

Audit Detailed Report

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Review of Internal Audit

Uttlesford District Council

Audit 2007/08

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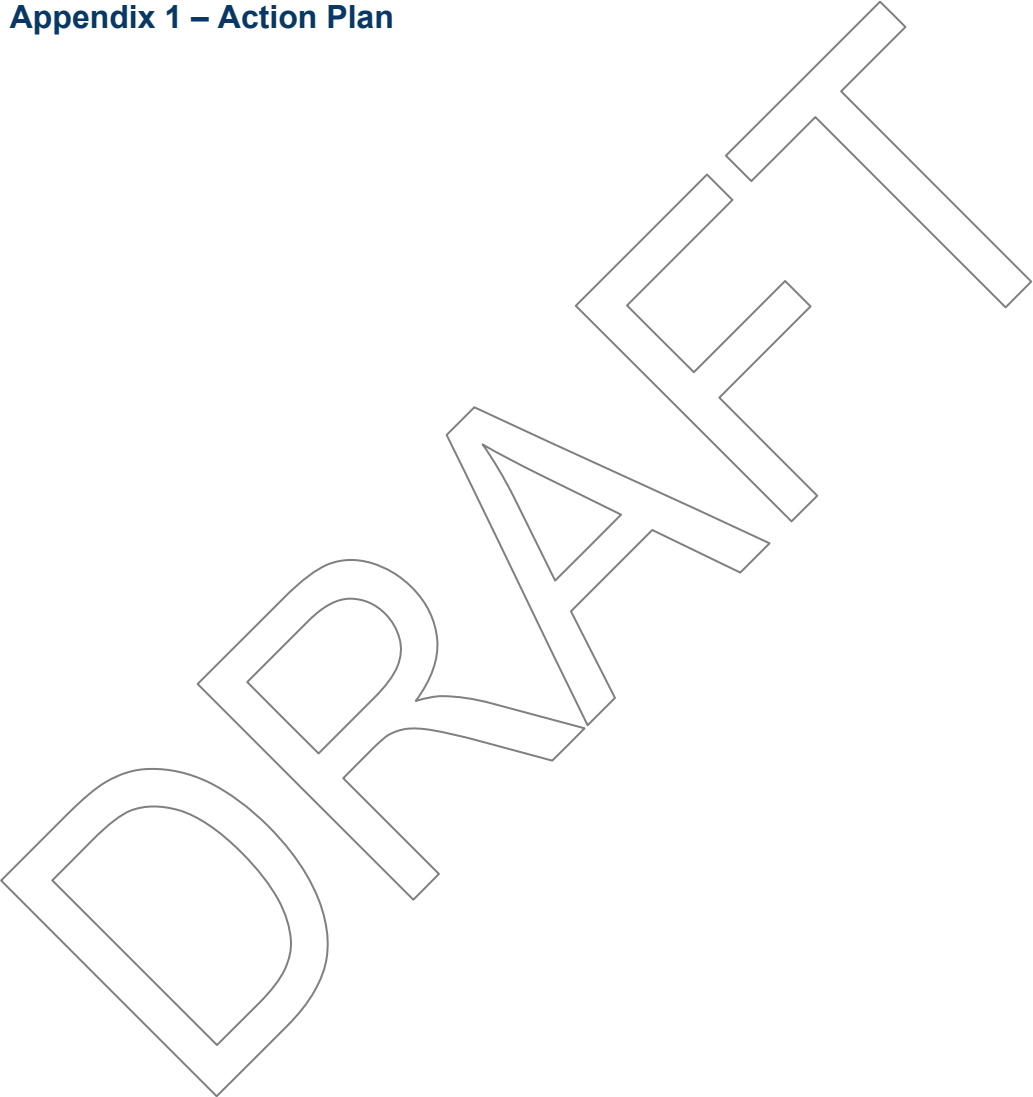
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Introduction

- 1 Internal Audit is an important element of the control environment at Uttlesford District Council (the Council). The Council has a duty to maintain an adequate and effective Internal Audit function. This responsibility is deemed to be discharged if there is compliance with the standards described in the CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006). It is therefore incumbent on all councils to have effective procedures in place to ensure that the service provided meets the requirements of these standards.
- 2 The Audit Commission's Code of Audit Practice requires us to make an assessment of whether Internal Audit meets the mandatory standards and whether reliance can be placed on their work in discharging our own duties under the Code of Audit Practice.

Background

- 3 The Internal Audit function at the Council is provided by an in-house team. Until April 2007, Internal Audit services were provided by the Stevenage and Uttlesford Audit Partnership. Following the promotion of the then Audit Manager to a Head of Division post in the new structure at the Council, Sheila Bronson was appointed as Acting Audit Manager and has now been made permanent. The function consists of three members of staff, and as such is considered to be a small department.

Audit approach

- 4 Our review of the Internal Audit function and the work that they have carried out during 2007/08 covered the following areas:
 - a detailed assessment of their compliance with the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK (the Code of Practice), as interpreted by the CIPFA Local Government Internal Audit Manual (the Audit Manual); and
 - an assessment of the level of coverage, and the extent of reliance that we can place on the work relating to core processes and significant financial systems.
- 5 We also carried out detailed reviews of the following 2007/08 audit files:
 - debtors;
 - housing Rents; and
 - NNDR.
- 6 The review concentrated on the degree of reliance both we and the Council could place on the work of Internal Audit.

Main conclusions

- 7 The Internal Audit department at the Council complies with most standards of the Code of Practice for Internal Audit, although some areas for improvement have been identified during our review. These mainly arise due to the small size of the Internal Audit function.
- 8 Our detailed findings and recommendations to address these issues are detailed below.

Standard 1 - Scope of Internal Audit

Requirements

- 9 Internal Audit is an independent appraisal function, established by the management of an organisation, for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic and effective use of resources.

Audit Findings

- 10 The Internal Audit function at the Council is independent from the rest of the Council. It has an Audit Charter setting out its role and responsibilities which meet the majority of requirements of the CIPFA Code for a Terms of Reference for the function.
- 11 However, there are a small number of omissions from the charter which mean that it is not fully compliant with the requirements of the CIPFA Code of Practice. If the Council wishes to continue to have an Audit Charter rather than Terms of Reference all the requirements of the CIPFA Standard should be incorporated into this document. In particular:
 - although an annual audit report has been produced in previous years there is no requirement included in the Audit Charter that one must be produced; and
 - there is no requirement included within the Audit Charter to ensure that there are adequate resources available to enable Internal Audit to carry out their work.
- 12 The Audit Charter should clearly set out the role of Internal Audit in fraud and consultancy work within the Council; currently this is not clearly defined and should be included in a revised Charter.
- 13 The Audit Charter does not refer to arrangements to prevent the same auditor providing formal advice to a department and then auditing that advice. However, the Audit Manager keeps a file setting out what advice has been given in response to specific queries, but there is no policy preventing the person providing the advice then auditing the advice they have given at a later date.

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- 14 The Council does not have an Anti-Fraud and Corruption Policy which is known about by staff. (There is an Anti-Fraud and Corruption policy included within the Councillors handbook but when staff were questioned they were not aware of this). The policy should set out the role of Internal Audit in dealing with fraud and corruption allegations and that the Audit Manager should be notified of all allegations of fraud, corruption or impropriety.
- 15 The risks associated with individual audit areas do not currently feed through from the risk register as the Audit manager does not consider the risk register to be sufficiently robust. Instead they are based on the audit manager's knowledge of the authority and issues from previous audit. This is line with CIPFA guidance.

Recommendations
<i>R1 The Audit Charter should be amended to ensure compliance with the CIPFA Code of Practice standard for Terms of Reference.</i>
<i>R2 The role of Internal Audit in Fraud and Consultancy should be clearly defined.</i>
<i>R3 Procedures should be put in place to ensure that any detailed consultancy work is not done by the same member of staff scheduled to carry out the audit work.</i>
<i>R4 The Council should have an Anti-Fraud and Corruption policy in place that meets the requirements of the CIPFA Code of Practice and is communicated to staff.</i>

Standard 2 - Independence

Requirements

- 16 Internal Audit should be independent of the activities that it audits, to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgments and recommendations. Internal Auditors should not have any operational responsibilities.

Audit findings

- 17 Internal Audit at the council can be seen to be independent from the rest of the council enabling the Audit Manager to make effective professional judgements. One weakness found is that there is no requirement to make formal statements of independence.
- 18 Currently informal arrangements are in place due to the size of the function, however we would expect these to be formalised to avoid potential issues in the future.

Recommendations

R5 Declarations of Interest should be made annually by Internal Audit staff and all returns retained.

Standard 3 - Ethics**Requirements**

- 19 Internal Audit should demonstrate integrity in their work and being seen to be free from conflicts of interest and operating to the highest possible professional standards

Audit findings

- 20 Although Internal Audit are seen as operating to high ethical standards within the organisation they do not retain sufficient information to show that they have understood the ethical requirements set out by CIPFA or that potential conflicts of interest have been considered.
- 21 There are no formal confidentiality arrangements in place either within the Internal Audit function or the Council as a whole. Given the nature of the information handled by some members of staff at the council, consideration should be given to requiring all staff to sign a confidentiality and ethics statement.

Recommendations

R6 The Audit Manger should establish a process to remind Internal Audit staff of their ethical responsibilities. This could be combined with the Declarations of Interest process.

R7 Consideration should be given to implementing a cross Council confidentiality agreement to be signed by all staff on joining and renewed annually.

Standard 4 - Audit Committees**Requirements**

- 22 There should be an Independent Audit Committees to:
- provide independent assurance of the adequacy of the risk management framework and the associated control environment;
 - provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment;
 - oversee the financial reporting process; and

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- review the Annual Governance Statement.

Audit findings

- 23** The Council's Audit Committee is incorporated in to the Performance Select Committee (PSC). The Audit Manager attends meetings; reports progress against the audit plan and can meet privately if needed. However, the PSC does not undertake a review of its effectiveness against CIPFA standards and the remit set by full Council. This should involve the Audit Manager.

Recommendation

R8 PSC should undertake a review of its effectiveness, in its role as the Council's Audit Committee, against CIPFA standards and the remit set by full Council. This should involve the Audit Manager.

Standard 5 - Relationships

Requirements

- 24** Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the audit function, its reputation and independence.

Audit findings

- 25** Internal Audit has built strong relationships with External Audit, Strategic Management Board and Auditees. The Relationship between the Audit Manager and the chair of the PSC is not clearly defined. The information within the Audit Charter could be strengthened by including information on how members can contact Internal Audit and include the facility for regular meetings between the Audit Manager and the Chair of the PSC.
- 26** In addition, the audit charter does not set out a protocol for managing relationships between Internal Audit and other regulators and inspectors.
- 27** In order to minimise the overall audit effort, we aim to rely on the work of Internal Audit where possible. However, Internal Audit's work does not fully cover the testing of key controls that are relevant to our approach, as required under the International Standards of Auditing (External audit standards). Therefore, we been unable to rely fully on their work and have been required to undertake additional testing.

Recommendations

R9 The Audit Charter should be amended to facilitate contact between the Audit Manager and members.

R10 The Audit Charter should be amended to include a protocol to manage relationships between Internal Audit and other regulators.

R11 The Internal Audit function should consider carrying out detailed controls testing in accordance with the requirements of the external audit standards (ISAs), which would enable us to increase reliance on their work.

Standard 6 - Staffing, training and continuing professional development

Requirements

- 28** Internal Audit should be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with these standards.

Audit findings

- 29** The Council's Internal Audit function is appropriately staffed for the size of the Council. There is a programme of professional development and a training budget.

Standard 7 - Audit Strategy and planning

Requirements

- 30** The Audit Manager must produce an audit strategy. This is the high-level statement of how the Internal Audit service will be delivered and developed in accordance with the terms of reference and how it links to the organizational objectives and priorities.
- 31** The Audit Manager should prepare a risk-based audit plan designed to implement the audit strategy.

Audit findings

- 32** The Council has not produced an Internal Audit Strategy. Given the size of the Council and the Internal Audit team, it would be acceptable for the Audit Charter to be expanded to include the requirements of the Audit Strategy.

Recommendations

R12 The Audit Charter should be expanded by the Council to cover all the requirements of the Code of Practice relating to the Audit Strategy.

Standard 8 - Undertaking audit work

Requirements

- 33 Internal Audit should have appropriate procedures in place to ensure that the work done is agreed with the auditee, that sufficient appropriate evidence is retained and that evidence of work completed is retained for an appropriate period of time.

Audit findings

- 34 Internal Audit has adequate arrangements for ensuring that an audit terms of reference is prepared for each audit. This sets out the audit's objectives, scope, and reporting requirement is agreed with the relevant manager. Audit findings are subject to review by the Audit Manager and are promptly reported to relevant managers.
- 35 The standard of Internal Audit working papers clearly demonstrates work performed and supports conclusions in final audit reports. Internal Audit use the Council's document retention policy, however this does not include guidance on the length of retention of Internal Audit files and supporting evidence.

Recommendations

R13 The Council's document retention policy should be amended to include Internal Audit files and supporting evidence

Standard 9 - Due professional care

Requirements

- 36 The Internal Auditor should exercise due care in fulfilling responsibilities.

Audit findings

- 37 All Internal Auditors are members/ students of the IIA and reliance is placed on the IIA code of ethics. The Council also has a confidential reporting code to enable staff to report suspicions of fraud, corruption and improper conduct.
- 38 Due to the size of the Internal Audit function, the Audit Manager is required to perform some of the audit work, which is then reviewed by one of the auditors. However, they may be unwilling to challenge the work carried out by the Audit Manager in a sufficiently robust way.

Recommendation

R14 Work performed by the Audit Manager should be reviewed by the other internal auditors, and then discussed with the Assistant Chief Executive prior to being formally signed off by him.

Standard 10 - Audit reporting

Requirements

- 39 The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on the control environment and risk exposure and to prompt management to implement agreed actions.

Audit findings

- 40 The Audit Manager has set out the principals for reporting within the Audit Manual and Audit Charter. The Audit Manager's Annual Audit Report for 2006/07 has been reviewed and found to meet all but one of the code requirements; the report should include a section on the performance of the Internal Audit function against the Internal Audit plan.
- 41 The Audit Manager has included reporting standards within the Audit Charter, however this does not include the need to update the councils risk register with any risks identified from audit work carried out.
- 42 The Audit Charter does not currently include any escalation to the Performance Select Committee where recommendations have not been acted on by the relevant auditee.

Recommendations

R15 The Audit Charter should be updated to include the transfer of risks identified to the risk register.

R16 The Audit Manager's Annual Report should include a comparison of the work done compared to that planned.

R17 The escalation procedures to PSC should be included within the Audit Charter.

Standard 11 - Performance, quality and effectiveness

Requirements

- 43 The Head of Internal Audit should establish policies and procedures in an audit manual to guide staff in performing their duties and complying with this Code. The manual should be regularly reviewed and updated to reflect changes in working practices and standards.

Audit findings

- 44 Policies and procedures have been established via the Audit Charter and the Audit Manual. These documents are updated as needed to provide sufficient support to staff to enable them to carry out their work.

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- 45 However, Internal Audit's performance management and quality assurance framework does not currently include:
- mechanisms to obtain feedback for the whole service;
 - a periodic review of the Internal Audit function against its strategy and the achievement of its aims and objectives; and
 - quality reviews to be undertaken periodically to ensure compliance with the Code and the Audit Manual
- 46 These should be added to the Audit Charter.

Recommendation

R18 The audit charter should be updated to include:

- mechanisms to obtain feedback for the whole service;
- a periodic review of the Internal Audit function against its strategy and the achievement of its aims and objectives; and
- quality reviews to be undertaken periodically to ensure compliance with the Code and the audit manual.

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Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 The Audit Charter should be amended to ensure compliance with the CIPFA Code of Practice standard for Terms of Reference.	2	Audit Manager	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09
6	R2 The role of Internal Audit in Fraud and Consultancy should be clearly defined.	2	Audit Manager	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09
6	R3 Procedures should be put in place to ensure that any detailed consultancy work is not done by the same member of staff scheduled to carry out the audit work.	2	Audit Manager	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09
6	R4 The Council should have an Anti-Fraud and Corruption policy in place that meets the requirements of the CIPFA Code of Practice and is communicated to staff.	3	Assistant Chief Executive	Yes	Anti-Fraud and Corruption policy to be reviewed to ensure its meets CIPFA requirements and be published on the intra & internet separately from the Member Handbook	31/03/09
7	R5 Declarations of Interest should be made annually by Internal Audit staff and all returns retained.	2	Audit Manager	Yes	Annual Declarations of Interests and acknowledgement of Ethical responsibilities to be made by all Audit staff and recorded. The Audit Charter will also be updated to reflect this.	31/03/09
7	R6 The Audit Manger should establish a process to remind Internal Audit staff of their ethical responsibilities. This could be combined with the Declarations of Interest process.	2	Audit Manager	Yes	Annual Declarations of Interests and acknowledgement of Ethical responsibilities to be made by all Audit staff and recorded. The Audit Charter will also be updated to reflect this.	31/03/09

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R7 Consideration should be given to implementing a cross Council confidentially agreement to be signed by all staff on joining and renewed annually.	3	Assistant Chief Executive	Yes	This is already under consideration. Abode of Conduct for Officers is to be drawn up once Government guidelines for such have been published. In the interim, HR will be asked to add a confidentiality clause to the contracts of all new employees.	31/12/08
8	R8 PSC should undertake a review of its effectiveness, in its role as the Council's Audit Committee, against CIPFA standards and the remit set by full Council. This should involve the Audit Manager.	3	Chair of Performance Select Committee, Assistant Chief Executive, Audit Manager		For decision by Performance Select Committee	
8	R9 The Audit Charter should be amended to facilitate contact between the Audit Manager and members.	2	Audit Manager	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09
9	R10 The Audit Charter should be amended to include a protocol to manage relationships between Internal Audit and other regulators.	2	Audit Manager	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09
9	R11 The Internal Audit function should consider carrying out detailed controls testing in accordance with the requirements of the External audit standards (ISA's), which would enable us to increase reliance on their work.	2	Audit Manager	Yes	Already in practice. Internal Audit in discussion with Audit Commission have agreed from 2008-09 to match where possible test sample sizes to those required by the External Auditors under their ISA's.	Already done
9	R12 The Audit Charter should be expanded by the Council to cover all the requirements of the Code of Practice relating to the Audit Strategy.	2	Audit Manager	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09
10	R13 The Council's document retention policy should be amended to include Internal Audit files and supporting evidence	2	Assistant Chief Executive	Yes	Recommendations in relation to document retention policy are contained in the Corporate Audit of Information Management.	31/12/08

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					Internal Audit documentation to be retained for 7 years in line with Audit Commission own policy.	
10	R14 Work performed by the Audit Manager should be reviewed by the other internal auditors and then discussed with the assistant chief executive prior to being formally signed off by him.	3	Assistant Chief Executive Audit Manager	Yes	From 2008-09, all Audit work undertaken by the Audit Manager will be reviewed and signed off as per the recommendation	Immediate
11	R15 The Audit Charter should be updated to include the transfer of risks identified to the risk register.	2	Audit Manager	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09
11	R16 The Audit Manager's Annual Report should include a comparison of the work done compared to that planned.	1	Audit Manager	Yes	Already implemented in 2007-08 Annual Audit Report and Opinion	Already done
11	R17 The escalation procedures to PSC should be included within the Audit Charter.	2	Audit Manager	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09
12	R18 The audit charter should be updated to include: <ul style="list-style-type: none"> mechanisms to obtain feedback for the whole service; a periodic review of the Internal Audit function against its strategy and the achievement of its aims and objectives; and quality reviews to be undertaken periodically to ensure compliance with the Code and the audit manual. 	2	Audit Manger	Yes	Audit Charter will be reviewed and updated to include all recommendations relevant to it within this report	31/03/09