

FINAL

Review of

Tewkesbury Borough Council's Internal Audit Team

01 March 2018

Elizabeth Humphrey CPFA

Review of Tewkesbury Borough Council's Internal Audit Team (November 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, were revised on 1 April 2016 and have been further revised on 1 April 2017. The standards require periodic self-assessments and an assessment by an external person every five years. Now that Tewkesbury Borough Council's audit team has been operating under the standards for over four years, this was deemed a good time for the first 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 at appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed seven audits and one corporate improvement assignment carried out during the 2016/17 and 2017/18 financial years and I examined key documents including the Charter and reports to the Audit Committee.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity and I commend the team for their structured and focussed approach and the speed with which they perform assignments. However, the approach taken to audit planning, both annually and for individual audit assignments, needs revising to increase the focus on council objectives and risks, thus increasing the support that internal audit can give to Tewkesbury in achieving the Council Plan. I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to support this. The Head of Corporate Services (referred to as the CAE below) 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
Mission	Complies	The audit manual includes the newly developed internal audit mission	Include the mission in the Charter	S1
Core principles of internal audit	Partial compliance	No problems were identified in addressing the majority of the Core Principles, other than those relating to planning, both annually and for individual audits. The planned revision of the approach to risk management will enable audit to consider council-wide risks in audit planning, supporting achievement of council plans and objectives. Addressing	See R3, R7, R14	

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		some of the matters highlighted below will also support the Principles further		
Code of Ethics	Complies	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity		
Attribute standards				
I 000 Purpose, authority and responsibility	Complies	The recently developed Charter is one of the most approachable that I have seen Standard I 010 There is no reference to the Core Principles in the Charter See also Standard I 112 regarding safeguards to be included in the Charter for non-audit work	Include information about the Core Principles in the Charter, including how audit delivers against them	R1 R2
I 100 Independence and objectivity	Partial compliance	Standards I 112 and I 130.A2 Several different activities come under the leadership of the CAE. These activities can, potentially, compromise audit's independence and objectivity and the audit team should only undertake audit activities in these areas if safeguards have been put in place to manage this. There are informal arrangements, but no formal safeguards	Safeguards, including independent audit arrangements and/or alternative reporting arrangements (for example, to another member of the management team), should be put in place to manage audit's independence and objectivity where they carry out non-audit activities. These should be discussed with and approved by the Audit Committee and included in the Audit Charter	R2
I 200 Proficiency and due professional care	Partial compliance	Standards I 210.A2, I 220.A1 and I 220.A3 Audits are planned on a risk basis, but the risks considered are often operational and general in nature rather than specific to that audit	Improve audit planning and expand the audit assignment brief to consider more strategic risks and risks that specifically relate to the area being audited, including fraud risks	R3

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
I300 Quality assurance and improvement programme (QAIP)	Partial compliance	Standards I311 and LGAN p13 The service has not carried out any reviews against the PSIAS although periodic internal reviews are required. They have, however, carried out more general reviews	Undertake internal reviews against the PSIAS periodically, ideally annually Occasionally involve others from within the Council who have sufficient knowledge of audit practices, for example members of the Audit Committee and finance staff in audit quality reviews Report the results of all reviews against the PSIAS to the audit committee, including an action plan to enable progress monitoring. Ensure that the results of the review are included in the Annual Report	R4 S2
		Standard I320 Action plans from the general reviews of the service are reported to the Chief Executive but not to the Audit Committee, nor are they referenced in the Annual Report		R5
		LGAN p13 Performance indicators are now in place for the service and have been reported. They should be reported over time, showing trends	Ensure that performance indicators reported in the Annual Audit Report show trends over time	R6
Performance standards				
2000 Managing the internal audit activity	Partial compliance	Standards 2010 and 2010.A1 Annual audit planning is carried out using a structured methodology but the focus is on audit risk rather than on council-wide risk The annual plan report does not refer to a number of the required points	Undertake annual audit planning in consideration of the Council's plans, objectives, priorities and associated risks Refer to the Charter and internal audit delivery and development in the annual plan	R7 R8
		Standards 2040 and LGAN p12 The current audit manual is in draft and contains reference to links and appendices that have not been included	Ensure completion of the audit manual	R9
		LGAN 7.1.2 Neither the Charter nor the audit plan set out audit's objectives and	Include information in the Charter and/or the Annual Plan regarding:	R10

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>outcomes, the way in which the CAE will form and evidence his opinion on governance and risk management arrangements and the control environment nor how audit's work will identify and address local and national issues and risks</p> <p>LGAN p15 The annual audit plan does not prioritise assignments, making it difficult for the audit committee and senior management to comment usefully about what has been included in the plan</p>	<ul style="list-style-type: none"> • Audit's objectives and outcomes • The way in which the CAE will form and evidence his opinion on governance and risk management arrangements and the control environment • How audit's work will identify and address local and national issues and risks <p>Prioritise audits in the plan, for example by including the risk scoring or H/M/L ranking</p>	R11
2100 Nature of work	Partial compliance	<p>Standards 2110, 2120.A1 and 2130.A1 The operational nature of the audit plan means that audit does not examine governance activities in relation to strategic decision making, nor does it consider performance management and accountability</p> <p>Standard 2110.A1 Some limited work has been undertaken on the implementation and effectiveness of ethics-related activities but this is not a routine part of audit's work</p> <p>Standard 2110.A2 The lack of IT audit expertise in the section means that auditors are reliant on ICT staff being honest about IT governance arrangements</p>	<p>Ensure audit planning includes consideration of strategic matters and decision making Consider organisational performance management and accountability in any relevant audit</p> <p>Include ethical aspects more routinely in audits and audit planning, bringing this work together at the year end to form an opinion on ethical activities</p> <p>Once the IT audit risk assessment is complete, make occasional use of specialist IT auditors for more in-depth reviews</p>	<p>R7</p> <p>R3</p> <p>R12</p> <p>R13</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		Standards 2120 and 2120 C2 There have been no recent audits of risk management arrangements	Once the risk management arrangements have been reviewed and improvements implemented, an audit of the framework is needed as a priority	R14
2200 Engagement planning	Partial compliance	Standards 2201, 2210, 2220 and LGAN p19 The audit assignment brief and audit programme do not always cover: <ul style="list-style-type: none"> • Strategies and objectives of the activity being reviewed • How the activity controls its performance • How the activity contributes to the Council Plan • The significant risks to the activity • The framework used by the activity to manage its governance, risk and control processes and criteria against which to judge these • The objective of the assignment • The probability of errors and non-compliance • The systems, records, personnel and physical property to be considered • Opportunities to add value 	Expand the audit terms of reference as indicated	R3

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
2300 Performing the engagement	Complies	The review showed that audits are well-performed and clearly documented. The speed with which audits are turned around and the number of assignments performed are impressive		
2400 Communicating the results	Partial compliance	<p>Standard 2410.AI All auditees are familiar with the opinions used on audits, as are audit committee members and senior management. The form of the opinion is currently being debated, which is good practice. I have made some suggestions for possible alternative forms</p> <p>Standards 2440.AI and CI Reports do not include the name of the CAE and may not be sent out by him</p> <p>Standard 2450 The annual internal audit opinion does not take into account the Council Plan and associated risks to conclude on the overall adequacy and effectiveness of the Council's governance, risk and control arrangements. The current form of the annual opinion, stating the number of different levels of opinion given during the year does not enable the reader to reach such a conclusion. There is no statement on conformance with the PSIAS and the results of the QAIP.</p>	<p>As a minimum, include the CAE's name on audit reports</p> <p>Revise the annual report to include:</p> <ul style="list-style-type: none"> • An opinion that refers to the governance, risk and internal control framework • The link must be made to the strategies, risks and objectives of the council • Reference to the level of compliance with the PSIAS • Details of activities as a consequence of the QAIP 	<p>R15</p> <p>R16</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		LGAN p19 The circulation for reports is included on the audit assignment briefs and the email that accompanies the report but not on the report itself so circulation would be unclear if the report is detached from the email	Include details of report circulation within the report itself	S3
2500 Monitoring progress	Complies	The follow-up process complies with the standards and all those interviewed understood the process		
2600 Communicating the acceptance of risks	Complies	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at the Council on audit findings		

The Head of Corporate Services has details of the findings, standard by standard.

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Appendix I: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include information about the Core Principles in the Charter, including how audit delivers against them	Charter will be updated and presented at Audit Committee for approval.	Head of Corporate Services	July 2018
R2	Safeguards, including independent audit arrangements and/or alternative reporting arrangements (for example, to another member of the management team), should be put in place to manage audit's independence and objectivity where they carry out non-audit activities. These should be discussed with and approved by the Audit Committee and included in the Audit Charter	Independence of CAE will be discussed at Corporate Governance Group and appropriate arrangements put in place. Charter will be updated accordingly.	Head of Corporate Services	July 2018
R3	<p>Improve audit planning and expand the audit assignment brief to consider:</p> <ul style="list-style-type: none"> Strategies and objectives of the activity being reviewed, making a clear link between the Council Plan, organisational objectives, audits and audit plans The objective of the assignment The strategic risks and risks that specifically relate to the area being audited Organisational performance management (including how the activity controls its performance) and accountability The framework used by the activity to manage its governance, risk and control processes Examination of ethical arrangements, where relevant 	The internal audit team often reviews its supporting documentation to ensure it remains relevant, complies with standards and is customer focused. The internal audit assignment brief will be reviewed to take into account the points made. Examples of other internal audit team's assignment briefs have been obtained for comparison.	Head of Corporate Services	March 2019

No	Recommendation	Response	Responsible officer	Action date
	<ul style="list-style-type: none"> Examination of fraud risks specific to that activity, ruling them out explicitly if they are not relevant to a planned audit The probability of errors and non-compliance The systems, records, personnel and physical property to be considered Opportunities to add value 			
R4	Undertake internal reviews against the PSIAS periodically, ideally annually	Self-assessment to be undertaken and reported to Corporate Governance for review.	Head of Corporate Services/Corporate Governance Group	July 2019
R5	Report the results of all reviews against the PSIAS to the audit committee, including an action plan to enable progress monitoring. Ensure that the results of the review are included in the Annual Report	Outcome of the review will be reported to Audit Committee on an annual basis. Any actions arising will be added to the internal audit improvement plan. The improvement plan is monitored by the Audit Committee.	Head of Corporate Services	July 2019
R6	Ensure that performance indicators reported in the Annual Audit Report show trends over time	Performance indicators are included within the QAIP which was approved at Audit Committee on 21 September 2017. These will be reported annually which will inevitably lead to trend analysis.	Head of Corporate Services	July 2018
R7	Undertake annual audit planning in consideration of the Council's decision making, plans, objectives, priorities and associated risks	The new corporate risk register will help inform audit planning. It should be noted however that the current audit plan and previous audit plans include activities that are likely to feature within a risk register e.g PSC refurbishment, GDPR, Ubico, ICT security etc	Head of Corporate Services	March 2019
R8	Refer to the Charter and internal audit delivery and development in the annual plan	The annual plan will reference the key aspects of the charter.	Head of Corporate Services	March 2019
R9	Ensure completion of the audit manual	Audit manual will be reviewed when capacity allows but this is seen as a low priority. Procedure notes, in lieu of a manual will also be considered.	Head of Corporate Services	December 2019

No	Recommendation	Response	Responsible officer	Action date
R10	Include information in the Charter and/or the Annual Plan regarding: <ul style="list-style-type: none"> • Audit's objectives and outcomes • The way in which the CAE will form and evidence his opinion on governance and risk management arrangement and internal control • How audit's work will identify and address local and national issues and risks 	These are referenced within the charter but will be updated to strengthen the points made.	Head of Corporate Services	July 2018
R11	Prioritise audits in the plan, for example by including the risk scoring or H/M/L ranking	Audits included within the plan have been initially risk assessed. This risk assessment will be made clearer in the audit planning report.	Head of Corporate Services	March 2019
R12	Include ethical aspects more routinely in audits and audit planning, bringing this work together at the year end to form an opinion on ethical activities	Internal audit work does include ethical perspectives where relevant. For example, audit work undertaken on absence management, health & safety, complaints etc all have ethical aspects. The audit assignment brief will be updated to make it more explicit as to what the ethical aspects are. This will allow the ethical related work to be brought together for the overall year end opinion.	Head of Corporate Services	July 2018
R13	Once the IT audit risk assessment is complete, make occasional use of specialist IT auditors for more in-depth reviews	This is already acknowledged. The completion of the risk assessment will prioritise internal audit work and whether the expertise of an ICT auditor is required to undertake some of this work.	Head of Corporate Services	September 2018
R14	Once the risk management arrangements have been reviewed and improvements implemented, an audit of the framework is needed as a priority	A new corporate risk register is under development. Once approved and embedded, its integrity will be audited, together with an audit of the new risk management strategy.	Head of Corporate Services	March 2019
R15	As a minimum, include the CAE's name on audit reports	Report format to be reviewed.	Head of Corporate Services	July 2018

No	Recommendation	Response	Responsible officer	Action date
R16	Revise the annual report to include: <ul style="list-style-type: none">• An opinion that refers to the governance, risk and internal control framework• The link must be made to the strategies, risks and objectives of the council• Reference to the level of compliance with the PSIAS• Details of activities as a consequence of the QAIP	Annual report to be revised with effect for 2019/20 audit plan.	Head of Corporate Services	July 2019

Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Include the mission in the Charter	Charter to be updated.	Head of Corporate Services	July 2018
S2	Occasionally involve others from within the Council who have sufficient knowledge of audit practices, for example members of the Audit Committee and finance staff in audit quality reviews	Covered in response to R4 (Corporate Governance Group and happy to accommodate Audit Committee where appropriate)	Head of Corporate Services	July 2018
S3	Include details of report circulation within the report itself	Covered in response to R15.	Head of Corporate Services	July 2018

Appendix 2: interviewees

Person	Position
Amy Adams	Corporate Services Officer
Emma Cathcart	Counter Fraud Unit Manager
Lisa Chapman	Member Services Officer
Mike Dawson	Chief Executive
Simon Dix	Head of Finance and Asset Management
Sam Dudfield	Internal Auditor
Claire Evans	Corporate Services Manager
Sara Freckleton	Borough Solicitor
Emma Harley	Finance Manager
Martha Mundy	Community Funding Officer
Andy Noble	Asset Manager
Lin O'Brien	Group Manager, Democratic Services
Matt Reeve	Operations Manager
Andy Sanders	Economic and Development Manager
Graeme Simpson	Head of Corporate Services (CAE)
Cllr Vernon Smith	Chair, Audit Committee
Diane Vince	Senior Auditor
Dave Waters	Leader of the Council
Georgina Whitehead	Internal Auditor