

Argyll & Bute Council

Update on Internal Audit Improvement Plan

December 2013

1 Executive Summary

1.1 Background

In September 2013, we presented a progress report to the Audit Committee on the initial findings of the Internal Audit team's self-assessment against the PSIAS. The progress report proposed a plan for the remainder of the calendar year for Audit Committee consideration and approval.

1.2 Progress to date

Section 2 of this report highlights the key actions taken against each improvement plan point.

Key developments are presented separately on this committee's agenda. These include:

- The development of an Audit Charter

- Changes to engagement planning, including the development of a revised Terms of Reference template
- Changes to the reporting template.

Other actions are in progress, including the delivery of training to the audit team. We have also re-aligned the 2013-14 Annual Audit Plan to ensure that the effectiveness of Internal Audit for the remainder of 2013-14 and the assurance provided by the programme of work is optimised.

1.3 Next steps

During January and February 2014, we will conduct our review of the Council's risk management arrangements. This will inform the extent to which we can place reliance on the Strategic Risk Register, and where we believe that Internal Audit can add most value to this Committee.

2 Detailed Findings

Attribute Standards			
Number	Finding and Implication	Proposed action	Update at 13 December
1000	Purpose, Authority and Responsibility		
1.	<p>The Internal Audit Team has an audit manual in place which is reviewed on an annual basis and meets the requirements of the 2006 Code.</p> <p>Under the PSIAS, internal audit must develop an Audit Charter which will make explicit links to the Council's objectives and priorities.</p>	<p>An Audit Charter will be developed which confirms how the work of internal audit contributes to the achievement of the Council's objectives and priorities by:</p> <ul style="list-style-type: none"> ■ considering the nature of assurance provided to the Audit Committee and service departments by the work of internal audit ■ clarifying reporting responsibilities; and ■ ensuring that audit activity is focused on the key risks facing the Council. <p>Drafted by December 2013</p>	<p>Complete.</p> <p>An Audit Charter has been drafted and included on the agenda for approval.</p>
1200	Proficiency and due professional care		
2.	<p>The Internal Audit Team participate in the Council's PDR/ PRD programme and have attended relevant training provided.</p> <p>Individual auditors ensure that their</p>	<p>We will review training requirements both across the team and individually. We propose a period of intensive refresher training and development on:</p> <ul style="list-style-type: none"> ■ internal audit core skills 	<p>Good progress and on target to complete by end of December.</p> <p>Training delivered on internal audit core skills and IDEA training. Risk management</p>

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	<p>CPD requirements are fulfilled, but there is no systematic approach to developing and maintaining internal audit skills.</p> <p>There is no up to date induction programme for members of staff who join the team.</p>	<ul style="list-style-type: none"> ■ identifying and managing risk ■ audit tools and techniques, including the use of IDEA ■ Best value and performance audit (including value for money audit techniques). <p>Training programme complete by December 2013</p>	<p>training is scheduled for December 2013.</p>
1300	Quality Assurance and Improvement Plan		
3.	<p>The QAIP is a new requirement under PSIAS. The Internal Audit Team has a team plan in place, and reports on performance using the Council's Pyramid performance management system.</p> <p>There is, however, scope to improve the performance monitoring framework.</p>	<p>We will review the key performance indicators and targets in place and consult with the Audit Committee and Senior Management Team to establish indicators that are more focused on the outcomes and impact of internal audit work.</p> <p>Proposed indicators submitted to December Audit Committee.</p>	<p>The current performance monitoring framework focuses on inputs, including the number of direct audit days and progress against the plan.</p> <p>We propose to develop revised indicators based on our impact on the Council's risk, but this will not be possible until we have assessed the risk management processes. We will therefore defer this action until February 2014.</p> <p>It is planned to have revised key performance indicators considered at the March meeting of the Audit Committee. In the meantime we will look to engage members of the Audit Committee in the revision of key performance indicators</p>

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Performance Standards			
2000	Managing the Internal Audit Activity		
4.	<p>The Internal Audit Team has a methodology in place for risk assessment and identifying audit work to be performed each year.</p> <p>The risk assessment is based on financial materiality, risk, controls effectiveness and performance management. We have, however, identified that there is scope for improvement, including the relative weighting of factors.</p>	<p>We will revisit the risk assessment and audit planning process. This process will include:</p> <ul style="list-style-type: none"> ■ a risk management workshop to ensure the team fully understand the core principles, and the risks facing Argyll & Bute Council ■ consideration of alternative approaches at other councils ■ an assurance mapping exercise to ensure that each internal audit adds value to the Audit Committee <p>Revised risk assessment process as outlined above in place and reported to Audit Committee in December.</p>	<p>In progress.</p> <p>We have presented our approach to this Committee. The full risk assessment process will be adopted following our review of risk management arrangements, in preparing and developing the 2014-15 Annual Internal Audit Plan.</p>
2100	Nature of Work		
5.	<p>Where Internal Audit can make use of CIPFA matrices, a full systematic and disciplined approach is taken and can be evidenced.</p> <p>Where this is not possible, we found that there is not always a link to key aspects of risk and internal control.</p>	<p>We will use refresher training to ensure that risks and mitigating controls are identified on each audit. An updated audit approach will be adopted to ensure that each audit considers key risks and controls, and is supported by a strong and systematic evidence base.</p> <p>Actioned by December 2013</p>	<p>Complete.</p> <p>Revised Audit Terms of Reference are on the agenda for discussion and approval. The revised approach ensures that each audit will be focused on risks. Quality review checkpoints will ensure that each audit is supported by systematic evidence.</p>

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2200	Engagement Planning		
6.	<p>Audit Agreement Documents are prepared for each engagement, but in some instances the reasons for the audit, the objectives and the key risks and controls were not identified.</p> <p>We are clear that the same level of rigour needs to be applied to every audit undertaken by the team.</p>	<p>As part of the consideration of risk assessment and audit planning processes, we will identify a prioritised revised audit plan for the remainder of 2013-14. The revision will be based on the current plan but will present our rationale for coverage, and the risks and objectives associated with each review.</p> <p>Engagement planning will make direct reference to the risks associated with each audit area and our revised audit approach will ensure that each risk is addressed in a systematic and evidence based manner.</p> <p>New approach in place from December 2013</p>	<p>Complete.</p> <p>Revised Audit Terms of Reference are on the agenda for discussion and approval.</p>
2300	Performing the engagement		
7.	<p>Auditors currently use discussions with management to prepare the Audit Approach Document and to identify key information necessary for the audit. There is a limited approach to documenting:</p> <ul style="list-style-type: none"> ■ a testing strategy ■ work required to fulfil the engagement objectives ■ work performed and findings 	<p>We will review the approach to planning and documenting internal audit work used by other teams, including Grant Thornton and other Councils.</p> <p>As above, we will develop a revised audit approach which ensures that each risk is addressed in a systematic and evidence based manner.</p> <p>New approach developed and in place from December 2013</p>	<p>Complete.</p> <p>Revised Audit Terms of Reference are on the agenda for discussion and approval. The revised approach ensures that each audit will be focused on risks. Quality review checkpoints will ensure that each audit is supported by systematic evidence.</p>

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2400	Communicating results		
8.	<p>Audit reports are prepared for every engagement within timescales agreed with services. The reports are distributed to key stakeholders including service management, senior management, external audit and the audit committee.</p> <p>We found that there is scope to improve the focus of reporting to ensure that:</p> <ul style="list-style-type: none"> ■ each risk is identified and addressed ■ findings include a clear and evidence based audit opinion ■ audit reports are clear, focused on risk and control and provide the audit committee with the assurance they need 	<p>We will use our work on risk assessment and engagement planning to propose a revised audit report format.</p> <p>Consideration will be given to the development of a rating system to allow for objective monitoring and comparison of audit reports across the Council, and comparison to previous audits.</p> <p>We will consult with services and the audit committee to ensure that changes to the format meet the needs of our users.</p> <p>Revised format of reports submitted to Audit Committee in December for approval.</p>	<p>Complete</p> <p>We have presented a revised reporting template to the committee. A key change is the development of an overall rating for each review to ensure that findings are clear, and allow comparison across the Council.</p>
2600	Communicating acceptance of risk		
9.	<p>As for 2400, we found that it is not always clear within reports that internal audit has made a</p>	<p>As above, we will ensure that the audit opinion and assessment of managed and unmanaged risk is incorporated within a revised audit report format.</p>	<p>Complete</p> <p>We have presented a revised reporting template to the committee. A key</p>

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	judgement on the level of risk within each review, and therefore whether that level of risk is acceptable to the organisation.	Revised format of reports submitted to Audit Committee in December for approval.	change is the development of an overall rating for each review, which will provide clarity on the risk implications emerging from internal audit findings.



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