

Audit Summary Report

August 2005



Review of Internal Audit

Salford City Council

Audit 2004/2005

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Introduction

- 1 The Accounts and Audit Regulations 2003 state that each authority 'shall maintain an adequate and effective system of internal audit of their accounting records and control systems.'
- 2 The CIPFA Code of Practice for internal Audit in the United Kingdom (2003) gives the following definition of Internal Audit: it is '...an assurance function that primarily provides an independent and objective opinion to the organisation on the degree to which the internal control environment supports and promotes the achievement of the organisations objectives. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic and effective use of resources.'
- 3 Part of our responsibilities under the Audit Commission's Code of Audit Practice (CoAP) is to determine whether the Council has adequate arrangements for ensuring that the systems of internal control are both adequate and effective. Internal Audit performs a key review function in this area, thus we seek to assess whether it is an effective control.
- 4 Both the CoAP and the Auditing Practices Board's (APB) Statement of Auditing Standards 500 require us, as external auditors, to utilise and rely on Internal Audit's work as far as possible. We undertake an annual assessment of Internal Audit to determine the effect on our role and ensure that we co-ordinate the work we do for the Authority.
- 5 Periodically, our annual assessment is supported by a more detailed review of Internal Audit's work to ensure compliance with professional standards. In addition, in view of the introduction of the revised CIPFA standards a detailed assessment of Internal Audit was included in our agreed plan for 2004/05.

Audit approach

- 6 In 1990, the APB adapted the CIPFA publication 'Guidance for Internal Auditors' and issued an Auditing Guideline which set down the principles upon which members of CCAB bodies engaged in Internal Audit should operate. More recently, this has been updated in 2003 by the CIPFA Code of Practice for Internal Audit in Local Government. Appendix 1 sets out the structure of the new Code of Practice which covers the two main elements relating to organisational standards and operational standards. These principles and standards have been used as the basis of our review of Internal Audit at Salford.

- 7 Our review has been undertaken by:
- holding discussions with the Audit Manager, and the Principal Auditor responsible for operational matters, and other senior officers in Internal Audit;
 - reviewing Internal Audit's self-assessment of its progress in implementing the detailed elements of the new CIPFA Code;
 - carrying out and reviewing the results of a confidential survey of clients of the Internal Audit Service;
 - reviewing key Internal Audit documents; and
 - testing the application of standards and procedures in practice by reviewing a sample of audit files.

Main conclusions

- 8 Our overall conclusion is that Internal Audit is meeting the CIPFA standards. A key strength identified from our review is that Internal Audit is playing an increasingly significant role in the development of the Council's overall control environment and risk management arrangements. A summary of our assessment against each of the standards is set out in Appendix 3.
- 9 Our view is supported by the clients' survey results, see Appendix 2, which are very encouraging. Positive comments were generally made with regard to all the operational issues, including the following:
- professionalism and independence;
 - reports, being evidence-based and timely;
 - recommendations, being clear and generally followed up; and
 - audit work is worthwhile and adds value.
- 10 Internal Audit could usefully feedback the summary of these results to clients with a view to identifying if there are any further opportunities for making improvements in its service. This could be done by exploring the relatively few negative comments that some respondents have made.
- 11 The main areas where we feel Internal Audit could continue to strengthen its arrangements are set out in Appendix 4. These have been discussed with the Audit Manager and appropriate action agreed.

Appendix 1 – CIPFA Code of Practice for Internal Audit

				Scope	
			↗		
			Organisational Standards	→	Independence
			The way in which Internal Audit should be established	→	Audit committees
				→	Relationships
Code of Practice for Internal Audit in Local Government in the UK 2003	↗		↘		
				Staffing, training and development	
				Audit strategy	
	↘		↗		
			Operational Standards	→	Management of audit assignments
			The way in which Internal Audit should undertake its functions	→	Due professional care
				→	Reporting
	↘				
				Quality assurance	

Source: CIPFA Code of Practice: IA Standards for Local Government in the UK 2003

Appendix 2 – Survey results of client feedback on Internal Audit

Organisational standard responses

Question	Strongly agree	Tend to agree	Tend to disagree	Strongly disagree
I have been given adequate information on the role and purpose of Internal Audit	61.1%	38.9%	0.0%	0.0%
I am consulted by Internal Audit on the key risks and critical systems in my area	30.0%	65.0%	5.0%	0.0%
The main role of Internal Audit is to detect fraud and irregularity	15.0%	25.0%	30.0%	30.0%
I am satisfied that Internal Audit is independent	45.0%	50.0%	5.0%	0.0%
Internal Audit should be accountable to a group of elected Members	30.0%	5.0%	60.0%	5.0%
Internal Audit should be accountable to an independent joint group of officers and Members	30.0%	40.0%	25.0%	5.0%
Internal Audit should be accountable to an independent group of officers	10.0%	40.0%	40.0%	10.0%
My department would benefit from more Internal Audit work	30.0%	45.0%	25.0%	0.0%
Internal Audit staff on the assignment were knowledgeable about my operations	23.5%	47.1%	11.8%	17.6%

Operational standard responses

Question	Strongly agree	Tend to agree	Tend to disagree	Strongly disagree
I am given an opportunity to comment on Internal Audit's strategic and annual work plans	35.0%	30.0%	15.0%	20.0%
I have an opportunity to provide input to the planning of Internal Audit work	50.0%	20.0%	10.0%	20.0%
The audit addressed key management controls, systems and risks	50.0%	45.0%	5.0%	0.0%
I am kept informed where planned IA work in my service is delayed or deferred until a later date	30.0%	30.0%	35.0%	5.0%
I was given adequate notification of the start of the audit work	64.7%	29.4%	5.9%	0.0%
There was no disruption to my workplace during the audit	52.9%	35.3%	11.8%	0.0%
The audit findings were adequately supported by evidence	52.9%	41.2%	0.0%	5.9%
Recommendations made in the audit were clear, constructive and relevant	52.9%	29.4%	11.8%	5.9%
I usually agree with audit recommendations	35.0%	50.0%	10.0%	5.0%
Internal Audit follow up their recommendations to ensure agreed action is taken	35.0%	40.0%	25.0%	0.0%
IA staff communicated key issues and findings as they arose, no major surprises arose in draft reports	52.9%	29.4%	11.8%	5.9%
The elapsed time from initial drafting to issuing the final report was appropriate for the work done	47.1%	35.3%	17.6%	0.0%

Question	Strongly agree	Tend to agree	Tend to disagree	Strongly disagree
Internal Audit staff operated in a professional manner	60.0%	40.0%	0.0%	0.0%
The final audit report was timely in comparison to the end of the fieldwork	56.3%	37.5%	6.3%	0.0%
The audit work was worthwhile and added value to the work of my department	64.7%	29.4%	5.9%	0.0%

Appendix 3 – Assessment against CIPFA standards

Organisational standards	Standard met Yes/No	Assessment against standard
<p>The <i>scope</i> of Internal Audit is adequate, properly communicated and understood throughout the organisation</p>	<p>Yes</p>	<p>The ‘Audit Charter’ identifies the role, responsibility and scope of the Internal Audit service for the Authority, and the communication channels to members and management to ensure that they ‘provide independent advice on any necessary changes to all systems of internal control that have a fundamental bearing on the accomplishment of management and organisational objectives.’</p> <p>The scope is more fully set out in the Internal Audit manual, which is used as a reference source for all staff employed within the unit, and outlines the standards to be applied when undertaking the range of activities performed. The manual also contains links to best practice information and other documentation that should assist staff in complying with the standards set down.</p> <p>In planning the risk-based work to be undertaken across the Authority, the Audit Manager is responsible for communicating the key functions and scope of the service provision. The client survey feedback provides evidence that this is understood within the Council.</p> <p>The creation of the specialist ‘Corporate Governance Team’ as part of the wider ‘Audit and Risk Management Unit’ is a further contribution to highlighting the need for members and senior officers to focus their attention on effective risk management.</p> <p>The Authority makes extensive use of its intranet site to communicate key aspects of the work of Internal Audit to all members of staff, and appropriate reporting to the wider public through its website, for example the ‘Anti-fraud and anti-corruption strategy.’</p>

Organisational standards	Standard met Yes/No	Assessment against standard
Adequate arrangements are in place to ensure that Internal Audit is sufficiently <i>independent</i>	Yes	<p>The Internal Audit ‘Audit Charter’ and Audit Manual set out the arrangements that are in existence to ensure Internal Audit is independent, and seen to be independent. Internal Audit’s risk-based planning arrangements demonstrate that Internal Audit have organisational as well as operational independence in determining its work priorities.</p> <p>Completion of ‘statement of independence’ forms, requiring all potential conflicts of interest to be documented, demonstrates that this issue is treated seriously within the Council.</p>
Appropriate arrangements are in place for Internal Audit to report to those charged with governance, including <i>audit committees</i>	Yes	<p>The ‘Audit Charter’ sets out Internal Audit’s arrangements for communication to members and officers, through the Audit Scrutiny Committee, which has been in place for a number of years. The Authority’s website also sets out the role of the Audit Scrutiny Committee, as part of the wider communication of the governance arrangements.</p> <p>Our attendance at the Committee, and review of relevant papers confirms that Internal Audit demonstrate clear and effective reporting of key issues and matters arising from its work.</p>
Robust <i>relationships</i> with management and external bodies are in place and maintained	Yes	<p>Internal Audit have a good working relationship with the Audit Scrutiny Committee, and maintain regular liaison with senior managers within the Council. The client survey provides evidence that Internal Audit have effective working relationships with directorates.</p> <p>Liaison and co-operation with the Audit Commission is sound, providing mutual benefits which assist delivery of our respective responsibilities and audit plans.</p>

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Organisational standards	Standard met Yes/No	Assessment against standard
Internal Audit is adequately resourced with <i>staff</i> who have received appropriate <i>training and development</i>	Yes	<p>Recruitment of additional qualified and experienced staff has been achieved to ensure that the Internal Audit annual risk-based plan is delivered effectively.</p> <p>Staff appraisals are undertaken to review performance and identify training and development needs.</p> <p>The Audit plan includes provision for training and continuing professional development.</p>
An appropriate <i>audit strategy</i> has been developed, which sets out how Internal Audit work will be delivered and developed	Yes	<p>The Corporate Services Service Plan 2004/05 sets out the key service objectives and improvements, including those for Internal Audit. The planned service improvements were factored into Internal Audit's plans.</p> <p>A key strength identified from our review is that Internal Audit is playing an increasingly significant role in the development of the Council's overall control environment and risk management arrangements, through the strengthening of the audit team, and the further development of the risk-based approach to work planning.</p>
Arrangements to manage <i>audit assignments</i> are sufficiently robust	Yes	<p>The further development of Internal Audit's 'ProAudit' software has continued to lead to improved standardisation of procedures, as well as a marked improvement in the speed of turnaround for agreed client reports. This has contributed to increased impact of the work that has been undertaken, and is clearly demonstrated by the feedback from the client survey.</p> <p>The emphasis on staff training to improve the quality of working papers has added to the overall standard of the supporting documentation of the work undertaken by the team. Key performance indicator information, based on the 'AMIS' time management system, has targeted effort on ensuring prompt feedback to clients based on the work undertaken.</p>

Organisational standards	Standard met Yes/No	Assessment against standard
<i>Due professional care</i> is maintained at all times	Yes	Supervision and review of work provide assurance that staff ensure due professional care is maintained. This has been confirmed by the client survey with regard to the assessment of Internal Audit's professionalism and independence.
Robust <i>reporting</i> arrangements are in place	Yes	The feedback from the client survey provides evidence of the improvements in speed of, and quality of the reporting process. This has been enhanced by the degree of standardisation brought about through the increased familiarity of staff in the use of the 'ProAudit' software.
Effective <i>quality assurance</i> processes have been implemented	Yes	Supervision and review processes focus on ensuring audit work is compliant with relevant professional standards, and achieves its objectives. Any weaknesses identified are fed back to staff and included, where appropriate, in staff development plans. Internal Audit request client feedback on work performed on an ongoing basis, and the client survey confirms that audit work is worthwhile and adds value.

Appendix 4 – Suggestions for further improvements

Issue	Impact	Recommendation	Management response	Responsible	Target date
<p>The client survey feedback was very positive. The relatively few negative comments could be explored to identify further improvement opportunities.</p>	<p>Continued strengthening of Internal Audit's reputation and credibility with clients.</p>	<p>Survey results should be fed back to clients and followed up at future meetings with chief officers and senior management.</p>	<p>As part of the annual audit planning process, meetings are arranged with chief officers and senior management. It is intended to raise the results of the survey at these meetings with a view to establishing and improving upon clients' perceptions of the Internal Audit service.</p>	<p>Audit Manager</p>	<p>Quarter 3 2005/06.</p>
<p>The Audit Charter and Audit Manual need to be updated to take account of the latest CIPFA guidance.</p> <p>It is several years since Members reviewed and approved these documents.</p>	<p>Key documents do not reflect the best professional guidance.</p> <p>Members need to be aware of and approve these key documents.</p>	<p>The Audit Charter and Audit Manual should be updated and approved by senior officers and members.</p>	<p>To make members of the Budget and Audit Scrutiny – Audit Sub-Committee aware of the requirements of the Audit Manual, the manual will:</p> <ul style="list-style-type: none"> • be reformatted to follow the layout of the CIPFA Audit Manual; and • be placed on the Intranet and made available to members of that Committee. <p>The Audit Charter was reviewed during 2004/05 as part of the review of the Audit Manual. The Charter will be reassessed for its relevance and submitted to the Committee for approval.</p>	<p>Audit Manager</p>	<p>December 2005 Audit Sub-Committee</p>

Issue	Impact	Recommendation	Management response	Responsible	Target date
<p>Copies of the signed statements of independence are not kept by senior Internal Audit staff. No record is kept of where individual staff may have a continued involvement with particular clients.</p>	<p>Potential conflicts of interest may be overlooked</p>	<p>Details of any potential conflicts of interest should be incorporated into 'Planning Adviser'</p>	<p>Internal Audit planning software will include details of any identified conflicts of interest arising from the Statements of Independence. It is already policy of Internal Audit to rotate staff as much as possible in order to expand their experience and knowledge base.</p>	<p>Principal Auditor</p>	<p>From planning year 2006/07.</p>
<p>Progress reporting on delivery of the audit plan is focussed on the actual number of days input compared with planned time.</p>	<p>Days input is not sufficient on its own to measure that the key risks in the risk-based plans have been satisfactorily completed.</p>	<p>Internal Audit progress reports and Annual report should focus more on whether the key risks in the audit plan have been satisfactorily reviewed, together with any effect that the outcomes may have on future planning.</p>	<p>It is intended to submit an outline of the key risk areas identified from the planning process to the Budget and Audit Scrutiny – Audit Sub-Committee prior to commencement of each planning year. At each Committee meeting, any amendments to the identified risk profile will be submitted for Members' scrutiny. The Internal Audit Annual Report will demonstrate the steps Internal Audit have taken during the course of the year to identify, reprioritise, and to deal with the main risks facing the City Council.</p>	<p>Audit Manager</p>	<p>Quarter 4 2005/06.</p>

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Issue	Impact	Recommendation	Management response	Responsible	Target date
Quality assurance processes could be strengthened by carrying out more independent reviews, for example by peer reviews within Internal Audit or external reviews by suitably qualified staff.	Quality standards could continue to improve and facilitate the exchange of good practice.	Examine the benefits of introducing internal or external independent reviews.	A process of internal 'peer reviews' will be established encompassing other senior audit personnel within ARMU.	Principal Auditor	Quarter 3 2005/06.
Audit terms of reference usually set out what will be covered, but do not always make clear what will not be covered.	Misunderstandings can occur regarding the scope of the work.	Terms of reference should make clear what will not be covered by the audit review, where appropriate.	Agreed.	Audit Manager Principal Auditor	Already implemented.
There are no terms of reference for the three external assignments conducted as 'Independent examinations' for example the Bridgewater Canal Trust.	Misunderstandings can occur which lead to an 'expectations gap' in what management thinks is being done on its behalf.	Terms of reference should be agreed for all 'independent examinations', including the capacity in which the work is being undertaken and the limitations of its coverage.	Agreed.	Audit Manager Principal Auditor	As work commences during 2005/06.