

Review of Internal Audit

Central Bedfordshire Council

Audit 2009/10

June 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary report

Introduction

- 1 The Accounts and Audit Regulations 2003 (as amended) require local authorities to maintain an internal audit function, and to conduct an annual review of its effectiveness. As external auditors ISA 610 'Considering the work of internal audit' requires us to perform an assessment of the internal audit function as well as evaluating the adequacy of specific pieces of internal audit work before placing reliance on it. .

Background

- 2 Following Local Government Reorganisation in Bedfordshire, Central Bedfordshire Council (CBC) was established on 1 April 2009 as a new unitary authority. It was formed from the three legacy authorities of Bedfordshire County Council (BCC), South Bedfordshire District Council and Mid Bedfordshire District Council.
- 3 As this is a new authority and a new audit appointment we have carried out a review of Internal Audit (IA) to ensure that the relevant professional standards, as set out in the CIPFA Code of Practice for Internal Audit in Local Government, are being met. The CBC IA team consists largely of former BCC IA employees and consists of a Head of Audit, two Audit Managers and seven senior auditors.

Audit approach

- 4 The CIPFA Code of Practice ('the Code') covers the following key areas:
 - scope of Internal Audit;
 - independence;
 - ethics for Internal Auditors;
 - Audit Committees;
 - relationships;
 - staffing, training and continuous professional development (CPD);
 - audit strategy and planning;
 - undertaking audit work;
 - due professional care;
 - performance, quality and effectiveness; and
 - Reporting and quality assurance.

- 5 Our review has focussed on two main areas, as follows:
- a review of the quality management arrangements at CBC against the professional and statutory requirements contained within the Code; and
 - a sample review of IA files.

Main conclusions

- 6 CBC IA is compliant with the requirements of the Code and we have concluded that we are able to rely on their work.
- 7 There is an Internal Audit Strategy and Internal Audit Charter in place. The 2009/10 Internal Audit Plan, which is the detailed programme of work for the year, was agreed by the CBC Audit Committee in April 2009 and progress against the plan is reported to the Committee on a quarterly basis.
- 8 There are adequate arrangements in place to provide assurance that the independence of IA is maintained. Members of staff are reminded of their ethical responsibilities. The CIPFA Code of Ethics has been circulated to the team and is an appendix to the Audit Manual.
- 9 Our review has confirmed that there are good relationships between IA, management and Members. We are in the process of agreeing a Protocol for Liaison between IA and External Audit. The protocol will provide a framework for how internal and external audit will work together to promote an effective working relationship and maximise the benefits to the Council from available audit resources. A draft protocol has been agreed between CBC IA and the Head of Audit of Bedford Borough Council IA, and is awaiting sign off by the Section 151 Officers of both authorities.
- 10 The IA team is suitably qualified. A performance development review has taken place for each member of the team and all staff have been assessed against the CIPFA publication 'The Excellent Internal Auditor' which has been used to assess training needs. Our review confirmed that all staff members maintain a record of their training and development. Job descriptions for senior auditors and the HoA have been updated; however those for Audit Managers are the same job descriptions previously in place at Bedfordshire County Council (BCC). It is the new Council's responsibility to put in place job descriptions for the new authority. The job descriptions for Audit Managers will be reviewed as part of the new Council's harmonisation process.

Summary report

- 11 As 2009/10 is the first year of CBC as a new unitary authority, its additional responsibilities have meant an increase in the workload of IA. This has resulted in pressure on IA to complete their audit plan within the planned timescale for 2009/10 and consequently some slippage. The main areas of slippage are the school toolkit assessments, due to non submission by schools, and work on the managed audits. As we reported in our Audit Opinion Plan for 2009/10, IA had planned that their walkthroughs of the Council's key financial systems would be complete by the end of January 2010 so that we could rely on their work in carrying out our own work, planned for February and March 2010. However, not all of the IA work was available at this time, due to IA capacity and the availability of staff across the Council.
- 12 In reviewing IA files we found that whilst a standard for audit documentation and working papers is defined in the Audit Manual, there were differences between the quality of the documentation included in IA files. This reflects the establishment of a new IA team, bringing together auditors from the three legacy authorities.
- 13 While we have been able to rely on the work that IA have carried out we have had to raise additional queries and have asked IA to carry out additional work. We will continue to work with IA to ensure that their approach to the managed audits is complementary to our own audit approach.
- 14 There are no formal processes in place to ensure that the Council's risk registers are updated to reflect IA findings.
- 15 The Accounts and Audit Regulations 2006, Regulation 6, require bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control. CBC have yet to carry out such a review for 2009/10.
- 16 An Action Plan has been agreed with the Council (see Appendix 1) to address the issues arising from this review.

Detailed report

Scope of Internal Audit

- 17 The terms of reference (ToR) and the Internal Audit Strategy are based on previous documents inherited from BCC but have been updated to take account of the new unitary Council's aims, objectives and Constitution.
- 18 The CBC's assurance, risk management arrangements and monitoring mechanisms have been taken into account when determining Internal Audit's work. A risk based approach was adopted in drawing up the 2009/10 IA plan which was agreed at the Audit Committee in April 2009.

Independence

- 19 There are adequate arrangements in place to provide assurance that the independence of IA is maintained.
- 20 The HoA reports to the Assistant Director for Audit and Risk, who in turn reports to the Director of Customer and Shared Services. This arrangement is currently under review and is likely to be subject to change as a result of the Senior Manager restructure at the Council.
- 21 Members of staff are required to sign declarations of interest which are taken into account when planning the audit work.
- 22 The Assistant Director for Audit and Risk and the HoA have direct access to both officers and Members. The Assistant Director for Audit and Risk also meets with the Chairman of the Audit Committee on a regular basis.

Ethics for internal auditors

- 23 Members of staff are reminded of their ethical responsibilities. The CIPFA Code of Ethics has been circulated to the team and is an appendix to the Audit Manual.
- 24 The Code of Ethics requires staff on annually audited areas to be rotated. Due to the size of the team there is scope for regular rotation and as a result of LGR rotation of audits has been inevitable this year.

Audit Committee

- 25 The Council has an independent Audit Committee. The Assistant Director for Audit and Risk and the HoA attend Audit Committee meetings and have access to the Committee.
- 26 The HoA reports progress against the annual Internal Audit Plan to the Audit Committee and will provide an Annual Report to the June 2010 meeting of the Committee. The Annual Report will include an assessment on the standard of internal control within the Council and will contribute to the production of the Council's Annual Governance Statement.

Detailed report

- 27 The Audit Committee approved the Internal Audit Strategy at its meeting on 12 April 2010 and the Internal Audit Charter on 6 April 2009.

Relationships

- 28 Our review has confirmed that there are good relationships between IA, management and Members. The current Internal Audit Charter includes reference to the relationship between Members and IA and the channels of communication are specifically defined.
- 29 The HoA holds monthly team meetings with the IA team to ensure regular communication and effective working relationships.
- 30 Regular meetings are also held with the Head of Audit at Bedford Borough Council (BBC) to consider the approach to auditing shared services and other reviews that may affect both authorities. As yet there is no formal arrangement in place with BBC IA, although a draft protocol has been agreed with the Head of Audit at BBC and is awaiting sign off by the Section 151 Officers of both authorities.
- 31 The Audit Commission Audit Manager and Team Leader meet with CBC IA on a monthly basis and are working together to ensure that there is no duplication of work and that their work on the financial systems is complementary to ours. In order to comply with the International Standard on Auditing (UK and Ireland) 315 we are required to document all systems which create a material figure in the accounts and understand and document how transactions flow through the information system, that is 'walkthrough' a transaction. IA plan their work on the Council's material systems to assist us in this. These audits are referred to as the managed audits.
- 32 We are in the process of agreeing a Protocol for Liaison between Internal Audit and External Audit. The aim of this protocol will be to provide a framework for how internal and external audit will work together to promote an effective working relationship and maximise the benefits to the Council from available audit resources.

Recommendations

- R1** Finalise the draft protocol with Bedford Borough Council which will put in place formal arrangements with other internal auditors to include joint working, access to working papers, respective roles and confidentiality.
- R2** Together with the Audit Commission agree a Protocol for Liaison between Internal Audit and External Audit.

Staffing, training and continuous professional development (CPD)

- 33 The IA team consists of the HoA, two Audit Managers and seven senior auditors. The HoA is very experienced, having previously carried out this role at BCC. The HoA is professionally qualified as are all the Audit Managers. Auditors are suitably qualified for their posts. The HoA and the Audit Managers have also undertaken management training whilst at BCC.
- 34 Job descriptions for senior auditors and the HoA have been updated; however those for Audit Managers are the same job descriptions that were in place at BCC. These will be reviewed as part of the new Council's harmonisation process.
- 35 A performance development review has taken place for each member of the IA team. All staff have been assessed against the CIPFA publication 'The Excellent Internal Auditor' which has been used to assess training needs. Our review confirmed that all staff members maintain a record of their training and development.
- 36 In this the first year of the new unitary authority, with its additional responsibilities, the workload of IA has increased. This has resulted in pressure on IA to complete their audit plan within the planned timescale for 2009/10.
- 37 The IA and Risk Management Progress Report to the Audit Committee on 12 April 2010, which reported on IA performance for the year to February 2010, reported that while 83 per cent of total audit days had been completed (compared to a target of 80 per cent), only 49 per cent of the number of planned reviews had been completed (target of 80 per cent) and only 49 per cent of audit review (target 80 per cent) had been completed within the planned time budget. Delays in completing planned reviews, which is assessed by when the final report is issued, are attributed to: slippage of school toolkit assessments due to non submission by schools and the need for substantive testing on the managed audits to cover the whole financial year. Managed audits will not be finalised until early 2010/11.
- 38 As reported in our Audit Opinion Plan, IA had planned that their walkthroughs of the Council's key financial systems would be complete by the end of January 2010 so that we could rely on their work in carrying out our own work, planned for February and March 2010. However, not all of the IA work was available at this time, due to IA capacity and the availability of staff across the Council. While the bulk of the work on the Main Accounting, Accounts Payable, Treasury Management, Payroll, Housing Benefits and Council Tax systems were made available in January and February, we received the Housing Rents, NNDR, and Accounts Receivable files in March 2010. IA audits on SWIFT, Cash and Bank and Asset Management were not completed in time for us to place reliance on IA work done on these systems. IA did keep us informed of their progress in completing audits and files were made available as soon as the field work had been completed by IA.

Recommendation

R3 Ensure that job descriptions for all members of the IA team are updated.

Audit strategy and planning

- 39 There is an Internal Audit Strategy which was approved by the Audit Committee on 12 April 2010. The HoA intends to review this document annually.
- 40 A detailed audit needs assessment for the new Council has been undertaken by the HoA. This has involved identifying known risks from the legacy authorities and discussions with Directors, Assistant Directors and Heads of Service. The HoA has participated in meetings to discuss risk registers in order to ensure that all audit risks have been identified. The risk assessment also considered external influences and legislative changes which the HoA had identified through research and networking, for example Learning Skills Council transfer. The annual plan has been developed based on the recognised risks.
- 41 The three year IA plan includes a contingency each year to allow flexibility and it is intended to review and revisit it each year to ensure that it remains relevant to the new Council as it develops.

Undertaking audit work

- 42 An audit brief is prepared for each audit. This document is discussed and agreed with the relevant managers and includes the objectives of the audit, scope, timing, resources and reporting requirements. A risk based approach is taken in planning the audit work to be carried out.
- 43 As noted in paragraph 23, we seek to place reliance on IA work on the key financial systems of the Council. We have therefore reviewed IA files and work on the following systems, Payroll, Accounts Payable, Accounts Receivable, Housing Benefits, Housing Rents, Treasury Management and the Main Accounting System. IA work on the asset management system had not started at the time of our work and was therefore not reviewed.
- 44 In reviewing IA files we found that whilst a standard for audit documentation and working papers is defined in the Audit Manual, there were differences between the quality of the documentation included in IA files. This reflects the establishment of a new IA team, bringing together auditors from the three legacy authorities. The need to integrate the teams, harmonise working practices and the development of staff to deliver a broader range of audits have been reported to the Audit Committee as reasons as to why only 49 per cent of audit reviews (target 80 per cent) had been completed within the planned time budget.
- 45 Where we as external auditors seek to place reliance on the work of IA, their work must comply with our own audit approach. While we have been able to use the work that IA have carried out we have had to raise additional queries and have asked IA to carry out additional work to ensure that:
 - The same transaction has been documented through the information system, from initiation to appearing in the financial statements.

- Flowcharts are up to date following the walkthrough and fully document the system ie Accounts Payable system flowchart needs to include consideration of the sub systems that deal with Amey, Mouchel, waste and schools transactions.
 - Sufficient evidence is obtained to conclude that the controls identified are operating and is clearly cross referenced to the flowchart and the record of the walkthrough.
- 46 We will be providing detailed feedback to the HoA on the files we have reviewed and will continue to work with IA to ensure that their approach to the managed audits is complementary to our own audit approach.

Recommendations	
R4	Ensure that the standard for audit documentation and working papers is consistent across the IA team.
R5	Ensure that in carrying out 'managed audits' : <ul style="list-style-type: none"> • the same transaction has been documented through the information system, from initiation to appearing in the financial statements; • flowcharts are up to date following the walkthrough and fully document the system; and • sufficient evidence is obtained to conclude that the controls identified are operating and is clearly cross referenced to the flowchart and the record of the walkthrough.

Due professional care

- 47 Our review of IA has confirmed that due professional care is taken. Systems are in place to record declarations of interest and any suspicions of fraud or corruption. A monitoring and review programme, as detailed in the Audit Manual, is in place to ensure due professional care is maintained.

Reporting

- 48 The IA reports meet the CIPFA standard. Our review identified that the format of audit reports is tailored to be most useful to management however they do generally follow a similar format as prescribed by the Audit Manual.
- 49 There is evidence to confirm that management actions are prioritised to clearly identify their relative importance and respective risk. The actions and resultant management action plans are agreed prior to the issue of the final report and any areas of disagreement between the auditor and management that cannot be resolved by discussion are recorded in the report highlighting the residual risk.
- 50 Mechanisms are in place to ensure that recommendations that have a wider impact are reported to the appropriate forums. High risks are fed into the Council's corporate tracking system.

Detailed report

- 51 There are no formal processes in place to ensure that risk registers are updated to reflect IA findings.
- 52 There are established escalation procedures for IA recommendations that have not been implemented by the agreed date. Dependent upon the outcome of the audit review and the opinion given, consideration will be given to undertaking a follow up audit.

Recommendation

- R6 Introduce procedures to ensure that risk registers are updated to take account of IA recommendations.

Performance, quality and effectiveness

- 53 An Audit Manual has been produced and it is intended that this will be reviewed annually. To facilitate an easy approach to review a number of key documents have been attached as appendices, namely the Internal Audit Strategy and the Internal Audit Charter.
- 54 There is evidence to demonstrate that during 2009/10 the HoA has put in place arrangements to assess the performance and effectiveness of individual audits and ensure compliance with the CIPFA Code. The next stage will be to introduce a mechanism for reviewing IA performance against these foundations.
- 55 The Internal Audit Charter contains a set of key performance indicators (KPIs) which are used to monitor IA's performance. The Assistant Director of Audit and Risk monitors the KPIs on a regular basis and they are also reported to the Audit Committee as part of the Internal Audit and Risk Management Progress Report.
- 56 Regulation 6 of the Accounts and Audit Regulations 2006 requires bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control. It is the responsibility of the local authority to conduct the annual review; it is not a review that will be carried out by the external auditor as part of the annual audit. The results of the review are then reported to the audit committee.
- 57 Arrangements have not been made to ensure that such a review is carried out for 2009/10.

Recommendations

- R7 Ensure that adequate arrangements are in place to monitor the performance and effectiveness of the IA service as a whole.
- R8 Ensure that an annual review of the effectiveness of IA is carried out in accordance with the Accounts and Audit regulations.

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Finalise the draft protocol with Bedford Borough Council which will put in place formal arrangements with other internal auditors to include joint working, access to working papers, respective roles and confidentiality.	2	Assistant Director - Financial Services	The draft protocol will be agreed between the respective Section 151 Officers of each authority.		30 July 2010
7	R2 Together with the Audit Commission agree a Protocol for Liaison between Internal Audit and External Audit.	2	Head of Audit	The draft Protocol for Liaison between Internal Audit and External audit will be finalised.		1 July 2010
9	R3 Ensure that job descriptions for all members of the IA team are updated.	2	Head of Audit	The job descriptions will be updated.		30 September 2010
10	R4 Ensure that the standard for audit documentation and working papers is consistent across the	3	Head of Audit	The Head of Audit will ensure that there is a consistency of working papers across the IA team that meets the		30 September 2010

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	IA team.			requirements of the Audit Commission.		

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	<p>R5 Ensure that in carrying out 'managed audits':</p> <ul style="list-style-type: none"> the same transaction has been documented through the information system, from initiation to appearing in the financial statements; flowcharts are up to date following the walkthrough and fully document the system; and sufficient evidence is obtained to conclude that the controls identified are operating and is clearly cross referenced to the flowchart and the record of the walkthrough. 	3	Head of Audit	The Head of Audit will ensure that there is a consistency of working papers across the IA team that meets the requirements of the Audit Commission.		30 September 2010
11	R6 Introduce procedures to ensure that risk registers are updated to take account of IA recommendations.	3	Head of Audit	Audit reports will remind managers of the need to update risk registers to take account of Internal Audit recommendations.		1 July 2010

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R7 Ensure that adequate arrangements are in place to monitor the performance and effectiveness of the IA service as a whole.	2	Head of Audit	The Head of Audit will introduce arrangements to ensure that adequate arrangements are in place to monitor the effectiveness and performance of the IA service as a whole.		31 December 2010
11	R8 Ensure that an annual review of the effectiveness of IA is carried out in accordance with the Accounts and Audit regulations.	3	Assistant Director - Audit and Risk	An annual review of the effectiveness of IA will be undertaken.		28 June 2010

The Audit Commission

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