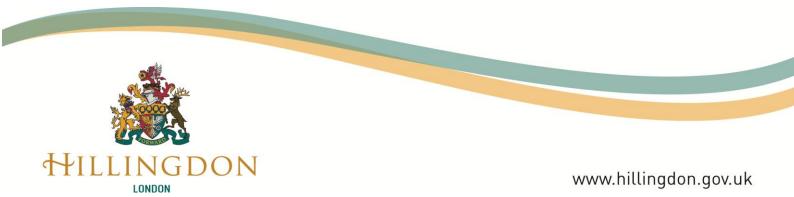# Effectiveness of Internal Audit
Final Internal Audit Assurance Report 2013/14
24 June 2014

Final Report Distribution:

Name	Job Title
Fran Beasley	Chief Executive & Corporate Director of Administration
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All Members of the Audit Committee	

Ownership of all final Internal Audit assurance reports rests with the relevant Audit Sponsor. However, we will disclose final Internal Audit assurance reports to the Audit Committee upon their specific request.

1. Introduction

1.1 This risk based Internal Audit (IA) Assurance review forms part of the revised 2013/14 IA Plan presented to Audit Committee on 7 January 2014. **The purpose of this review is to provide assurance to Corporate Management Team (CMT) and the Audit Committee over the following key risks to IA:**

- If IA fails to deliver an effective service this will prevent independent, objective assurance to be provided to the Council, Audit Committee, Chief Executive, Directors and other IA stakeholders, that the key risks associated with the achievement of the Council's vision and strategic priorities are being managed effectively; and

- The Council's IA function does not demonstrate its conformity with the UK Public Sector IA Standards (PSIAS) leading to non-compliance with regulations which may have reputational and financial consequences.

2. Background

2.1 The effectiveness of IA is a key cornerstone of good governance. The Accounts and Audit (England) Regulations 2011 require relevant bodies 'to conduct an annual review of the effectiveness of its IA' and that IA should conform to 'proper practices'. If the effectiveness of IA is not measured then the IA service will not know where to improve and key stakeholders will have difficulty measuring the efficiency and effectiveness of the IA service.

2.2 IA conducts an annual review which self-assesses the effectiveness of the IA function and provides assurance over IA's compliance with the UK PSIAS. The PSIAS outline the requirement for an 'Internal Assessment' which includes monitoring the performance of IA activity and performing periodic self-assessments by persons with sufficient knowledge of IA practices. The legislation states that external assessments must be conducted at least once every five years by a qualified, independent assessor or by an assessment team from outside the organisation.

3. Executive Summary

3.1 Overall the IA opinion is that I am able to give **REASONABLE** assurance over the key risks to the achievement of objectives for the Effectiveness of Internal Audit. Definitions of the IA assurance levels and IA risk ratings are included at Appendix A.

3.2 I found there to be a relatively strong control environment and governance arrangements in place within the IA service with evidence to support full compliance with the PSIAS. Since the appointment of the Head of Internal Audit (HIA) in July 2013 there have been a large number of significant strategic and operational improvements within the IA service. The key priority for 2013/14 has been the completion of the 2013/14 IA plan to enable the HIA to provide a full and complete Annual Assurance Statement to those charged with governance. This is on track to be achieved which is a significant improvement on prior years and evidences a positive direction of travel for the IA service. Furthermore, there is evidence that the IA staff have in the whole bought into the strategic and operational improvements that have been introduced. This has resulted in the team working together more effectively and collaborating with management in a more approachable manner. This year's IA Strategy Away Day further helped the IA team focus on planning their priorities for the future including developing their risk-based IA approach.

3.3 Due to the dynamic changes that have taken place in IA this year, it is clear that the service has made great strides and is moving forward in a positive right direction. The recommendations raised in this report are designed to help the IA service further build on its plans and priorities going forward.

3.4 The implementation of IA software (TeamMate) from 1 April 2014 will bring considerable benefits to the IA service and the Council moving forward. This will include further developing the risk based IA approach whilst ensuring consistency of quality across the team as well as enhancing staff time recording and available IA management information. However, to provide greater assurance that the IA process is being followed consistently and correctly, I have recommended that a suitably experienced staff member, autonomous from the audit under review, conducts sample based reviews of finalised audits.

3.5 Furthermore, whilst IA staff capacity plans have been more formally developed for 2014/15, IA should embed a process for updating and monitoring of capacity plans against actual time recorded on TeamMate on a regular basis. This will help ensure that IA resources are appropriate, sufficient and effectively deployed to deliver the IA plan.

3.6 IA has been in a partnership with an external contractor, Baker Tilly ensuring the service is sufficiently agile to meet the increasing needs of stakeholders. In relation to the 2013/14 Plan this resulted in the provision of specialist resource to provide assurance over IT risks through the delivery of dedicated IT audits due to a current knowledge gap within the team. Nevertheless, this arrangement should be reviewed as my judgement is that the value provided by the relationship with Baker Tilly could be improved. There is an opportunity for greater sharing of expertise and sharing of industry knowledge. I believe that IA should build a more effective working relationship out of this arrangement with Baker Tilly so that it enhances value for the IA team and the Council as a whole.

3.7 The detailed findings and conclusions presented in this report are exception based. Rather than reporting on IA's performance against each PSIAS, I will present my findings to support the recommendations which I have made. The detailed findings and conclusions of my testing which underpin my opinion have been discussed with the HIA and are set out in section four of this report. The recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at Appendix B.

4. Detailed Findings and Conclusions

4.1 PSIAS 1000 - Purpose, Authority and Responsibility

4.1.1 The purpose, authority and responsibility of the IA activity must be formally defined in an IA Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. On 11 March 2014 the HIA presented the updated IA Charter to the Audit Committee. This replaced the previous IA terms of reference, issued in June 2013, to ensure compliance with the PSIAS effective from 1 April 2014. A number of minor changes were presented, including:

- the IA terms of reference will now be called the IA Charter; and

- the introduction of sections which focus on Fraud and Corruption and Quality Assurance.

4.1.2 As a result of these additions, I confirmed that the IA Charter is now more closely aligned with the PSIAS.

4.1.3 Section 5 of the UK PSIAS state that the IA Charter should include arrangements for avoiding conflicts of interest if IA undertakes non-audit activities. Paragraph 4.3 of the Charter, says that, "*Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements*". In my opinion this does not fully align to the UK PSIAS and therefore I have raised a recommendation in this area for this to be referred to more explicitly in the IA Charter when it is next due to be updated (refer to **Recommendation 4** in the Management Action Plan at Appendix B).

4.1.4 In addition, attribute standard 1000.A1 of the UK PSIAS states that if assurances are provided to parties outside of the organisation the nature of these assurances must also be defined in the IA Charter. The current IA Charter does not make reference to this requirement and therefore this should be incorporated as part of the next annual review of the IA Charter. This will protect IA when they provide assurances to an organisation outside of the Council in the future (refer to **Recommendation 4** in the Management Action Plan at Appendix B).

4.2   PSIAS 1120 - Individual Objectivity

4.2.1 Internal auditors must have an impartial, unbiased attitude and avoid any conflicts of interest. All auditors who are members of the Chartered Institute of Internal Auditors (CIIA) have in essence agreed to comply with the CIIA standards and act in an ethical manner at all times (as per the Code of Ethics and Standards). All CIIA members must comply with the PSIAS as a condition of their membership. As part of my review I noted that there are currently six members of the IA team who are not registered with the CIIA. However two of these staff are registered members of the Institute of Chartered Accountants of Nigeria and one auditor is a registered member of the Institute of Chartered Accountants of Northern Ireland. In addition, there is a Trainee Internal Auditor who is just in the process of registering with the CIIA before commencing her professional studies towards becoming a qualified Chartered Internal Auditor. It was noted that the remaining two non qualified IA staff have a significant number of year's directly relevant experience.

4.2.2 Upon joining the team, all IA staff (including trainees, seniors and managers) are required to sign up to the Council's Code of Conduct and an IA 'Declaration of Agreement' to the CIIA's ethical standards. The Code of Conduct sets out that staff member are agreeing to comply with the ICT Acceptable Usage policy, Data Protection Act, disciplinary procedures, etc. Upon review, I found that in line with best practice, the latest IA 'Declaration of Agreement' dated January 2014 refers to the Committee on Standards of Public Life's - *the Seven Principles of Public Life* and also the UK PSIAS.

4.2.3 Each of the five members of staff joining the IA Team since January 2014 has completed this version of the 'Declaration of Agreement'. However, the remaining nine members of the team have not signed the updated version. I have therefore recommended that updated declarations are signed by all current IA staff to formally demonstrate their agreement that they have read and understood the PSIAS. This is particularly relevant to the staff within IA that are not members of a relevant professional body (refer to **Recommendation 5** in the Management Action Plan at Appendix B).

4.2.4 In addition, I confirmed that all members of the IA team have recently completed a formal declaration of 'Related Party Transactions' where any conflicts have been recorded. These were sent to the HIA and the Chief Accountant to ensure compliance with best practice in this area. As a result, I am satisfied that all internal auditors have an impartial and unbiased attitude towards their work.

4.3   PSIAS 1220 - Due Professional Care

4.3.1 Under the PSIAS, internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. I found that during 2013/14 the IA team were mainly utilising hard copy files and/ or saving documents onto the IA shared drive. For this reason, electronic audit working papers and IT-based data analysis techniques were not being properly utilised. This practice has started to change from 1 April 2014, when the team introduced TeamMate, an audit software database where all working papers, supporting evidence and reports can be prepared, reviewed and produced in a single central system. However, my judgement is there is still some work to do in terms of embedding good practice in relation to the recording and storage of audit evidence used to support conclusions in IA reports.

4.3.2   In particular, from my review of a sample of IA files relating to 2013/14 completed audits, I made the following observations:

- IA staff were sometimes found to be saving IA papers on their own drive/ desktop and not on the IA shared drive;

- IA staff were not always evidencing the rationale behind their sample selection;

- there were inconsistencies in the format and quality of working papers i.e. not referenced, sometimes hand written and not always filed clearly;

- evidence was not always referenced on working papers making it difficult for the line manager to review;

- a number of audits had working papers spread across three locations (hard copy papers, documents on the shared drive and documents in staffs personal drives) making it very difficult and time consuming to link all the documents together;

- testing schedules were sometimes unclear or not on file; and

- hand written notes on IA files which were often illegible or extremely difficult to read.

4.3.3   From 2014/15 onwards the IA team are using TeamMate which should ensure the inconsistencies identified above are resolved and a clear, evidenced IA working process is consistently being adhered to. Furthermore, IA staff have been informed that all evidence should be typed and saved onto TeamMate, with nothing saved on personal drives and only saved on the shared drive where they have agreed this with their manager. To help ensure that these new processes are working effectively, I have recommended that quality checks by IA management are routinely performed (refer to **Recommendation 1** in the Management Action Plan at Appendix B).

4.4   PSIAS 2010 - Planning

4.4.1   The PSIAS states that for IA to remain relevant, it must adapt to changing expectations and maintain alignment with organisational objectives. The IA strategy is fundamental to remaining relevant; playing an important role in achieving a balance between cost and value, while making meaningful contributions to the Council's overall governance, risk management, and internal controls.

4.4.2   I found that whilst an IA strategy is in place, it is two years out of date and in need of significant updating. Through discussions with the HIA, it was decided that given the dynamic level of change occurring within the IA service during the July 2013 to April 2014 period, it was not an efficient use of resources to produce an updated IA strategy at that time. However, I noted that the IA Strategy is on the HIA's forward plan, scheduled to be reported to the Audit Committee in autumn 2014. This will help focus both the present state and future direction of the IA service to make sure it aligns with the Council's golden thread i.e. its values and objectives. Specifically, IA work should support the Hillingdon Improvement Programme (HIP) i.e. to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. Linked to this, I have raised a minor recommendation to support the IA service in this area (refer to **Recommendation 6** in the Management Action Plan at Appendix B).

4.4.3   The annual IA Plan provides details of how the IA strategy translates into a detailed operational work plan. I confirmed that the risk based IA Plan for 2014/15 was linked to the organisational objectives and priorities, whilst taking account of the Council's wider assurance framework. The IA Plan was also found to be developed in accordance with the recently updated IA Charter and is aligned to the current IA Strategy. I confirmed that the IA Plan was developed making reference to a variety of corporate documents, including Team

Plans, the Corporate Risk Register and minutes/ reports of Cabinet/ various Committee meetings, as well as the recent HIP reports and draft budget papers.

4.4.4 In addition, evidence held by the HIA supported the IA planning discussions with key stakeholders including the Leader of the Council, CMT and Deputy Directors/ Heads of Service. This process helped IA identify and develop knowledge of the key risks and challenges facing all of the Council's services. The results of the overall planning and subsequent risk assessment process performed by IA determined IA priorities and helped inform the initial allocation of IA resources within the IA Plan.

4.4.5 In line with the PSIAS, the HIA has also built capacity into the 2014/15 operational IA Plan of 120 days (10%) contingency for accepting proposed consulting engagements requested by management. This is based on the potential for consultancy work to improve management of risks, add value and improve the organisation's operations.

4.5 PSIAS 2030 - Resource Management

4.5.1 In line with the PSIAS, the HIA is professionally qualified and suitably experienced. Although the skills mix within the rest of the in-house IA team is under development, it is supported by a partnership with Baker Tilly (further information on this partnership is included at para 4.7.1). From my review I have concluded that I am satisfied that overall available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and experienced staff.

4.5.2 The 2013/14 Draft IA Annual Report provides a comprehensive understanding of resources in place within the IA team to provide assurance and consultancy services. The 2014/15 Annual IA Plan contains references to the resources and skills within the team and how they have been assessed and applied to the risk-based plan. In both documents Baker Tilly have been cited as providing additional IA support in relation to ICT risks (where needed). This has been communicated to CMT and the Audit Committee.

4.5.3 For 2014/15 the IA team has agreed capacity plans based on staff working days, training needs, leave, with a set utilisation target agreed for each member of staff. This was discussed with individual team members during their Performance and Development Appraisal (PADA) meetings. Staff are expected to achieve the targets set and this should be monitored by IA staff and management on a regular basis. The IA software (TeamMate) will help IA staff and management monitor utilisation against agreed targets. Going forward the IA Plan will be reconciled against the capacity plans. This will help mitigate the risk of capacity driving audit coverage, rather than the assurance and consultancy requirements of the Council determining the IA resource requirements, as should be the case. Going forward, the HIA may want to consider benchmarking the Council's IA resource to similar size and types of organisation to help demonstrate that available IA resource is broadly in line with its peers. Further to this, I have raised a couple of recommendations in relation to IA staff capacity plans to help improve this area (refer to **Recommendation 2** and **Recommendation 7** in the Management Action Plan at Appendix B).

4.6 PSIAS 2040 - Policies and Procedures

4.6.1 A high level IA process was presented to and agreed by the Audit Committee and CMT in March 2014 as part of the 2014/15 IA Plan. The high level process diagram is broken down into four sections; Planning, Testing, Reporting and Follow Up. The detail underpinning each section of this high level process was discussed and agreed with the IA Team at the IA Strategy Away Day in April 2014. The points raised are being used to prepare a comprehensive guide for IA staff. At the time of testing this had been drafted and is with the Senior IA Manager for review. When the IA process has been agreed, IA staff will receive training through workshops, scheduled for July 2014.

4.6.2   The IA team is aware that the IA Manual, dated April 2012 is out of date. IA began updating the manual in January 2014 but due to the pending implementation of TeamMate and restructure of the IA team, this was parked to focus on other higher priorities. Whilst I appreciate that the IA manual has not been a priority for IA at this time due to the focus on delivering the 2013/14 IA Plan, I have raised a minor recommendation in this area (refer to **Recommendation 8** in the Management Action Plan at <u>Appendix B)</u>.

4.6.3   The introduction of TeamMate should assist in the standardisation and consistency of audit practices and documentation across the team. Staff can refer to the TeamMate User Manual and TeamMate Champions (IA staff with specialist knowledge of TeamMate) if they are unsure of any aspects. A thorough TeamMate training programme has been provided and all audits from 2014/15 onwards are being recorded on TeamMate. There is one exception relating to a 2014/15 audit which started prior to TeamMate implementation and due to the size and quantity of hardcopy evidence collated would prove an ineffective use of resources to duplicate as an electronic file. For this reason the HIA made the decision to record this audit review on the shared drive and in hardcopy files as a one off exception.

4.6.4   Linked to this, to ensure consistency in audit reporting a Quality Control Review (QCR) Checklist was produced in October 2013. However, following the recent introduction of TeamMate, I have identified that the QCR checklist should be reviewed to ensure that it continues to reflect current practices (refer to **Recommendation 9** in the Management Action Plan at <u>Appendix B)</u>.

4.7   PSIAS 2070 - External Service Provider & Organisational Responsibility for IA

4.7.1   IA have been in a partnership with an external contractor, Baker Tilly, to provide additional audit resource since 2013, ensuring that IA is sufficiently agile to meet the increasing needs of stakeholders. In relation to the 2013/14 Plan, this resulted in the provision of specialist resource to provide assurance over IT risks through the delivery of dedicated IT audits as the IA team does not hold the required qualifications or expertise in this area. Baker Tilly was originally commissioned to deliver four audits within 2013/14 in relation to ContrOCC, Software Licensing, the Desktop Refresh Programme and the Onyx upgrade. However, only the ContrOCC audit was reported in the year whilst Software Licensing was deferred to 2014/15 following initial engagement with key stakeholders. The two remaining audits will not be carried out at the request of management.

4.7.2   The IA management team have contract meetings with Baker Tilly on a quarterly basis. Baker Tilly is uniquely positioned to advise IA management on ICT areas of high risk facing local authorities. IA looks to Baker Tilly to provide a steer over ICT audit risks in the sector using their experience of IT auditing at other local authorities, industry/ high profile news, relevant events, etc. Through observing the contract meetings, reviewing minutes and audit delivery, my judgement is that the partnership between IA and Baker Tilly is not working as effectively as it could be. I have therefore raised a recommendation aimed at improving arrangements in this area to help better demonstrate that value for money is being achieved by the Council in its contract with Baker Tilly (refer to **Recommendation 3** in the Management Action Plan at <u>Appendix B)</u>.

4.8   PSIAS 2340 - Engagement Supervision

4.8.1   The PSIAS set out that IA engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed. The chief audit executive (HIA) has overall responsibility for supervising the engagement, whether performed by or for the IA activity, but may designate appropriately experienced members of the IA team to perform the review. From my independent review I found that the extent of supervision provided in the IA team is largely dependent on the proficiency and experience of the member of IA staff as well as the complexity of the IA engagement.

4.8.2 A robust reviewing procedure is currently being formally documented within the IA process. All IA reviews should be signed off to ensure objectives are achieved and to provide quality assurance over the review. However, I noted from my testing that this process is not yet fully embedded within IA, as not all engagements were formally evidenced as being signed off. There are plans in place to ensure that any previous gaps will in future be avoided as the team gradually begins to place greater reliance on TeamMate. As a result, I have made a recommendation to support this aspect of the IA process going forward (refer to **Recommendation 2** in the Management Action Plan at <u>Appendix B)</u>.

4.9 PSIAS 2420 - Quality of Communication

4.9.1 All IA reports are subject to a rigorous three stage review process by the auditor, their line manager and the HIA before they are distributed to the Audit Sponsor/ Key Contact to ensure they are accurate, objective, clear, concise, constructive, complete and timely. A draft report is always produced and distributed to key stakeholders so that any queries can be addressed before the final report is issued.

4.9.2 Since July 2013, auditors have been instructed by the HIA to engage with the Audit Sponsor/ Key Contact to discuss key findings and proposed recommendations <u>prior to</u> distribution of the draft report. During the course of my review I found a number of audits where management have raised concerns over the delayed communication of findings and recommendations. Further to this, IA staff have been reminded again that all relevant senior managers must be invited to exit meetings and be promptly notified about significant IA findings and recommendations. I have seen evidence of this communication from the HIA in emails, 1-2-1 discussions with IA staff and in IA staff appraisals discussions. Through continued management support, oversight and the development of the IA Process, the HIA is confident that the controls in place are sufficient to manage this process. However, to help focus improvements in this area I have raised a minor recommendation (refer to **Recommendation 10** in the Management Action Plan at <u>Appendix B</u>).

4.10 Follow-up

4.10.1 The previous review of the effectiveness of IA took place in May 2013, reported to Audit Committee and CMT in June 2013, raising four recommendations for improvement. During this review I confirmed that whilst one recommendation had been implemented, three remained outstanding which, as a result of IA prioritising delivery of the 13/14 Plan, evidenced partial implementation. These related to formalising the quality assurance process and two recommendations in relation to the IA Manual. These issues have been re-raised within this report (refer to **Recommendations 1, 4** and **8** in the Management Action Plan at <u>Appendix B</u>).

5. Acknowledgement

5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance.

6. Internal Audit Contact Details

Thank you,

Sarah Hydrie CMIIA
Principal Internal Auditor

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
Substantial	There is **a good level of assurance** over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is **positive assurance that objectives will be achieved**.
Reasonable	There is **a reasonable level of assurance** over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains **some risk that objectives will not be achieved**.
Limited	There is **a limited level of assurance** over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is **a significant risk that objectives will not be achieved**.
No	There is **no assurance** to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is **a high risk that objectives will not be achieved**.

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
   - establishing and monitoring the achievement of the authority's objectives;
   - the facilitation of policy and decision-making;
   - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
   - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
   - the financial management of the authority and the reporting of financial management; and
   - the performance management of the authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk Rating	Definition
HIGH ●	The recommendation relates to **a significant threat or opportunity** that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. **The risk requires senior management attention**.
MEDIUM ●	The recommendation relates to **a potentially significant threat or opportunity** that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. **The risk requires management attention**.
LOW ●	The recommendation relates to **a minor threat or opportunity** that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. **The risk may be tolerable in the medium term**.
NOTABLE PRACTICE ●	The activity reflects current **best management practice** or is an innovative response to the management of risk within the Council. **The practice should be shared with others**.

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
1	Quality checks should be performed on a sample of finalised audits on TeamMate to ensure that the Internal Audit (IA) process is being applied consistently, that all reviews points have been addressed and that the system is up to date. These quality checks should be performed by a staff member who is suitably experienced at reviewing audit files and is independent of the audits under review (para ref 4.3.3).	*If quality checks are not performed there is a risk of errors going unnoticed resulting in non-compliance with the IA Manual, internal processes or Public Sector Internal Audit Standards.*	**MEDIUM** ●	Quality check checks were completed by the HIA in the July to September 2013 period on a sample of 10 IA files. A more formal process will be introduced for quality checks of a sample of TeamMate files on a quarterly basis once 2014/15 audits begin to be completed.	Head of Internal Audit (Muir Laurie) **31 August 2014**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
2	IA should agree a process for updating and monitoring of capacity plans on a monthly and quarterly basis. This will help ensure that IA resources are appropriate, sufficient and effectively deployed to achieve the plan (para refs 4.5.3 and 4.8.2).	*If an agreed process is not in place for monitoring capacity plans regularly there is a risk of over-auditing, poor performance resulting in non delivery of the audit plan.*	MEDIUM ●	Whilst the HIA has previously sent out specific written instructions to the IA team to remind them monitor their own capacity plans, it is agreed that these procedures should be formalised. Going forward the formal process will set out that individual capacity plans should be monitored by each member of the in-house IA team on an ongoing basis. Capacity plans will also form part of the monthly 1-2-1 discussions within IA. The IA Management Team will also formally consider performance against capacity plans on a quarterly basis.	Head of Internal Audit (Muir Laurie) **31 August 2014**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
3	IA should review the partnership arrangement that it has in place with the external contractor, Baker Tilly. In particular IA should ensure that: - Robust monitoring of IT audits occurs to ensure they are delivered in line with the IA plan; - Baker Tilly are appropriately challenged over the advice and support provided to the IA service/ the Council; and - IA staff undergoing CISA training shadow Baker Tilly during their audits to encourage knowledge sharing and increase IA's experience of IT audits (para ref 4.7.2).	*If IA does not establish an effective partnership with contractors there is a risk that the Council are not evidencing value for money. Furthermore, the IA service may fail to provide requisite assurance over IT related risks.*	MEDIUM ●	The overall effectiveness of the contract that IA has with Baker Tilly (BT) is currently under review by the HIA as part of a wider assessment of the IA skills mix. As the Council's reliance on IT increases, the IT audit skills of IA staff becomes increasingly important. Linked to this, some shadowing of BT staff by IA has already taken place and the HIA expects this arrangement to continue and improve going forward. The Principal Internal Auditor is actively studying for the CISA exams this September and there is a possibility that other IA staff will be given this opportunity going forward.	Head of Internal Audit (Muir Laurie) **31 October 2014**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
4	At the next review of the Internal Audit Charter, management should include: - a reference regarding 'arrangements to avoid conflicts of interest if Internal Audit undertakes non-audit activities.' (para ref 4.1.3). - a statement about the assurances provided to third parties i.e. those outside of the Council such as Academy Schools, with the nature of these assurances clearly defined (para ref 4.1.4).	*The IA Charter does not comply with the requirements of the UK Public Sector Internal Audit Standards potentially resulting in reputational damage to the service in the event of a breach.*	**LOW** ●	At the next review of the IA Charter, a reference will be made regarding: - 'arrangements to avoid conflicts of interest where IA undertakes non-audit activities'. - a statement about the assurances provided to any third parties (i.e. those outside of the Council) and the nature of these assurances will be defined. The updated IA Charter will be presented to and approved by CMT and the Audit Committee.	Principal Internal Auditor (Anthony Dean) **31 March 2015**
5	The IA service 'Declaration of Agreement to Statement of Ethical Standards' should be completed by all current IA staff who have not already completed it. IA Management should consider making the declaration an annual process (para ref 4.2.3).	*If staff do not sign declarations confirming that they have read and understood the Public Sector Internal Audit Standards there is a risk of non-compliance with industry standards causing reputational damage to the IA team and the Council.*	**LOW** ●	Whilst noting that all new IA staff have completed the 'Declaration', it is agreed that it would be good practice for all current IA staff to have completed the updated 'Declaration'. This will be done.	Head of Internal Audit (Muir Laurie) **31 August 2014**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
6	An up-to-date Internal Audit Strategy should be produced, which focuses on both the present state and future direction of Internal Audit whilst assisting the Council to deliver its values (para ref 4.4.2).	*If the IA function does not have an up to date strategy in place there is a risk that its forward plan does not align and support the Council's values and strategic objectives.*	**LOW** ●	Work is already under way on producing an up-to-date IA Strategy as part of a wider review of the IA skills mix and future business needs. This will be discussed with all key stakeholders as part of the process and presented to CMT and Audit Committee once finalised.	Head of Internal Audit (Muir Laurie) **30 November 2014**
7	Once the capacity plans have been established for at least a year, the Head of Internal Audit may wish to compare the team's capacity against Internal Audit Teams from other authorities (para ref 4.5.3).	*If the capacity for the IA team is not benchmarked with other authorities there is a risk that an opportunity to identify best practice, efficiencies or highlight existing good practice within the team could be missed.*	**LOW** ●	The HIA will compare the IA team's 2014/15 outturn capacity to other similar organisations, where comparable data is available.	Head of Internal Audit (Muir Laurie) **30 June 2015**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
8	Internal Audit should finalise their updated IA Process and IA Manual. These should be communicated to IA staff and where necessary training should be provided. The IA Process and the IA Manual should form part of the staff induction process for all new starters in the IA team. Both documents should be reviewed at least annually to ensure that they are up to date and fit for purpose (para ref 4.6.2).	*There is increased potential for ineffective and inconsistent work practices to be adopted. This would affect the consistency of the service with potential financial, operational and reputational implications.*	**LOW** ●	Work on updating both the IA Process and the IA Manual is ongoing. Both of these documents will be finalised over the next 3 months and will in future be formally reviewed on at least an annual basis by the IA management team.	<u>IA Process:</u> Senior Internal Audit Manager (Martyn White) **31 July 2014** <u>IA Manual:</u> Principal Internal Auditor (Anthony Dean) **31 July 2014**
9	The Quality Control Review Checklist (QCR) should be reviewed to ensure that it reflects current practices within Internal Audit and can be used in conjunction with TeamMate. The updated version should be communicated and adhered to by all members of the Internal Audit team (para ref 4.6.4).	*If the QCR checklist does not reflect current processes and practises then there is an increased risk of errors and inconsistencies occurring. This has operational and reputational implications for the IA team.*	**LOW** ●	The QCR checklist will be updated and aligned to the revised IA process. Once updated, the checklist will be circulated to all in-house IA staff and IA management will carry out ongoing monitoring to ensure it is being fully adhered to.	Principal Internal Auditor (Anthony Dean) **31 July 2014**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
10	Through Client Feedback Questionnaires and liaison with Sponsors and Key Contacts, IA management should continue to monitor the progress of exit meetings to ensure they are being conducted efficiently and effectively (para ref 4.9.2).	*If IA does not continue to monitor feedback from Sponsors and Key Contacts there is risk that client satisfaction KPIs are not being achieved and the audit work can become undermined.*	**LOW** ●	IA management are clear that they should be monitoring the effectiveness of audit exit meetings on an ongoing basis and take prompt corrective action to address any cases where the high standards set by the HIA are not being achieved. However, the HIA will remind IA management of this at the next formal IA management team meeting.	Head of Internal Audit (Muir Laurie) **30 June 2014**