

AUDIT & RISK COMMITTEE

24 September 2013

INTERNAL AUDIT IMPROVEMENT PLAN

Report of the Head of Welland Internal Audit Consortium

Strategic Aim	All
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1. PURPOSE OF THE REPORT

- 1.1 To inform Members of the proposed response to the recommendations made (and opportunities identified) by RSM Tenon as a result of the External Quality Assessment.

2. RECOMMENDATIONS

- 2.1 **That Members note the report and the appended Improvement Plan**

3. KEY ISSUES

- 3.1 RSM Tenon's External Quality Assessment identified fundamental weaknesses in the way that the Consortium designs and conducts audit assignments and a lack of clarity in the reporting of those assignments. The Assessment also identified instances of non-conformance with the Public Sector Internal Audit Standards as well as opportunities for service improvements.
- 3.2 The Welland Internal Audit Board has commissioned the preparation of an Improvement Plan that will demonstrate how necessary improvements in quality are to be delivered. The Improvement Plan, shown as Appendix A to this report is structured to show how the Consortium will deliver on the key themes identified by RSM Tenon's report:
- Improving the way in which audits are planned, carried out and reported;
 - Supporting the Audit & Risk Committee through the provision of appropriate information;

- Pursuing added value through benchmarking and joint reviews; and
- Ensuring that appropriate policies and procedures are in place to meet the Standards' requirements about Quality and Quality Improvement.

3.3 The Improvement Plan will change the way that the Consortium plans and carries out audits: there will be noticeable changes in the reports received by clients and by the Committee.

Planning Assignments

In future, all assignments will begin with a Pre-Audit Meeting engaging the Audit Manager, the designated Auditor and the client(s) designed to:

- produce a clear, objective and common understanding of the system risks about which assurance is required;
- establish the controls upon which the client is relying for assurance purposes; and
- identify any issues that might impact upon the timely delivery of the assignment.

This approach will ensure that the Consortium only undertakes worthwhile assignments where there is the prospect of delivering added value. It will also ensure that the Audit Manager, Auditor and client have a clear and common understanding of what the assignment is intended to deliver and should promote a higher level of buy-in and support from the client. The approach will also allow for the early specification of the Auditor's initial information requirements and this should allow for more rapid progress with the assignment.

Conducting Audits

The audit process will now break down into two discrete elements. In the first, the Auditor will be required to document and evaluate the control framework that the client has put in place (rather than confirming the existence of a predetermined selection of controls). The second element will involve the design and delivery of a programme of testing based upon an understanding of the actual control framework and the extent to which controls identified might mitigate risks if they operate as designed. This approach allows for an integrated approach to Quality Assurance – which will be of particular value in supporting inexperienced Auditors. The quality and completeness of system evaluation will be reviewed before testing programmes are developed; the design of testing programmes will be reviewed; as will be the results of testing and the conclusions drawn from it.

Where possible, when designing assignments, opportunities to add value by benchmarking against other clients will be sought. Comparative information on performance and control arrangements will allow the Auditor to challenge more effectively the way things are done and to offer the benefits of shared learning.

Reporting

Audit reports will be shorter. They will focus on those exceptional issues requiring the client's attention and will contain fewer but more strategic recommendations. In addition they will contain an explicit statement of the assignment coverage agreed at the Pre-Audit Meeting and details of – and explanations for – any further limitations on the Audit Opinion arising from the way in which the assignment was carried out.

The Quality Assurance and clearance of audit reports will involve more active engagement between the Audit Manager and the client to ensure that:

- there have been no oversights and that all agreed assurance issues have been addressed;
- there have been no misunderstandings or misinterpretations of findings and that the client has had the opportunity to introduce any relevant supplementary information necessary to provide a complete and valid statement of assurance;
- there is a common understanding of the reasoning behind recommendations made and the outcomes that they are intended to deliver; and
- non-strategic issues arising can be resolved to the satisfaction of the Auditor before the issue of a Final Report.

3.4 In the short term the implementation of the new arrangements will mean that audits will take longer and the Audit Plan will be reconfigured as proposed in report 217/2013 to this meeting of the Committee. In the longer term, however, there will be some efficiency savings as the two element approach allows for a more focused approach to testing. The new arrangements will also deliver a range of benefits to the Council and to individual clients

- Low value assignments will be weeded out at the planning stage so that better use is made of both Auditors' and clients' time;
- There will be a focus on a fewer number of recommendations that have a material impact on services;
- Shared learning with other clients will make it easier for clients to improve service quality; and

- The Committee will receive clearer and more robust assurance about the way in which the Council's risks are being managed.

3.5 Progress in implementing the Improvement Plan and improving service quality will be monitored by the Assistant Director (Finance) and by the Welland Board: the Committee will receive regular updates on progress.

4. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	The report does not prompt or require any time-bound response – beyond approval of recommendation set out above
Viability	Medium	The delivery of the Action Plan will place significant additional demands on the Consortium's managers and will require the support of client S151 Officers and Audit Committees.
Finance	Low	There is no direct impact on finance issues in the short tem
Profile	High	The Consortium's response to the External Quality Assessment is a matter of interest for all of the Welland Authorities.
Equality and Diversity	Low	EIA screening indicates no issues arising therefore full Impact Assessment has not been carried out.

Background Papers
None

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.