

External Quality Assessment - Validation of Client's Self-Assessment of Conformance to the Public Sector Internal Audit Standards

Trafford Council's Internal Audit Service

Final Report

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Self-Assessment Validation for the Internal Audit Service of Trafford Council – 14th and 15th November 2017

1. Introduction

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 1st April 2013 (revised 2016 and 2017). Public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five year period.

2. Background

The Audit and Assurance Service (AAS) provides the internal audit service to Trafford Council (TC) and currently contributes some audit time to the internal audit of the Stockport, Trafford and Rochdale (STAR) Shared Procurement Service. The Council has entered in to a partnership with Greater Manchester Police for shared payroll and HR Services and AAS has included time in the 2017/18 Internal Audit Plan to contribute to the auditing of these services in the current year. The service consists of 6.83 FTEs made up of an Audit and Assurance Manager, 2 FTE Principal Auditor Team Leaders, 0.83 FTE Principal Auditor, 2 FTE Senior Auditors and 1 FTE Auditor. The service is based in Trafford Town Hall in Trafford, Greater Manchester.

The team is experienced and well qualified. The Audit and Assurance Manager holds the CIPFA qualification, and four other members of the team are also qualified accountants (2 x CIPFA, 1 x ACCA and 1 x ICAEW). Another member of the team holds an internal audit qualification (PIIA) while the final team member has over 25 years internal audit experience.

The Audit and Assurance Service reports to the Chief Finance Officer (Section 151 Officer). The Service reports to the Council's Accounts and Audit Committee (AAC), which is the body that fulfils the role of 'the board' as required by PSIAS.

The Service has been operating under PSIAS for over four years and have undergone a number of changes in staff and operational practices during this period, particularly in the last twelve months. The Service has carried out a self-assessment to see how they compare to the requirements of both the PSIAS and the CIPFA local government application note (LAGN), and then commissioned CIPFA to undertake a validation of their self-assessment.

3. Validation Process

The self-assessment validation comprises a combination of desktop and on-site review and cannot reasonably consider all elements of the PSIAS and LGAN self-assessment in the time available. The desktop period of the review focussed on determining the strengths and weaknesses of the Audit and Assurance Service, and formed the key lines of enquiry used during the on-site stage, in order that the validation review is timely and adds real value to the organisation. The key lines of enquiry assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

The Service provided a comprehensive range of documents that they used as evidence to support their self-assessment and these were available for examination prior to and during this validation review. These documents included the:-

- self-assessment against the standards and the LGAN;
- quality assurance and improvement plan (QAIP);

- audit charter;
- Audit and Assurance Manager’s annual report and opinion;
- audit plan and strategy;
- audit manual; and
- progress and other reports to the Accounts and Audit Committee.

The on-site stage of the validation process involved face to face interviews with the Audit and Assurance Manager, the members of the Audit and Assurance Team, the Chief Finance Officer (S151 Officer), the Chair of the AAC, the Monitoring Officer and a Head of Service. A questionnaire was sent to the other key stakeholders not interviewed in advance of the on-site visit and the results analysed during the review. A sample of audit reports and working papers were also examined during the on-site stage of the review.

4. Conclusion and Opinion

The Audit and Assurance Service is a competent, professional and well-respected Service that is efficient and effective, follows best practice, and is willing to adapt to the changing needs of the Council. They make good use of technology and are keen to further develop computer assisted audit techniques to enhance the services that they deliver to the Council. Over a number of years they have gradually transferred responsibility for non-audit functions that are often aligned with audit services; the most recent example being the production of the Annual Governance Statement for the current year. This enables the Service to provide an independent review role. The Service continues to facilitate the update of the corporate strategic risk register.

The validation process has not revealed any areas of non-compliance with the standards, or any significant areas of partial compliance, that the Service has not already identified during their self-assessment and included in their quality assurance and improvement plan (QAIP).

Some minor observations have been identified and are set out in section five of the report, together with some recommendations (R) and suggestions (S) to address these issues and these are included in the action plans at section seven of this report. The process also identified some opportunities (O) for the Service to enhance its operations although they do not have an effect on compliance with the standards. These have been discussed with management and are included for information in section six of the report.

On this basis it is our opinion that the self-assessment is a good reflection of Trafford Council’s Audit and Assurance Service’s practices and its contribution to the organisation. It is also our opinion that the Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and to the CIPFA Local Government Application Note.

The co-operation of the Audit and Assurance Manager in providing all of the information asked for during the review, the Audit and Assurance Team, and those stakeholders that made themselves available for interview and completed questionnaires, is much appreciated. A schedule of these officers and members is shown in section eight of this report.

Conformance with the standards fall into one of three categories below, with further details set out in section nine of this report

Generally Conforms	Partially Conforms	Does Not Conform
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5. Summary of observations, recommendations and suggestions

Standard	Compliance	Observations	Recommendations and Suggestions	No
Mission of Internal Audit	Generally Conforms			
Core principles of internal audit	Generally Conforms			
Code of Ethics	Generally Conforms	<p>Minor Observation</p> <p>Each member of the Audit and Assurance Service is required to sign an annual declaration form to acknowledge that they conform to the Code of Ethics for Internal Auditors. In the public sector, this also includes the <i>Seven Principles of Public Life</i>. Although the members of the team are fully aware of these, and the need to comply with them is set out in the audit manual, (within the Audit and Assurance Service Code of Ethics, Conduct and Values), the current declaration form used by the Service does not make specific reference to them.</p>	<p>A section should be added to the declaration form at the next revision regarding team members having due regard to the <i>Seven Principles of Public Life</i>.</p>	S1
Attribute Standards				
1000 Purpose, authority and responsibility	Generally Conforms			
1100	Generally			

Standard	Compliance	Observations	Recommendations and Suggestions	No
Independence and objectivity	Conforms			
1200 Proficiency and due professional care	Generally Conforms			
1300 Quality assurance and improvement programme	Generally Conforms			
Performance Standards				
2000 Managing the internal audit activity	Generally Conforms			
2100 Nature of work	Generally Conforms	<p>Minor Observations</p> <p>These minor observation relates to the audit of the Council's governance and risk management arrangements. Although governance and risk management arrangements are covered in the scope of the individual audits, a specific review of the process for compiling the annual governance statement has not been undertaken for some time.</p> <p>The same applies to the overarching risk management processes. Given the planned</p>	<p>Include audits of the annual governance statement processes and risk management in future audit plans. It would be appropriate to consider risk management audit reviews after new management and reporting structures are established following the planned integration with the CCG.</p>	R1

Standard	Compliance	Observations	Recommendations and Suggestions	No
		merger with the CCG, the scope and timing of such review work could be considered once revised management arrangements are in place.		
2200 Engagement planning	Generally Conforms			
2300 Performing the engagement	Generally Conforms	Minor Observation The supervision of audits and review of working papers is set out in the audit manual and is undertaken within the Team Mate audit management system. However, not all reviewers are using the Team Mate functionality but are instead recording the reviews on a separate word document and then attaching this as an additional working paper to the audit record within Team Mate. The Service should adopt a consistent approach to file reviews and use the functionality within Team Mate for all review notes.	The Service should adopt a consistent approach to the review of audit working papers and documents by using the functionality that is embedded within the Team Mate application.	R2
2400 Communicating the results	Generally Conforms	Minor Observations There are two minor observations. For this standard. The first relates to the Audit and Assurance Manager's annual opinion. The narrative leading up to the opinion in the report clearly refers to the Service giving an opinion on the effectiveness of the internal control, risk management and governance arrangements of the Council. However, the actual opinion within the report only refers to the internal controls and not the effectiveness of the latter	Expand the audit opinion in the annual report to include the effectiveness of the Council's risk management and governance arrangements. To ensure that the client is aware from the outset of who will receive the audit report when the audit is concluded, an initial report distribution list should be added to the audit brief.	R3 S2

Standard	Compliance	Observations	Recommendations and Suggestions	No
		<p>two elements. As there may be occasions where the audit opinion is used outside of the context of the annual report, it is important that risk management and governance arrangements are added to it.</p> <p>The second relates to the distribution of audit reports. A distribution list is included in each draft and final audit report, however the LGAN also expects auditors to include an initial distribution list for the audit reports in the audit brief that is issued at the commencement of the audit.</p>		
<p>2500 Monitoring progress</p>	<p>Generally Conforms</p>			
<p>2600 Communicating the acceptance of risks</p>	<p>Generally Conforms</p>			

6. Opportunities to Enhance Services

The service is keen to develop the way it operates and with this in mind the following opportunities have been identified.

NO.	Observation	Action
O1	<p>The service has recently started to use computer assisted audit techniques (CAATs) to perform some of its internal audits. The service is using the IDEA application, which is widely used amongst local authority internal audit services. However, there is scope to expand the use of IDEA. The main distributor for IDEA also markets a suite of additional pre-defined test scripts for IDEA, called SmartAnalyzer, which cover the main financial and HR systems that most local authorities use. This product removes the need to develop the test scripts needed to audit these systems. In addition, there are other local authorities in the North West that are using IDEA to effectively audit other key council systems, such as council tax and business rates, who maybe willing to share their test scripts with the team.</p>	<p>Explore the viability of obtaining and using pre-written test scripts for IDEA, such as the SmartAnalyzer add on product, which cover the core business financial and HR systems, or by obtaining test scripts produced by other Internal Audit services in the North West.</p>
O2	<p>The planned merger with the Trafford CCG will bring new challenges for Internal Audit and the Service will need to provide adequate audit support to the organisation, in liaison with respective partners as appropriate. One suggestion for developing a sound understanding of NHS finance and governance arrangements is for the Service to become an associate member of the Healthcare Financial Management Association (HFMA) which will give them access to the numerous technical briefing papers, guide books and training courses produced by them.</p>	<p>Consider becoming an associate member of the Healthcare Financial Management Association (HFMA).</p>

7. Action Plans

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Include audits of the annual governance statement processes and risk management in future audit plans. It would be appropriate to consider risk management audit reviews after new management and reporting structures are established following the planned integration with the CCG.	Agreed. To initially be reflected in the 2018/19 Internal Audit Plan to be approved by the Accounts and Audit Committee in March 2018 and subsequent plans as arrangements develop.	Audit and Assurance Manager	March 2018
R2	The Service should adopt a consistent approach to the review of audit working papers and documents by using the functionality that is embedded within the Team Mate application.	Agreed. To be implemented for future audit reviews	Audit and Assurance Manager	With immediate effect
R3	Expand the audit opinion in the annual report to include the effectiveness of the Council's risk management and governance arrangements.	Agreed. For the 2017/18 Annual Head of Internal Audit Report, the wording used in the overall opinion to also reflect wording currently set out in the narrative leading up to the opinion.	Audit and Assurance Manager	May 2018

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	A section should be added to the declaration form at the next revision regarding team members having due regard to the <i>Seven Principles of Public Life</i> .	Agreed. The form has been updated and this version will be used for all declarations going forward.	Audit and Assurance Manager	With immediate effect
S2	To ensure that the client is aware from the outset of who will receive the audit report when the audit is concluded, an initial report distribution list should be added to the audit brief.	Agreed. Distribution list for initial draft report to be included on the Terms of Reference for future audit reviews.	Audit and Assurance Manager	With immediate effect

8. : Interviewees and Questionnaires

Person	Position	Organisation
Interviewees		
Mark Foster	Audit and Assurance Manager	Trafford Council
Nikki Bishop	Chief Finance Officer (S151 Officer)	Trafford Council
Janet Kealey	Director of Legal and Democratic Services (Monitoring Officer)	Trafford Council
Alison Milne	Head of Service – Access and Inclusion	Trafford Council
Clr Nathan Evans	Chair of the Accounts and Audit Committee	Trafford Council
Mat Tanner	Principal Auditor and Assurance Team Leader	Trafford Council
John Miller	Principal Audit and Assurance Team Leader	Trafford Council
Paula Liew	Principal Audit and Assurance Officer	Trafford Council
Peter Morris	Senior Audit and Assurance Officer	Trafford Council
Mike Sullivan	Senior Audit and Assurance Officer	Trafford Council
Michael Barker	Audit and Assurance Officer	Trafford Council
Questionnaires		
Deborah Lucas	Acting Director of HR	Trafford Council
Rob Byrne	Assessments and Payments Manager	Trafford Council
Mark Pearson	Business Improvement Manager – STAR Procurement Partnership	Trafford Council
Theresa Grant	Chief Executive	Trafford Council
Richard Roe	Director of Growth & Regulatory Services	Trafford Council
Lorraine Cox	Director – STAR Procurement Partnership	Trafford Council
Sarah Curran	Head of Customer Services	Trafford Council
Louise Shaw	Head of Exchequer Services	Trafford Council
Graeme Bentley	Head of Financial Management	Trafford Council
Peter Forrester	Head of Governance	Trafford Council
Iain Veitch	Head of Regulatory Services	Trafford Council
Alison Milnes	Head of Access & Inclusion	Trafford Council
Richard Fontana	Health and safety Manager	Trafford Council
Karen Samples	Interim Director of Education	Trafford Council

Person	Position	Organisation
Edward Czok	Interim ICT Manager	Trafford Council
Karen Duckenfield	Revenues Manager (1)	Trafford Council
Simon Lewis	Revenues Manager (2)	Trafford Council
Joanne Boyle	Licensing Team Leader	Trafford Council

9. Definitions of Conformance with the Standards

Generally Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

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