

Final Report for the external assessment of the internal audit function

North West Leicestershire & Blaby District Council

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Standards & Guidance**

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Review of North West Leicestershire and Blaby District Councils' shared audit service (April 2015)

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. The standards require periodic self-assessments and an assessment by an external person every five years. With the change in senior auditor (known as chief audit executive in the standards), this was deemed a good time for the first external review.

The review was carried out through a process of interview and document review. We spoke to a sample of audit clients, the s151 and monitoring officers, those with responsibility for risk and for governance and the chairs of the two audit committees. I should like to thank all those who took the time to talk to me for their help. We reviewed seven audits carried out during the 2014/15 financial year and we examined key documents including the Charter and reports to audit committees.

We identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, nor any significant differences in approach between the two councils. It should be recognised, however, that the size of the shared audit service makes it harder to achieve full compliance with all the standards. We have, therefore, made practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards without requiring significant extra work. The Senior Auditor will need to prepare an action plan for their implementation.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Attribute standards				
1000 Purpose, authority and responsibility	Full	The Charter covers all the required areas although it does not give details about how a report of insufficient resources should be managed	Consider specifying who receives a report of insufficient resources and what they should do about it	S1
1100 Independence and objectivity	Full	Independence and objectivity are well managed. The development of all staff working at both authorities is a welcome addition		
1200 Proficiency and due professional care	Full	It was clear from the audit files that audit work is carried out with proficiency and care. However, some planning papers were filed separately from the audit working papers, making it harder to get a complete picture of the risks that were considered	Consider keeping meeting and planning papers with the relevant audit files	S2
1300 Quality assurance and improvement programme	Partial	The QAIP process is still being developed and there are some improvements that should be considered	Consider involving non-audit staff in the annual self-assessment processes or rule this out in the QAIP procedure	S1

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>Standard 1312 The scope of the external assessment was discussed with the board (ie the audit committees), but the decision to go ahead was not minuted. Timing issues meant that the decision about which assessor to use was made in a private meeting with the sponsor</p> <p>Standard 1321 Because it was still a work in progress, the QAIP was not reported in the annual report for 13/14</p>	<p>Consider including the results of the satisfaction survey in the annual report</p> <p>Discussions about the external assessment should take place during formal audit committee meetings and decisions should be minuted</p> <p>Ensure the QAIP is reported in the annual report when the programme is in place</p>	<p>S2</p> <p>R1</p> <p>R2</p>
Performance standards				
2000 Managing the internal audit activity	Full	Audit planning is undertaken using a detailed risk appraisal and in discussion with senior managers for the 15/16 year. External audit is consulted to synchronise audit activities		
2100 Nature of work	Full	Audits are planned with consideration of governance, risk and fraud and error matters but this is not always made explicit in engagement plans	See below	S6
2200 Engagement planning	Partial	<p>Standard 2201 Planning papers and working drafts of the engagement plan are not kept with the audit papers. It is not, therefore, obvious who has been involved or what has been considered</p> <p>Standard 2210 Although I was assured that fraud, error and vfm are considered in all audits this was not always evident from the engagement plans Risks are considered when planning all audits but they are only explicitly identified in risk-based audits</p>	<p>Consider filing these documents with audit working papers</p> <p>Include overt references to fraud, error and vfm in planning documents</p> <p>Ensure that risks are listed in engagement plans for all audits, including non-risk-based audits.</p>	<p>S5</p> <p>S6</p> <p>S7</p>
2300	Partial	Standard 2330		

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Performing the engagement		<p>The use of a testing schedule at Blaby makes the documentation of audit work clearer than at NWL</p> <p>Working papers often summarise audit activity rather than give detail, for example, interview notes are not kept on file but are summarised in findings</p> <p>There is no retention policy for audit papers and some confusion over what the custom is</p> <p>Standard 2340</p> <p>Engagement plans and reports are emailed out by the senior auditor (meeting the requirement for the chief audit executive to do this) but copies of the emails are not retained on the audit file so it is not clear either that these have been sent out in her name nor that she has reviewed and agreed them</p> <p>The small team means that the chief audit executive (senior auditor) carries out audit work, which would not happen in a larger team. Supervision and review of such work presents problems</p>	<p>Introduce the testing schedule at NWL</p> <p>Include any handwritten working papers, eg interview notes, in the audit file, by scanning if necessary</p> <p>Agree a retention policy</p> <p>Include the senior auditor's name on engagement plans and reports</p> <p>Continue to explore ways to supervise and review audit work undertaken by the senior auditor</p>	<p>R3</p> <p>R4</p> <p>R5</p> <p>R6</p> <p>S8</p>
2400 Communicating the results	Full	<p>Standard 2410</p> <p>The team uses a standard audit report format which may not contain sufficient details for more contentious audits</p> <p>Standard 2450</p> <p>The audit team uses two forms of opinion – a four level one for individual audits and a three level one for the annual opinion which is potentially confusing.</p> <p>The annual opinion for 2014 was given on the general control environment rather than making it clear that this related to governance, risk</p>	<p>Consider if it would be appropriate to include or offer more detail on more critical reports</p> <p>Revise the opinions so that they are consistent with each other</p> <p>Make it clear that the opinion reflects governance, risk and control, either in the definitions or in the text preceding the definitions</p>	<p>S9</p> <p>R7</p> <p>R8</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		and control		
2500 Monitoring progress	Full	Follow ups are undertaken on a routine basis every quarter		
2600 Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by both authorities on audit findings		
Code of Ethics	Full	Competency The audit activity has an experienced audit team but there is no detailed training plan to maintain this position	Consider developing a training needs assessment plan	S10

Please note that the senior auditor has details of the findings, standard by standard.
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