

AUDIT AND RISK COMMITTEE

21 January 2014

REVIEW OF INTERNAL AUDIT FOLLOW UP

Report of the Director of Resources

1. PURPOSE OF THE REPORT

- 1.1 To brief the Committee on a follow up review undertaken by the Assistant Director (Finance) following the external review of Internal Audit (report number 222/2013).

2. RECOMMENDATIONS

- 2.1 That Committee notes that good progress has been made in implementing actions arising from the external review and agrees to receive a report on embedding of the risk based audit at the next meeting.

3. BACKGROUND

The findings of the Independent Review

- 3.1 It was agreed that the Council would commission an independent review of the Welland Internal Audit consortium (report 142/2013). The full findings of the review completed by RSM Tenon were shared with the Audit and Risk Committee in September 2013. The review acknowledged that improvements were required across a number of areas. In particular:

- Internal Audit needs to use risk based auditing and move away from using expected controls in order that the actual controls being operated are evaluated;
- Internal Audit needs to be clearer in their planning and reporting on what their opinions cover, including a better structure to the scope and limitations of the review.
- Internal Audit should look to proactively seek out every opportunity to add value by providing information on “good practice” operated across the Consortium’s client base or to undertake thematic reviews across the Councils.
- The Consortium should improve the transparency of reporting to the Internal Audit Board and Audit Committees with regards the time spent on each assignment and subsequent changes to

internal audit plan. This will lead to more focus on outputs and outcomes instead of the current focus on internal audit resource input.

Internal audit response

- 3.2 Since the RSM Tenon report was issued, the Welland Internal Audit Board (NB: The Board comprises representatives of each client of the Consortium) has held a number of meetings to discuss the findings with the Head of Internal Audit.
- 3.3 The Head of Internal Audit responded to each recommendation in the RSM Tenon report and also prepared a more detailed improvement plan (Appendix A to report 218/2013).
- 3.4 The Head of Internal Audit has reported to the Welland Internal Audit Board that good progress has been made in implementing the recommendations arising. The Board itself has verified that many of the required actions have been implemented.

Follow Up

- 3.5 The Assistant Director agreed with the Audit and Risk Committee and the Board to undertake a short follow up review in late 2013/14 using his own experience of delivering internal audit. This work was carried out in late December and early January 2014.
- 3.6 The results of the work are reported at Appendix A (the follow up has focused on recommendations made at this stage rather than the opportunities highlighted in the RSM Tenon report). In summary, RSM Tenon made 6 recommendations all of which have now been implemented.
- 3.7 The key recommendation related to using a risk based approach to auditing and moving away from using expected controls in order that the actual controls being operated are evaluated. Whilst the Audit Manual and supporting documentation reflect this intention and new audits are being undertaken in line with the risk based approach, the approach itself is still being embedded.
- 3.8 It is still too early to gain a comprehensive view as to whether the new approach is making a difference but the feedback from auditors and auditees' is positive thus far. By way of example, the approach to the payroll audit felt different to previous audits:

- There was more discussion about what was inside and outside of scope;
- There was a greater onus on HR/Payroll to explain their perspective of risks and how they as a team try to manage them – this was challenged by the auditor;
- The audit testing focused on whether the controls HR/Payroll believed to be in place were working effectively rather than a list of pre-determined controls; and
- The audit report was more explicit than in the past on work undertaken and what was in scope.

3.9 As the process is still being embedded, this will need to be reviewed again in due course. A further report will be brought to this Committee in April 2014. The focus of this report will be to get client feedback on the impact of the new approach.

3.10 There was previously debate about whether the Council should continue with the existing model of delivery. The view of the Board is that it wishes to continue with the existing shared service model but that the Head of Internal Audit must deliver the required improvements. These improvements have been made but now need to be embedded. On the basis that this can be achieved, there are no plans at this stage to examine in more detail the different models of delivery.

4. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Medium	Action to address the issues has been taken and continues to be embedded
Viability	Medium	The Council has been able to deliver the expected improvements.
Finance	Low	There are no financial implications at present.
Profile	High	The profile of Internal audit is high.
Equality and Diversity	Low	EIA screening produced a low result; therefore a full EIA was not required.

Background Papers
Payroll Internal Controls Review
Report No. 142-2013

Internal Audit Improvement Plan
Report No. 218-2013

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