

External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Shared Internal Audit Service - Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead -

Final Report

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Review of the Shared Internal Audit Service for Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead – 5th to 9th February 2018

1. Introduction

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). The standards require periodic self-assessments and an assessment by an external person at least every five years.

2. Background

The Shared Internal Audit Service (SIAS) was formed from a merger of the internal audit services of Wokingham Borough Council (WBC) and the Royal Borough of Windsor and Maidenhead (RBWM), and these two authorities are the primary clients for the SIAS. However, the SIAS will provide internal audit and counter fraud services to any public sector organisation and currently has two other clients, being Bracknell Forest Council and Rushmoor Borough Council. These two clients purchase internal audit and counter fraud services from the SIAS through section 113 agreements (LGA 1972). The host authority for the SIAS is WBC.

The current structure of the Internal Audit Service comprises 11 full-time equivalent (FTE) internal audit and counter fraud specialists. These are made up of a Lead Specialist; a Senior Specialist; 3.6 FTE L2 Specialists; and 5.4 FTE L1 Specialists. The SIAS uses external specialists, such as computer auditors, to supplement the team as and when needed. In addition, there is a designated Chief Audit Executive for the SIAS. This role is fulfilled by the Assistant Director Governance Services at Wokingham Borough Council on a part time basis, as they are also responsible for a range of other services at the Council.

The Service has carried out self-assessments on an annual basis to see how they compare to the requirements of both the PSIAS and the CIPFA local government application note (LAGN), and used the outcome of these reviews to inform the quality assurance and improvement programme (QAIP).

3. Review Process

The Assistant Director Governance Services commissioned CIPFA to undertake the mandatory external quality assessment (EQA) of the SIAS. The review was carried out in February 2018, with the on site stage taking place between the 5th and 9th February 2018. The assessment process comprised a series of interviews and document reviews. Interviews were carried out with the members of the SIAS, and key stakeholders from the client Council's Senior Management Teams and members of their respective boards.

The document review phase of the process involved a detailed review of the documents used and produced by the SIAS. The Service provided a comprehensive range of documents that were available for examination prior to and during this review. These included the audit manual; the Service's self-assessment against the PSIAS; individual audit files and working papers; audit protocols; and a range of reports and communications that demonstrated the flow of information between the SIAS, and the senior managers and Boards of the respective Councils. Whilst all of the documents contributed to the external quality assessment, the following are regarded as fundamental and a major contributor to the review process:

- the audit charters and covering reports, and the terms of reference for the respective Boards;
- progress reports to the WBC Audit Committee, the RBWM Audit and Performance Review Panel, and the senior management teams of the two authorities;

- the Chief Audit Executive’s annual reports and opinions to the boards of the two authorities;
- the audit plans and covering reports to the boards of the two authorities;
- the audit manual and the protocols with SIAS’s clients;
- individual audit reports and working papers;
- staff declarations of interest and objectivity; and
- staff qualifications and experience, and their training and development records.

4. Conclusion and Opinion

From the evidence reviewed as part of the external quality assessment, it is apparent that the Shared Internal Audit Service is a competent, professional, and well-qualified internal audit service that follows best practice. Although they are well thought of by their clients, they are keen to improve their overall efficiency and effectiveness, and adapt to the changing needs of their clients. The SIAS are providing objective risk based internal audit services to their clients. Nonetheless, there are opportunities to enhance and develop the SIAS’ operations that they should consider embracing if they are to maintain their status with their clients, and enhance the SIAS’ conformity to the PSIAS and the LGAN.

During this review, one minor area of non-compliance with the standards was identified. Although no areas of partial compliance with the standards were identified, we have made some minor observations that should be addressed.

On this basis, it is our opinion that Shared Internal Audit Service for Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note.

The observations identified during the review are set out in section five of the report, together with recommendations (R) and suggestions (S) to address them. These recommendations and suggestions are included in the action plans at section seven of this report.

The process also identified some opportunities (O) for the SIAS to enhance its operations although these do not have an effect on their compliance with the PSIAS or the LGAN. These opportunities have been included for information in section six of the report.

An internal audit service’s conformance with the PSIAS and the LGAN falls into one of the three categories below. Further details on each of these categories can be found in section nine of this report.

Generally Conforms	Partially Conforms	Does Not Conform
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A list of the individuals interviewed during the review is included as section eight of this report.

The Chief Audit Executive and his management team have been provided with details of the areas where there is scope to enhance conformity with the PSIAS and the LGAN, and incorporate further good practice into the SIAS’ operations.

The co-operation of the SIAS in providing the information requested during this review, as well as those stakeholders that made themselves available for interview, was much appreciated and has made it possible to obtain a thorough view of the SIAS’ business, and the contribution it makes to its client’s organisational objectives.

5. Summary of observations, recommendations, and suggestions

Standard	Compliance	Observations	Recommendations & Suggestions	No.
Mission	Does Not Conform	The audit charters do not include the mission statement from the PSIAS as required by the revised (2017) PSIAS. The SIAS has a business plan which includes a section entitled 'Our Vision' which acts as the Service's mission statement but it does not conform to the specific wording of the PSIAS.	Add the mission statement from the PSIAS to the audit charters for all of the clients.	R1
Core principles of internal audit	Generally Conforms	Overall, the SIAS generally conforms to the core principles of internal audit. Refer to the comments is standard 1000 below.	See recommendation R2 below.	R2
Code of Ethics	Generally Conforms	Overall, the SIAS generally conforms to the Code of Ethics for Internal Auditors and the Seven Principles of Public Life. This is stated in the audit charter and is included in the audit manual that underpins the way the SIAS operates.		

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Standard	Compliance	Observations	Recommendations & Suggestions	No.
		however, a review has not been carried out at either authority for some time.		
1100 Independence and objectivity	Generally Conforms	<p>The SIAS generally conforms to this standard and the associated parts of the LGAN, although there are some observations to address, mainly relating to the Chief Audit Executive's independence and objectivity.</p> <p>The first observation relates to the transparency of the Chief Audit Executive role at RBWM. The protocol between the SIAS and RBWM states that the Assistant Director Governance Services at WBC is the Chief Audit Executive for RBWM, whereas in practice the Lead Specialist from the SIAS fulfils the role. To avoid any element of doubt and potential confusion this should be clarified within the audit protocol.</p> <p>The second observation relates to the potential impairments to the independence and objectivity of the Assistant Director Governance Services' (CAE). The Assistant Director Governance Services is the Monitoring Officer at WBC and has direct responsibility for the Governance, risk management, electoral and democratic services at the Council, as well as the SIAS. Whilst it is not unusual for the Chief Audit Executive to have other responsibilities, these potential impairments to independence and objectivity need to be set out clearly in the audit charter and audit protocol for WBC, together with the reporting lines that the SIAS will follow when auditing the other activities managed by the Assistant Director Governance</p>	<p>It is suggested that the audit protocol between the SIAS and RBWM clarifies which officer from the SIAS actually performs the function of the Chief Audit Executive.</p> <p>Amend the audit charter at WBC, and the audit protocol between the SIAS and WBC, to set out clearly the potential impairment to the Chief Audit Executive's independence and objectivity from directly managing a range of services that the SIAS may review, and how and where the SIAS will report the results of audits carried out in these areas.</p> <p>Recommendation R2 above also relates to this standard.</p>	<p>S2</p> <p>R3</p> <p>R2</p>

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		Services.		
1200 Proficiency and due professional care	Generally Conforms	The SIAS generally conforms to this standard and the associated parts of the LGAN, although there is one observation to address. This relates to ICT governance and the audit of the ICT arrangements at WBC. The management team at the SIAS are aware that although an ICT audit needs assessment has been carried out for RBWM, one has not been carried out at WBC. As ICT underpins most of the Council's operations, it is important to ensure that the key ICT risks are identified and audited. Updating the ICT audit needs assessment is a task that is on SIAS' QAIP action plan but at the time of the EQA remained outstanding.	It is suggested that the SIAS commissions external ICT audit specialists to undertake an ICT audit needs assessment for the primary clients and use this to inform the future internal audit plans.	S3
1300 Quality assurance and improvement programme	Generally Conforms	The SIAS generally conforms to this standard and the associated parts of the LGAN. There is one observation and this is set out below. Standard 1321 allow internal audit services to use the statement 'conforms to the IPPF' or in the case of public sector internal audit services, 'conforms with the PSIAS' when the work they have undertaken fulfils this criteria. The SIAS includes such a statement in its annual report to its clients, but not in the individual internal audit reports that it issues.	The SIAS should consider adding the statement 'conforms with the Public Sector Internal Audit Standards' to the introduction section (paragraph 1.1) of the individual audit reports where the review conforms to the standards. Where it does not conform, a statement of non-conformance should be added instead.	S4
Performance standards				
2000 Managing the internal audit	Generally Conforms	The SIAS generally conforms to this standard and the associated parts of the LGAN. There is one observations relating to the SIAS' audit	It is suggested that the SIAS undertakes a comprehensive review of its audit manual to ensure it is up to	S5

Standard	Compliance	Observations	Recommendations & Suggestions	No.
activity		manual. This document was last reviewed and updated in August 2016. The management team at the SIAS are conscious that this is a live document and there is a task on their QAIP action plan to review and update the audit manual, particularly to reflect the changes made to the way the SIAS operates, job titles, and any issues arising from this review.	date and remains fit for purpose.	
2100 Nature of work	Generally Conforms	The SIAS generally conforms to this standard and the associated parts of the LGAN. There is one observations relating to the SIAS' ability to form an opinion on the ICT governance arrangements for their client authorities. At present, the SIAS does not receive copies of the annual PSN reviews that are carried out on the ICT services of the client authorities. These reviews are performed by external specialists and can be used as a source of evidence to help inform the Chief Audit Executive's annual opinion.	It is suggested the SIAS routinely obtains copies of the PSN reviews for WBC and RBWM, and determines whether the work undertaken for these reviews can contribute to the Chief Audit Executives annual opinion. Recommendation R3 above also relates to this standard.	S6 R3
2200 Engagement planning	Generally Conforms	The SIAS generally conforms to all elements of this standard and the associated parts of the LGAN. Engagement planning is a fundamental part of the internal audit process. In the case of the SIAS, their engagement planning processes are set out clearly in the audit manual, and a review of a sample of audits indicated that they are being used effectively.		
2300 Performing the engagement	Generally Conforms	The SIAS generally conforms to all elements of this standard and the associated parts of the LGAN. The methodologies for performing		

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		engagements are set out clearly in the audit manual and followed by the team when conducting reviews.		
2400 Communicating the results	Generally Conforms	<p>The SIAS generally conforms to this standard and the associated parts of the LGAN with two observations that are set out below.</p> <p>Although the SIAS uses a 'lean' approach to its audit reports, they are nonetheless informative, easy to read and laid out well. The SIAS carries out its audits in conformance with the PSIAS but this is not mentioned in the individual audit reports, as mentioned in standard 1300 above.</p> <p>The second observation relates to the release of audit reports to third parties. Standard 2410.A3 requires audit reports to include a statement regarding the limitations on distribution of the report, and the use of the report contents. Whilst this is a key element for reports that are released to third parties, it is good practice to include such a statement in the audit report template for all audits. The process for releasing reports to third parties should also be added to the audit manual at its next revision.</p>	<p>Add a suitable statement on the distribution and use of the content of internal audit reports to each report.</p> <p>Add a section to the audit manual that sets out the process for releasing audit reports to third parties.</p> <p>Suggestion S4 above also relates to this standard.</p>	R4 R5 S4
2500 Monitoring progress	Generally Conforms	<p>The SIAS generally conforms to this standard and the associated parts of the LGAN. Management's progress on implementing agreed actions from internal audit reviews is monitored by the SIAS. Should managers fail to implement agreed actions there is an effective escalation process in place at both</p>		

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		authorities.		
2600 Communicating the acceptance of risks	Generally Conforms	<p>The SIAS generally conforms to this standard and the associated parts of the LGAN, with one observation.</p> <p>There are processes in place to report significant issues regarding the acceptance of risks that exceed the respective Council's risk appetites should the need arise, but these are not included in the SIAS' audit manual.</p>	Add a section to the audit manual on the escalation processes to be followed where the Chief Audit Executive believes management is accepting a level of risk that is unnecessarily high.	R6

6. Opportunities to Enhance Services

Senior Management within the Shared Internal Audit Service is keen to develop the way the Service operates and to enhance the quality and range of services that they provide to their existing and potential clients. With this in mind, the following opportunities have been identified, together with some suggested actions for consideration.

No.	Observation	Suggested Action
O1	<p>The SIAS is a shared internal audit and counter fraud service for Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead. The SIAS is hosted by WBC. In addition to the main clients of WBC and RBWM, the service will provide internal audit and counter fraud services to any public sector organisation that requires them. The SIAS currently provides such services to Bracknell Forest Borough Council and Rushmoor Borough Council, and has previously provided services on an ad hoc basis to other local authorities. The SIAS is keen to develop this side of their operations over the coming months and years, to generate revenues for the host authority and contribute to their operating costs.</p> <p>The Chief Audit Executive for the SIAS is the Assistant Director Governance Services at WBC. This officer is also WBC's Monitoring Officer, with direct responsibility for managing the Council's governance, electoral, democratic and risk management functions, and as such has a limited amount of time to devote to managing the SIAS.</p>	<p>It is suggest that the management board for the SIAS considers the operational management and operating model for the SIAS to determine whether the current structure is sustainable for the future growth and development of the SIAS.</p>
O2	<p>As SIAS's primary clients move further towards digitalising the services they deliver, there will be an increased need for auditors with a sound understanding of how to audit digital systems. At present, SIAS' team are able to cover the high-level ICT controls during routine audits, but on the whole the SIAS does not have the detailed knowledge to undertake in depth or technical reviews of ICT applications.</p>	<p>In the short term, the SIAS should look to procure specialist ICT audit skills from an external provider. However, in the longer term the SIAS should consider developing and training members of the existing team in ICT audit skills to a level where they can undertake more in depth and complex ICT audits.</p>

	<p>Whilst it is acknowledged that the SIAS can buy in these skills from external providers, and this is certainly an option to consider, there is an opportunity for the SIAS to develop ICT audit skills amongst its own in-house team and provide the more in depth ICT reviews for the clients.</p>	
O3	<p>The SIAS makes use of technology to extract and analyse data from ICT systems, mainly by using excel and the reporting functionality imbedded in key financial systems. However the SIAS does not currently use dedicated computer assisted audit techniques (CAATs), such as IDEA or ACL, to audit the core financial and HR systems of its clients.</p> <p>The most commonly used CAATs application in the public sector is IDEA, which given the limited financial resources available to the SIAS, is competitively priced and relatively straight forward to use. The suppliers of IDEA also market a supplementary application called SmartAnalyser, which contains sets of pre-defined test scripts that can be run on the key financial and HR systems, without the need for users to have detailed knowledge on how to write test scripts.</p> <p>Using a product such as IDEA with SmartAnalyser would enable the SIAS to audit all of the transactions in the key financial and HR systems of its client Councils on a regular basis, thus giving a greater level of assurance to the respective S151 Officers.</p> <p>In addition, this could become a unique selling point for the SIAS and become a service that they market to other Councils, enabling the SIAS to grow its client base.</p>	<p>Consideration should be given to obtaining a suitable CAATs application and using this to audit the core financial and HR systems at the client councils on a regular basis. Whilst there are a number of applications on the market, IDEA version 10 with the add on supplementary application SmartAnalyser, is likely to be the most cost effective application to consider given the limited financial resources available.</p>
O4	<p>The LGAN suggests that internal audit should coordinate their audits of the key financial systems with the work undertaken by external audit, to avoid the duplication of effort and to enable the external auditors place reliance on the work of internal audit.</p>	<p>Assuming that the SIAS will not be using CAATs to audit the key financial processes in the short term, consideration should be given to putting the well controlled and less risky key financial processes onto a longer frequency than annual, say once every two or three years.</p>

	<p>Recent changes to the international auditing standards has meant that external auditors have reverted back to using substantive testing processes for their audits and there are now limited opportunities for them to rely on the work of internal audit. There is now less of an argument for internal audit services carrying out audits of key financial systems on an annual basis, and towards the end of the financial year. On this basis, consideration should be given to the approach used for auditing these processes.</p>	<p>Regardless of the frequency adopted for the audits of the key financial systems, consideration should also be given to moving these internal audits away from the last quarter of the year, when the external auditor is auditing the processes, to a more convenient time for the SIAS and the client, say quarter three or late quarter two. This should also mean that the work would be completed and reported on in time for the external auditor to consider if there are any controls issues that they need to focus on during their substantive testing.</p>
O5	<p>The SIAS does not currently use an audit management system to manage the planned audits, time recording, and store the working papers, TORS, reports etc for the assignments.</p> <p>At present, all of the documents used during an audit are stored on the SIAS' secure shared drive on a WBC computer server. Whilst this approach works well and records can be accessed by all of the team members, the SIAS may wish to consider the use of a specialist audit management system for the future, particularly if their client base expands, as this may enable them to enhance their processes and generate operating efficiencies. Some of the products on the market include action tracking modules and can be linked to performance and risk management applications.</p>	<p>The SIAS should consider evaluating the audit management systems currently available to see if there is a suitable application to adopt when the time is right.</p>
O6	<p>The structure of the SIAS is relatively flat and lean, with very few officers holding management positions and able to carry out file reviews of completed audits. The approach adopted by the SIAS is to use a peer review process that is, overall, efficient and effective. However, from a review of a sample of completed audits it was apparent that not all of the peer reviewers have completed all parts of the file review schedule.</p>	<p>It is suggested that the management team of the SIAS remind the peer reviewers of the importance of completing all sections of the file review sheets, and consider introducing a quality assurance process where they randomly check a sample of completed reviews for compliance with the review process.</p>

7. Action Plan

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Add the mission statement from the PSIAS to the audit charters for all of the clients.	The Mission Statement is included in the Business Plan, but this can be added to the updated audit charters.	Lead Specialist	31st July 2018
R2	Update the audit charters to ensure they include all of the elements required by the PSIAS, in particular:- <ul style="list-style-type: none"> refer to the core principles of internal audit along with the other mandatory guidance; replace the generic definition of the 'board' currently included in the audit charters with the specific titles of the bodies fulfilling the role of the 'board' at each authority i.e. the Audit Committee for WBC, and the Audit and Performance Review Panel for RBWM. 	Agreed. A refresh of the audit charters to include these references.	Lead Specialist	31st July 2018
R3	Amend the audit charter at WBC, and the audit protocol between the SIAS and WBC, to set out clearly the potential impairment to the Chief Audit Executive's independence and objectivity from directly managing a range of services that the SIAS may review, and how and where the SIAS will report the results of audits carried out in these areas.	Agreed. A refresh of the audit charter and protocol at WBC to reflect this status.	Lead Specialist	31st July 2018
R4	Add a suitable statement on the distribution and use of the content of internal audit reports to each report.	Agreed. Templates to be updated to include a statement.	Lead Specialist	31st July 2018

No	Recommendation	Response	Responsible Person	Action date
R5	Add a section to the audit manual that sets out the process for releasing audit reports to third parties.	Agreed. Audit Manual to be updated.	Lead Specialist	31st August 2018
R6	Add a section to the audit manual on the escalation processes to be followed where the Chief Audit Executive believes management is accepting a level of risk that is unnecessarily high.	Agreed. This process to be clarified in the updated Audit Manual.	Lead Specialist	31st August 2018

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	It is suggested the Chief Audit Executive coordinates a remit and effectiveness review for the Audit Committee at WBC, and the Audit and Performance Review Panel at RBWM. This will enable the boards to identify areas where they may need to strengthen their knowledge.	Agreed. Senior Specialist and Lead Specialist to assist CAE with such a review of the WBC Audit Committee.	Chief Audit Executive	31st August 2018
S2	It is suggested that the audit protocol between the SIAS and RBWM clarifies which officer from the SIAS actually performs the function of the Chief Audit Executive.	Agreed. CAE arrangements to be clarified in refreshed audit protocol at RBWM.	Lead Specialist	31st July 2018
S3	It is suggested that the SIAS commissions external ICT audit specialists to undertake an ICT audit needs assessment for the primary clients and use this to inform the future internal audit plans.	An audit needs assessment was undertaken for RBWM. For WBC, the CAE submitted the 2018/19 Audit Plan that did not contain any IT Audit resource. This has been approved by Corporate Leadership Team and the Board. Therefore, for WBC, no IT needs assessment required. This was	Chief Audit Executive	N/A

No	Suggestion	Response	Responsible Person	Action date
		also the case for the 2017/18 year.		
S4	The SIAS should consider adding the statement 'conforms with the Public Sector Internal Audit Standards' to the introduction section (paragraph 1.1) of the individual audit reports where the review conforms to the standards. Where it does not conform, a statement of non-conformance should be added instead.	The RBWM and WBC annual reports both make reference to say 'Currently the Internal Audit team generally conforms'. Para 20 in WBC 2017/18 Annual Report and para 23 in RBWM's 2017/18 Annual Report.	Lead Specialist	N/A
S5	It is suggested that the SIAS undertakes a comprehensive review of its audit manual to ensure it is up to date and remains fit for purpose.	Agreed. This will be carried out – links with R5 and R6 above.	Lead Specialist	31st August 2018
S6	It is suggested the SIAS routinely obtains copies of the PSN reviews for WBC and RBWM, and determines whether the work undertaken for these reviews can contribute to the Chief Audit Executives annual opinion.	The decisions were taken at RBWM and WBC not to subscribe to PSN reviews in the light of required savings.	CAE/Lead Specialist	N/A

8. Interviewees

Person	Position	Organisation
Andrew Moulton	Assistant Director Governance Services (Chief Audit Executive)	Wokingham Borough Council
Catherine Hickman	Lead Specialist – Shared Internal Audit Service	Wokingham Borough Council
Julie Barker	Senior Specialist – Shared Internal Audit Service	Wokingham Borough Council
Audit Team	L2 and L1 level auditors and investigators	Wokingham Borough Council
Graham Ebers	Corporate Director and Deputy Chief Executive (Section 151 Officer)	Wokingham Borough Council
Jonathan Ross	Senior Specialist Business Services	Wokingham Borough Council
Manjeet Gill	Interim Chief Executive	Wokingham Borough Council
Anthony Pollock	Chair of the Audit Committee	Wokingham Borough Council
Rob Stubbs	Deputy Director and Head of Finance (Section 151 Officer)	Royal Borough of Windsor and Maidenhead
Alison Alexander	Managing Director (telephone interview)	Royal Borough of Windsor and Maidenhead
Paul Brimacombe	Past Chair of the Audit and Performance Review Panel (telephone interview)	Royal Borough of Windsor and Maidenhead

9. Definitions of Conformance with the Standards

Generally Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

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