

# **Review of Internal Audit**

**Walsall MBC**

**Audit 2006/07**

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Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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- any third party.

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## Introduction

- 1 This report identifies the main findings from our triennial review of Walsall MBC's Internal Audit Department.

## Background

- 2 Our review of the effectiveness of Internal Audit has been undertaken using the following criteria.
  - Status in the organisation.
  - The scope of the Internal Audit function - the nature and extent of assignments and how seriously their reports are taken.
  - Technical competence.
  - Professionalism including the documentation of work

## Audit approach

- 3 The following process was followed:
  - A generic work programme 'Review of Internal Audit' has been completed following discussion with and input by Walsall MBC's Chief Internal Auditor, Mr David Blacker and other members of the Internal Audit Team.
- 4 The review focused upon the following areas.
  - Objectives and scope.
  - Independence.
  - Staffing and training.
  - Relationships.
  - Planning.
  - Controlling.
  - Recording.
  - Evaluation.
  - Evidence.
  - Reporting.
  - Follow-up.
- 5 Documentation has been inspected, where relevant, to ensure that all conclusions reached are adequately supported.
- 6 The cumulative audit knowledge of the Audit Commission team was taken into account when drawing conclusions.

- 7 Six Internal Audit files were reviewed in detail.
- 8 Other key documents examined include the following.
  - The Internal Audit Manual.
  - The Internal Audit Work Plan 2006/07.
  - The Medium Term Risk Assessed Audit Plan.
  - The Audit Risk Assessment Methodology.
  - The Strategic Risk Register.
  - The Corporate Services Directorate Risk Register.
  - The Childrens Services Directorate Risk Register.
  - The Social Care and Inclusion Directorate Risk Register.
  - The Regeneration Services Directorate Risk Register.
  - The Neighbourhood Services Risk Register.
  - Reports to Audit Committee.

## Main conclusions

- 9 At the time of our audit, the Internal Audit Service in Walsall MBC met the current CIPFA standards. A revised Internal Audit Charter was prepared and has now been approved by Audit Committee on 25 June 2007. This Charter addresses many of the issues raised during the audit, and the action plan details how issues raised have now been actioned.
- 10 The revised Charter incorporates many of CIPFA's current standards and includes those areas we would expect to see, for example:
  - all suspected or detected incidents must be reported to the Chief Internal Auditor;
  - the independence of Internal Audit is paramount. Staff who have been consulted during system, policy or procedure development will not be involved in future audits of the system for two years;
  - contracting auditors will not be involved in audits where they have provided the non audit services under review within the last two years;
  - staff who previously had operational roles will not be allowed to conduct audits in those areas for a minimum of three years; and
  - no member of staff will be allowed to work on the same annually audited area for more than three years.
- 11 The Internal Audit section is staffed with appropriately experienced and qualified officers and work is of a good standard. The section is well managed.
- 12 We can place reliance on internal audit work that is directly relevant to our Code of Audit Practice responsibilities.

- 13 The Chief Internal Auditor is line managed by the Assistant Director of Finance who has operational responsibilities, including Revenues and Benefits. There could be a conflict of interests and a threat to the independence of the internal audit function.

**Recommendation**

*R1 The Chief Executive or s151 officer should consider which senior officer the Chief Internal Auditor reports to in order to ensure that the CIA discharges his responsibilities and maintains his independence.*

## Other issues

- 14 Internal Audit has a process for following up their recommendations. Once a report has been issued, managers are later on asked to confirm that recommendations have been implemented. A quarterly report is also done for the Executive Director.
- 15 Follow up visits to verify implementation of recommendations are rarely undertaken. There have been a number of instances where service managers have erroneously reported full implementation of recommendations (eg NRF).

**Recommendation**

*R2 The Chief Internal Auditor should consider undertaking a programme of risk based follow up audits to confirm the assurances given in the replies to the follow up memos.*

- 16 The Department has benefited greatly from having an experienced and generally long serving team. In many councils, there is a process of rotation of accountancy trainees which includes a term in Internal Audit. This would provide a source of potential new ideas to Internal Audit and help spread control awareness throughout the Council.

**Recommendation**

*R3 The Assistant Director should consider a programme of secondments both into and out of the Internal Audit Department for accountancy trainees.*

- 17 The Internal Audit Manual is dated December 1988. The Manual is currently being updated.
- 18 Information relating to Internal Audit appears piecemeal in several different places; Audit Manual, Internal Audit Charter, The Finance and Contract Rules and the Constitution.

**Recommendation**

*R4 The Internal Audit Manual should be subject to regular review and update at least every two years. All relevant and important information relating to Internal Audit should be contained within one document even if it is subsequently duplicated elsewhere for other purposes.*

- 19** There is no formal protocol that defines the working relationship for Internal Audit with management, other internal auditors other regulators/inspectors and elected members.
- 20** With the advent of partnership working such as LAA and the Council's accountable body responsibilities, it may be advantageous for the Council to establish formal protocols with other parties to ensure that its governance arrangements are in place and that its partners understand their duties to enable the Council to discharge these responsibilities.

**Recommendation**

*R5 The Chief Internal Auditor should establish audit protocols with the Council's partners to ensure that the Council's responsibilities can be fully and effectively discharged.*

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 The Chief Executive or s151 officer should consider which senior officer the Chief Internal Auditor reports to in order to ensure that the CIA discharges his responsibilities and maintains his independence.	3	Chief Executive or s151 officer	Yes	This should be addressed when structure considerations have been determined.	31 December 2008
6	R2 The Chief Internal Auditor should consider undertaking a programme of risk based follow up audits to confirm the assurances given in the replies to the follow up memos.	2	Chief Internal Auditor	No	This procedure is already in place. Those reviews where no assurance/significant weaknesses are identified will continue to receive early follow up visits (eg NRF and payrolls).	n/a
6	R3 The Assistant Director should consider a programme of secondments both into and out of the Internal Audit Department for trainees.	1	Chief Internal Auditor	Yes	When the graduate trainee scheme was previously in place, a period of the trainees' time would be spent within internal audit. The scheme has recently been re-introduced and a period within audit is proposed.	tbd
7	R4 The Internal Audit Manual should be subject to regular review and update at least every two years. All relevant and important information relating to Internal Audit should be contained within one document even if it is subsequently duplicated elsewhere for other purposes.	2	Chief Internal Auditor	Yes	The new audit manual was issued in December 2007. It will be updated, as required, on an ongoing basis.	Ongoing
7	R5 The Chief Internal Auditor should establish audit protocols with the Council's partners to ensure that the Council's responsibilities can be fully and effectively discharged.	2	Chief Internal Auditor	No	An officer group, with audit representation, is currently reviewing the Council's partnership arrangements and will include the preparation of a partnership register. Any audit requirements will be included within the accountable body agreements.	31 March 2009