



WALES **AUDIT** OFFICE  

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SWYDDFA **ARCHWILIO** CYMRU

# Assessment of Internal Audit **Flintshire County Council**

**Audit year:** 2011-12

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# Status of report

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This document was produced by John Herniman and Amanda Hughes.

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# Summary report

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## Internal audit has fully complied with eight of the 11 standards in the CIPFA Code of Practice for Internal Audit, partially complied with two and not met one

1. The Code of Audit Practice issued by the Auditor General and the International Standard on Auditing 610 requires us to consider whether the internal financial control arrangements of Flintshire County Council (the Council) are adequate. As internal audit is a key element of the system of internal control, we complete an annual assessment.
2. We have assessed internal audit against its professional standards as set out in the Chartered Institute of Public Finance Accountancy's (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code). The Code consists of standards in two groupings: the first encompasses the organisational and structural aspects of internal audit; the second encompasses the activity and operation of internal audit. Where these standards are met, wherever possible, we will seek to rely on their work when documenting or testing the Council's financial systems as part of our accounts audit; although any work completed by them will have to be reviewed. Further information on the individual aspects covered by each standard can be found in [Appendix 1](#).
3. Our assessment of each of the standards is set out in [Exhibit 1](#).

### Exhibit 1

Standard and aspects		Standard met/comment
<b>Organisational standards</b>		
1	Scope of internal audit	Yes
2	Independence	Yes
3	Ethics for internal auditors	Yes
4	Audit Committee	Partially compliant
5	Relationships	Yes
6	Staffing, training and continuous professional development	No
<b>Operational standards</b>		
7	Audit strategy and planning	Yes
8	Undertaking audit work	Yes

Standard and aspects		Standard met/comment
Operational standards (continued)		
9	Due professional care	Yes
10	Reporting	Yes
11	Performance quality and effectiveness	Partially compliant

4. Our detailed report sets out our findings in respect of each of the CIPFA standards. We have made six recommendations.

## Recommendations

R1	Review and analyse the self-assessment results to identify knowledge gaps and training needs to further develop the committee.
R2	Review the current reporting formats to ensure that they provide information in a manner which assists the committee in making informed decisions.
R3	Review internal audit staffing levels to ensure that adequate resources are available to deliver agreed internal audit plans.
R4	Ensure that internal audit staff are subject to regular staff appraisal, in accordance with the agreed process.
R5	Consider requesting RSM Tenon to perform an independent quality assurance review in accordance with quality control procedures.

# Detailed report

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## Internal audit has fully complied with four of the organisational standards, partially complied with one and not met one

### The scope of internal audit is clearly defined

5. The overall scope of internal audit is set out in the Internal Audit Charter (the Charter), and generally conforms to the requirements of the internal audit standards. The scope of internal audit work is agreed in the internal audit annual plan by the Audit Committee.
6. The Charter is underpinned by the internal audit manual. In 2010-11, we recommended that the manual required updating as it was out of date in a number of respects. This was completed in January 2012.

### Internal audit has sufficient organisational status and independence

7. The Charter stipulates that audit staff do not undertake any non-audit duties and that all the activities of the internal audit function are carried out in accordance with the financial regulations of the Council.
8. All internal audit staff are required to complete annual declarations of interest.

### Internal audit has arrangements in place to ensure compliance with the ethical codes issued by professional institutes

9. The internal audit section is expected to follow the code of ethics of its own professional institution.
10. The internal audit manual stipulates that internal audit should safeguard information they receive in carrying out their duties.

### The Audit Committee makes an effective contribution to the overall process for ensuring that an effective internal control system is maintained but should review its reporting arrangements

11. The role, responsibilities and composition of the Audit Committee are detailed in Article 7 of the Constitution.
12. The Audit Committee completes an annual self-assessment and this is submitted to the Head of Finance. However, there was little evidence of analysis and assessment of the implications of the results from 2010-11 during the 2011-12 financial year. The committee completed a further self-assessment in spring 2012 and agreed that the results would be reviewed after the local government elections by the new committee.

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13. The Charter details the rights of access of the Internal Audit Manager to all members.
  14. The Internal Audit Manager and, on occasions, one director from RSM Tenon, attend the Audit Committee meetings.
  15. At each committee, the Internal Audit Manager presents two standard reports, namely, the Operational plan and recommendation tracking report and the Final reports and performance indicators report. The reports allow the committee to monitor the progress and output of internal audit's work.
  16. Last year, we identified that whilst the reports met core requirements, improvements could be made to present key information in a smarter and more succinct way. The Internal Audit Manager had also given an undertaking to consult with the committee on improved ways of reporting.
  17. In year, there have been some minor improvements to the reports, but they remain largely unchanged and we are not aware that any formal consultation with the committee has taken place.
  18. As a new committee has recently been formed, following local government elections in May 2012, it is opportune to review the reporting arrangements.

R1	Review and analyse the self-assessment results to identify knowledge gaps and training needs to further develop the committee.
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R2	Review the current reporting formats to ensure that they provide information in a manner which assists the committee in making informed decisions.
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### Internal audit has established effective relationships with management, other auditors and other review bodies

19. Internal audit has built positive relationships with management. A constructive relationship has developed between internal audit and the Wales Audit Office, and a formal protocol is in place which sets out our working relationship.

### In both of the last two years, internal audit has been insufficiently staffed to deliver its planned work programme

20. The established staffing structure of the internal audit section provides adequate resources, with an appropriate skill mix, to fulfil its objectives.
21. However, in the last two years, there have been a number of staff vacancies, largely as a result of the ongoing finance function review, and this has led to a significant shortfall in the number of auditor days to deliver the agreed internal audit plan. In addition, during 2011-12, there was a significant level of investigations work which also diverted auditor days away from the plan.

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- 22. As a result, in both years, the internal audit plan has been subject to major revision and a considerable number of audits have been lost from the programme. The revised plans have been agreed by the Audit Committee.
  - 23. The Internal Audit Manager is confident that sufficient work has been carried out to satisfy him in terms of providing his annual assurance to the Audit Committee, but the committee needs to satisfy itself on the impact of this lost work, especially if work does not feature in forward work plans, when approving audit plans.
  - 24. We are aware that new staff have recently been recruited and that the internal audit section will be fully staffed from July 2012.
  - 25. There is access to RMS Tenon's workforce for specialist skills, such as IT audit.
  - 26. The Council operates a staff appraisal system to both assess performance against objectives and to identify any personal development needs for the individual. However, six-monthly appraisals for internal audit staff have not been carried out for the last two years.
  - 27. All staff are required to maintain a record of training and development, and adhere to their professional bodies' Continual Professional Development (CPD) requirements. This partly addresses the training aspect of the staff appraisal process but it is important that internal audit staff are regularly appraised to support delivery of the sections' objectives.

R3	Review internal audit staffing levels to ensure that adequate resources are available to deliver agreed internal audit plans.
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R4	Ensure that internal audit staff are subject to regular staff appraisal, in accordance with the agreed process.
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## Internal audit has fully complied with four of the operational standards and partially complied with one

### An Audit Strategy and Annual Audit Plan are prepared, reviewed and approved by the Audit Committee

- 28. Internal audit has a strategy for 2010-11 to 2012-13. The strategy details that work is carried out to meet the internal audit objective of providing an annual opinion to inform the Annual Governance Statement.
- 29. The strategy and annual plan is updated by the Internal Audit Manager and certified by the Head of Finance before being annually approved by the Audit Committee. The committee approved the 2011-12 plan in March 2011.



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### Internal audit's approach to recording its audit work is comprehensive

30. The internal audit standards require all auditors to obtain and record sufficient relevant evidence to support their conclusions, and to demonstrate the adequacy of evidence obtained to support professional judgements.
31. Each review has a detailed assignment planning sheet which identifies the scope, objectives, risks and resources for the review.
32. We reviewed a sample of four internal audit files and found that all files were generally of a good standard.
33. Formal feedback takes place at the end of the audit in an audit debriefing meeting.

### Internal audit applies due professional care when performing its duties

34. Internal audit staff are suitably qualified and have a range of guidance on conduct, from the constitution, code of conduct for officers, the internal audit manual and their professional bodies' code of ethics.
35. All work performed is reviewed by a principal auditor and certified by the Internal Audit Manager.

### Internal audit prepares assignment reports and an Annual Report in accordance with the requirements of the internal audit standards

36. Internal audit reports templates are designed to meet the internal audit standards.
37. The Annual Report provides an opinion on the governance, risk management and controls in operation within the Council.

### Internal audit has in place quality control and review procedures but has not been subject to an independent quality assurance review for some time

38. The internal audit manual sets out the quality control measures that are required to be in place, and in most respects, they are.
39. The Internal Audit Manager presents quarterly performance reports to the Audit Committee. Performance indicators are reported to the Audit Committee at each meeting and the majority relate to timeliness of issue of reports.
40. A quality measure which is not operational is the aforementioned (paragraph 26) six-monthly appraisal of staff.

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- 41.** The manual also sets out the arrangements for independent quality assurance, to be provided by RSM Tenon’s risk management division. Whilst clients are not subject to this kind of review on an annual basis, we note that the RSM Tenon have yet to perform a quality assurance review on the internal audit section. The Head of Finance should consider whether it is appropriate to request a review to provide additional assurance over the internal audit service.

R5 Consider requesting RSM Tenon to perform an independent quality assurance review in accordance with quality control procedures.

# Appendix 1

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## Internal audit standards and aspects

Standard and aspects	
1	<b>Scope of internal audit</b> <ul style="list-style-type: none"><li>• Terms of reference</li><li>• Scope of work</li><li>• Other work</li><li>• Fraud and corruption</li></ul>
2	<b>Independence</b> <ul style="list-style-type: none"><li>• The principles of independence</li><li>• Organisational independence</li><li>• Status of the Head of Internal Audit</li><li>• Independence of individual internal auditors</li><li>• Independence of internal audit contractors</li><li>• Declaration of interest</li></ul>
3	<b>Ethics for internal auditors</b> <ul style="list-style-type: none"><li>• Purpose</li><li>• Integrity</li><li>• Objectivity</li><li>• Competence</li><li>• Confidentiality</li></ul>
4	<b>Audit Committee</b> <ul style="list-style-type: none"><li>• Purpose of the Audit Committee</li><li>• Internal audit's relationship with the Audit Committee</li></ul>
5	<b>Relationships</b> <ul style="list-style-type: none"><li>• Principles of good relationships</li><li>• Relationships with management</li><li>• Relationships with other internal auditors</li><li>• Relationships with external auditors</li><li>• Relationships with other regulators and inspectors</li><li>• Relationships with elected members</li></ul>
6	<b>Staffing, training and continuing professional development</b> <ul style="list-style-type: none"><li>• Staffing internal audit</li><li>• Training and continuing professional development</li></ul>
7	<b>Audit strategy and planning</b> <ul style="list-style-type: none"><li>• Audit strategy</li><li>• Audit planning</li></ul>

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## Standard and aspects

8	<b>Undertaking audit work</b> <ul style="list-style-type: none"><li>• Planning</li><li>• Approach</li><li>• Undertaking audit assignments</li></ul>
9	<b>Due professional care</b> <ul style="list-style-type: none"><li>• Principles of due professional care</li><li>• Responsibilities of the individual auditor</li><li>• Responsibilities of the Head of Internal Audit</li></ul>
10	<b>Reporting</b> <ul style="list-style-type: none"><li>• Principles of reporting</li><li>• Reporting on audit work</li><li>• Follow-up audits and reporting</li><li>• Annual reporting and presentation of audit opinion</li></ul>
11	<b>Performance quality and effectiveness</b> <ul style="list-style-type: none"><li>• Principles of performance quality and effectiveness</li><li>• Quality assurance and audit work</li><li>• Performance and effectiveness of the audit service</li></ul>





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