support the delivery of the Council's wider governance objectives.

- 1.5 This report represents a 'true and fair view' based upon the evidence supplied and subsequent discussions. C.Co would like to place on record its gratitude to all Bury officers who supported and contributed to this review.

## Detailed Methodology

### Approach

- 2.1 In advance of the review, a number of key audit documents were requested. These documents included:
- Corporate and directorate risk registers
  - Internal Audit Plan 2019/20
  - Emerging Internal Audit Plan 2020/21
  - Final Audit reports covering a range of audit scores
- 2.2 A small number of documents were sent to C.Co in advance of the planned on-site review period and from these a number of key lines of enquiry were identified. The identification of these key lines was triggered by a number of factors including: availability, completeness and quality.
- 2.3 The 14 key lines of enquiry identified were:
- Standing of Internal Audit within the Council
  - Positioning of the Head of Internal Audit
  - Risk-based Auditing and Planning
  - Resources and available days
  - Assurance Mapping
  - Audit delivery
  - Consultancy
  - Terms of Reference/Reporting
  - Contractual Basis for the Delivery of Audit to Council Companies
  - KPIs, Progress Reporting, Accountability
  - Annual Report & Opinion
  - PSIAS Review and QAIP
  - Relationship with Audit Committee
  - Chair of Audit's input into the performance review of the Head of Internal Audit
- 2.4 The on-site activity included meetings with the Audit Manager and Interim Assistant Director of Finance and a further review of the additional papers provided on the day. Each key line of enquiry was explored in the context of Bury Council and reviewed against the standards and/or best practice. Where appropriate, recommendations for improvement have been identified.

## Detailed Findings

### Standing of Audit within the Council

- 3.1 Based upon the review of documentation and discussions with the Audit Manager and Assistant Director of Finance it is clear that the visibility, understanding and impact of Internal Audit, within the Council, is not where it should be. The perception is that Audit is reactive, is directed in its activity and has little evidence of the impact it is making on the wider organisation.

The reasons for this are varied and linked to the role and culture of governance within the organisation, the perceived maturity of risk management and the ability of the Audit Plan to address and mitigate the Council's wider exposure to risk. The specific risk-related issues are covered below, but there is clearly a role for Internal Audit in 'resetting the clock', creating greater awareness of its role and ability to support the organisation in the delivery of its key objectives.

#### 3.1 Internal Audit Awareness

Internal Audit should use the additional time afforded by the delay in the production of the Internal Audit Plan for 2020/21 to effectively engage with those charged with governance and the wider Council to raise awareness of:

- The statutory role of Internal Audit
- The ability of audit to deliver consultancy within the organisation
- To identify opportunities to impact the overall control framework/governance within the Council.

### Positioning of the Head of Internal Audit

- 3.2 The role of the Head of Internal Audit currently sits as part of the wider responsibilities of the Head of Finance. Whilst this is not an uncommon arrangement, in comparison to other similar organisations, it is unclear whether this arrangement has contributed to the seemingly hidden nature of Audit within the Council. In considering the future of Internal Audit, and indeed wider governance including risk management, it would be reasonable to consider alternative arrangements for the delivery of the role. Recasting the role may help with raising the profile of the team, increasing awareness across the organisation and driving the required operational change that maximises the impact of the team. A number of organisations have combined the roles of Audit & Risk and given the evident limitations of current risk management arrangements, a combined role may be appropriate for Bury moving forward. Copies of an example Audit & Risk role were provided, for illustration, during the on-site activity.

### 3.2 Positioning of the Head of Internal Audit

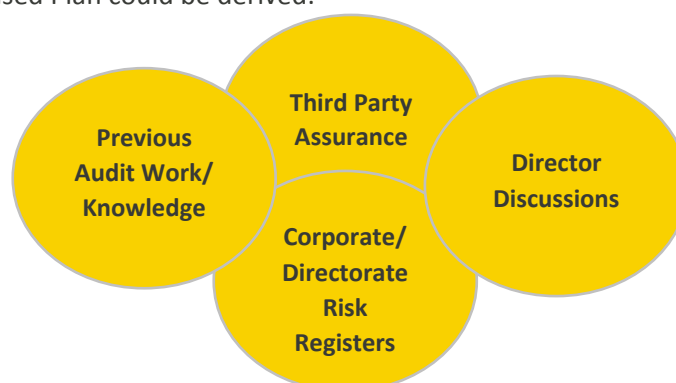
Review the role of the head of Internal Audit in the context of wider governance and the potential restrictions that the current arrangements may have on the ability of the team to impact, positively on the wider control framework.

## Risk-based Auditing & Planning

- 3.3 Public Sector Internal Audit Standard 2010 clearly states that the head of Internal Audit “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. As part of the initial document request, corporate and directorate risk registers and the Internal Audit Plan were requested in order to track audit activity back to the identified, current risks facing the organisation.

C.Co were sent details of 12 corporate, strategic risks that were marked as red (overdue, failing etc). The 12 risks included the telephone system, GDPR compliance and system upgrades. The risks are operational in nature and did not feel particularly corporate or strategic. Additionally, there was no sense of consequence that these risks are red with no evidence of remedial plans being put in place and officers held to account. It is perhaps no surprise then that the Audit Plan for 2019/20 evidences little of the risk registers in its planned activity. Indeed, only one Audit can be broadly linked to one of the identified risks.

Discussions with the Audit Manager suggest that much of the content of the Plan is given or directed by service managers from a general allocation of audit time within a nominal Plan. Internal Audit should be able to demonstrate the risk-based decision-making that has contributed to the development of the Audit Plan ensuring that the impact of their work has the greatest added value to the organisation. As a minimum, the high-level diagram shows how a risk-based Plan could be derived:



Using a structured evidence basis makes it easier for Internal Audit not only to plan its activity with a clear link to corporate and directorate risk, to demonstrate to the organisation where it is adding value and to positively impact overall control and governance.

### 3.3 Risk-based Planning and Delivery

Develop a risk-based methodology to ensure and evidence that the Audit Plan is evidentially risk-based and delivering the right audits to deliver maximum contribution to overall control.



## Resources and Available Days

- 3.4 The structure of Internal Audit provides just under 900 available or direct audit days. This is based on 220 days for full-time auditor, with adjustments made for part or term time arrangements and for the Audit Manager to undertake planning and other non-chargeable activity. It is not for C.Co to say whether this figure is absolutely too high or too low. However, given the perceived governance issues within the Council, including its apparent risk maturity, the number of audit days feels low.

No assessment or comparison of the relative quality or volume of work produced has been undertaken and it is difficult therefore to determine if the 900 days is being delivered to the same level of quality, consistency and volume across the Internal Audit team.

### 3.4 Internal Audit Resources

Review the structure/available resources for Internal Audit in context of the delivery of a risk-based Plan for 2020/21. In other words, determine on a risk basis the audits that the organisation needs and then review available resources against this requirement.

## Assurance Mapping

- 3.5 Assurance Mapping is the process of identifying other sources of assurance, usually provided by third parties such as inspection agencies and accreditable bodies, in order to take a riskbased audit view whether or not there needs to be coverage within the Audit Plan. Audit teams, in this case Bury's, have limited resource to address all risks and/or the organisations requirement for audit. Assurance mapping is a best practice methodology that enables the appropriate allocation of resource to where the need is greatest.

An assurance mapping exercise has not been undertaken, to date, in Bury Council.

### 3.5 Assurance Mapping

To support the development of a risk-based Internal Audit Plan, undertake a detailed and evidence-based assurance mapping exercise to ensure that the right level of resource is applied to the areas of most significant risk.

## Audit Delivery

- 3.6 It was difficult in the time available for this review to adequately assess the quality of the audits that have been delivered by the team. Accepting that little evidence exists to track audit activity to organisational risk, there is a suggestion that the collective learning from audit work is not routinely communicated or adopted across the organisation.

Discussion with key officers suggests that audits often fail to consider the bigger, organisational picture and merely focus on the area in hand. To illustrate this point, the 'Winter Maintenance' audit report dated July 2019 identifies that over the last three years the service overspent on its budget to the tune of £259,928 or an average of just over £86,000 per year. Given that the annual budget was between £264k and £289k during this period,

the Council has effectively paid four years winter maintenance delivery for the price of three. There may well be legitimate reasons for the annual additional spend. However, of greater concern is the fact that the Audit report states “Internal Audit is satisfied that adequate procedures are in place to accurately monitor the expenditure relating to the winter maintenance service” and offers no recommendation for improvement. The processes for monitoring the expenditure may well be very good, but actual expenditure is consistently over budget but here is no suggestion that budget and/or expenditure is reviewed, this would appear to be a missed opportunity.

### 3.6 Audit Delivery

Develop a process of quality assurance, review and training that enables a rigorous challenge of findings, assumptions and recommendations to ensure that all audits deliver maximum impact for the wider Council.

## Consultancy

- 3.7 The Standards clearly define internal audit as an “independent, objective assurance and consulting activity”. An allocation of days for consultancy within the planned activity of an internal audit function provides resources to enable the service to support key activity, major projects and new initiatives that a council may wish to undertake. Operating in a consultative capacity enables Internal Audit to contribute at the outset of an initiative rather than reviewing after the fact and being perceived as a ‘critic’ or ‘blocker’. There is no allowance for consultancy days in the current Bury Plan and no obvious consultancy activity takes place

### 3.7 Consultancy

In developing the 2020/21 Plan for May this year, consider an appropriate allocation of days for consultancy activity to support the Council’s achievement of its wider corporate objectives.

## Terms of Reference/Reporting

- 3.8 Internal Audit use an engagement letter/memo to set out the scope, requirements and timing of individual audits. Although the specific letters were not reviewed as part of this review, use of such engagement letters or more formal terms of reference is widely seen as good practice and is supported.

Aside from the reporting issues identified in 3.6 above, the impact of the current reports is questionable. For example, the ‘winter maintenance’ review is classed as inadequate, but the assessment label is almost hidden in the summary narrative and fails to deliver impact for the auditee. The inadequate rating is given because there are more than two medium value recommendations. C.Co would question whether a formulaic assessment score is appropriate and that scores should be linked to the exposure of risk, lack of control etc. Additionally, the inclusion of significant numbers of low level recommendations can dilute the impact of both High and Medium recommendations thus lessening the impact of individual audit reports. C.Co is aware of some organisation who present low level recommendation as ‘advisories’ and this is worth consideration.

### 3.8 Terms of Reference/Reporting

Review the structure, narrative and impact of Audit reports including the requirement/desire to include all low-level recommendations as formal recommendations.

## Auditing Council Companies

- 3.9 As part of its on-site discussions C.Co were made aware that the Internal Audit team have contractual arrangements for the provision of Internal Audit services on a bought back basis from Persona and Six Town Housing. The contracts provide 40 and 75 audit days respectively on a contractual rather than risk basis. Engagement in the audit process is mixed and there has been occasion where the team has delivered more audit days than contracted without charging the company a daily or set rate for the additional time.

### 3.9 Commercial Delivery of Audit

The Internal Audit service has a commercial, contractual arrangement with two Council owned companies. In delivering this service, the team need to consider its own commerciality. It needs to be clear on cost per unit, cost per day, delivery within budget and cost/process for the commissioning of additional days.

It should ensure that value for money is demonstrable on behalf of the companies and there should be clear separation between the contracted work from the companies and the need to deliver assurance on behalf of the client, the Council.

## KPIs, Progress Reporting and Accountability

- 3.10 C.Co were advised that the Internal Audit service monitors its performance through a series of key performance indicators (KPIs). However, it is not clear how often these indicators are reviewed and whether they are communicated to the wider organisation in order to enable the Council to hold Audit to account for its performance. Also, if progress reports are not presented to Management or Committee then it is difficult for issues and those responsible for remediating those issues to be held to account for delivery/non-delivery. This reduces the overall impact that Audit has on the organisation and its governance framework. C.Co support a review of KPIs and suggest that a comprehensive suite of measures is developed to highlight the delivery of Internal Audit's work and its impact on the wider organisation.

### 3.10 KPIs, Progress Reporting and Accountability

In reviewing its key performance indicators, it is suggested that the following indicators should be retained or developed as part of this review:

- **Elapsed time** – this is start and finish time of the audit assignment overall and reflects the value of an audit being completed within an appropriate timescale.
- **Implementation of recommendations** – although the implementation of recommendations is not the responsibility of Internal Audit, this measure is more reflective of the impact of Internal Audit on the control environment, the quality of its recommendations and highlights where managers have failed to implement. It also links into our suggestion of the review of the ‘follow up’ procedures
- **Plan delivery** – a measure of progress that enables regular discussion about factors such as resourcing that impact on the delivery of Plan
- **Delivery within planned days** – a measure that highlights the ability to plan and deliver the time allocation for audits appropriately
- **Draft to Final Report turnaround** – again not all in the gift of Internal Audit but a useful measure to highlight where any ‘sign-off’ blocks exist and that the Final report is the key audit ‘product’.

## Annual Report & Opinion

3.11 The Audit Manager is relatively new to the senior role and has not yet had an opportunity to deliver an annual report and opinion on the Council’s control environment, both requirements of the Audit Standards. Given the apparent issues with risk management, the impact of Internal Audit within the organisation and implications for overall governance, it may be difficult to deliver a positive opinion. However, it is important that the Audit Manager is supported to determine an evidence-based annual report and opinion and that the opinion provides a clear action plan and way forward for the service and the Council as a whole.

### 3.11 Annual Report & Opinion

Ensure that the Head of Internal Audit is supported to provide a true and fair annual report and opinion that is supported by clear actions and accountability.

## PSIAS Review & QAIP

3.12 Introduced in 2014, the Public Sector Internal Audit Standards (PSIAS) require that an external assessment of an organisation’s internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. Bury’s was undertaken in 2016 through peer review under the North West Chief Audit Executives’. The overall result was ‘partially conforms’. It would be helpful to the team if they were to revisit the report and associated action plan to determine if all actions are complete. As the five year period runs out in 2021, it would be prudent for the team to be preparing for their next assessment and C.Co would suggest that completing the new Local Government Application Note self-assessment would add value.

### 3.12 PSIAS Review & QAIP

Review the 2016 review action plan to ensure that actions have been completed.

Commence preparations for the 2021 review by completing the Local Government Application Note self-assessment.

## Relationship with Audit Committee

3.13 Discussions with officers suggest that attendance by both the Chair of Audit Committee and Audit Manager at recent external training events has “opened eyes” to the deficiencies in some of Bury’s governance including the development of the Annual Governance Statement itself.

It is important to ensure that an appropriate programme of training and development supports all those with a responsibility for governance to understand and exercise those responsibilities in a way that positively impacts all Council delivery.

It is important also that the Head of Internal Audit and Chair of Audit Committee meet regularly to discuss audit activity, emerging risks and the implementation of recommendations.

### 3.13 Relationship with Audit Committee

Consider the development of an officer/Member governance awareness and development programme to ensure that mutual roles and responsibilities are understood and delivered in a way that supports the wider governance framework.

## Chair of Audit’s Input into the Performance Review of the Head of Internal Audit

3.14 Within the Standards there is an underlying principle that the independence of the Chief Audit Executive is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. “In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the Head of Audit and that feedback is also sought from the chair of the audit committee”. There is no evidence to suggest that the Chair of Audit Committee currently contributes to the annual appraisal of the head of Audit.

### 3.14 Chair of Audit’s Contribution to Head of Audit’s Performance Review

In order to inform the annual appraisal of the Chief Audit Executive a formal process should be established to obtain appropriate feedback from the Audit Committee Chair.

## Summary Table of Recommendations

Reference	Page No.	Theme	Detailed Recommendation
3.1	6	Audit Awareness	<p>Internal Audit should use the additional time afforded by the delay in the production of the Internal Audit Plan for 2020/21 to effectively engage with those charged with governance and the wider Council to raise awareness of:</p> <ul style="list-style-type: none"> <li>• The statutory role of Internal Audit</li> <li>• The ability of audit to deliver consultancy within the organisation</li> </ul> <p>Identify opportunities to impact the overall control framework/governance within the Council.</p>
3.2	6	Positioning of Head of Audit	Review the role of the head of Internal Audit in the context of wider governance and the potential restrictions that the current arrangements may have on the ability of the team to impact, positively, wider control.
3.3	7	Risk-based Planning	Develop a risk-based methodology to ensure and evidence that the Audit Plan is evidentially risk-based and delivering the right audits to deliver maximum contribution to overall control.
3.4	8	Resourcing	Review the structure/available resources for Internal Audit in context of the delivery of a risk-based Plan for 2020/21. In other words determine on a risk basis the audits that the organisation needs and then review available resources against this requirement.
3.5	8	Assurance Mapping	To support the development of a risk-based Internal Audit Plan, undertake a detailed and evidence-based assurance mapping exercise to ensure that the right level of resource is applied to the areas of most significant risk.

3.6	9	Delivery	Develop a process of quality assurance, review and training that enables a rigorous challenge of findings, assumptions and recommendations to ensure that all audits deliver maximum impact for the wider Council.
3.7	9	Consultancy	In developing the 2020/21 Plan for May this year, consider an appropriate allocation of days for consultancy activity to support the Council's achievement of its wider corporate objectives.

Reference	Page No.	Theme	Detailed Recommendation
3.8	10	Reporting	Review the structure, narrative and impact of Audit reports including the requirement/desire to include all low-level recommendations as formal recommendations.
3.9	10	Commerciality	<p>The Internal Audit service has a commercial, contractual arrangement with two Council owned companies. In delivering this service, the team need to consider its own commerciality. It needs to be clear on cost per unit, cost per day, delivery within budget and cost/process for the commissioning of additional days.</p> <p>It should ensure that value for money is demonstrable on behalf of the companies and there should be clear separation between the contracted work from the companies and the need to deliver assurance on behalf of the client, the Council.</p>

3.10	10	KPIs/Progress Reporting	<p>In reviewing its key performance indicators, it is suggested that the following indicators should be retained or developed as part of this review:</p> <ul style="list-style-type: none"> <li>• Elapsed time – this is start and finish time of the audit assignment overall and reflects the value of an audit being completed within an appropriate timescale.</li> <li>• Implementation of recommendations – although the implementation of recommendations is not the responsibility of Internal Audit, this measure is more reflective of the impact of Internal Audit on the control environment, the quality of its recommendations and highlights where managers have failed to implement. It also links into our suggestion of the review of the ‘follow up’ of recommendations</li> <li>• Plan delivery – a measure of progress that enables regular discussion about factors such as resourcing that impact on the delivery of Plan</li> <li>• Delivery within planned days – a measure that highlights the ability to plan and deliver the time allocation for audits appropriately</li> <li>• Draft to Final Report turnaround – again not all in the gift of Internal Audit but a useful measure to highlight where any ‘sign-off’ blocks exist and that the Final report is the key audit ‘product’.</li> </ul>
Reference	Page No.	Theme	Detailed Recommendation
3.11	11	Annual Report & Opinion	Ensure that the Head of Internal Audit is supported to provide a true and fair annual report and opinion that is supported by clear actions and accountability.
3.12	11	PSIAS & QAIP	<p>Review the 2016 review action plan to ensure that actions have been completed.</p> <p>Commence preparations for the 2021 review by completing the Local Government Application Note self-assessment.</p>



3.13	12	Audit & the Committee	Consider the development of an officer/Member governance awareness and development programme to ensure that mutual roles and responsibilities are understood and delivered in a way that supports the wider governance framework.
3.14	12	Chair & Head of Audit Appraisal	In order to inform the annual appraisal of the Chief Audit Executive a formal process should be established to obtain appropriate feedback from the Audit Committee Chair.