

Audit Summary Report

May 2007



Review of Internal Audit

Wirral MBC

Audit 2005-2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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Summary report

Introduction

- 1 Internal Audit (IA) constitutes one of the most important elements of the internal control environment within any organisation. It has a key role to play in ensuring that an adequate level of control is maintained over all areas of Council activity.
- 2 The Code of Audit Practice requires external auditors to review the Council's arrangements for ensuring adequate and effective systems of internal financial control. We are also required under International Standards for Auditing (ISA 610) to consider the activities of Internal Audit and their effect on external audit procedures. In particular, ISA 610 requires external auditors to consider the activities of IA and obtain sufficient understanding of IA activities to assist in planning the external audit and developing an effective audit approach. This is reinforced by the principles of the 'Managed Audit', which encourages efficient and effective working relationships between internal and external auditors.
- 3 Our arrangements for reviewing Internal Audit are as follows:
 - a cyclical (three-yearly) review of the effectiveness of Internal Audit, assessing IA against the professional and statutory requirements set out in CIPFA's Code of Practice for Internal Audit;
 - an annual assessment of the effectiveness of IA for the purpose of assessing the strength of the overall control environment; and
 - a review of the adequacy of specific pieces of IA work which we are seeking to rely on to inform our audit work and responsibilities.
- 4 This report summarises the outcome of our three -yearly review carried out during 2006.

Background

- 5 All local authorities are required to have an Internal Audit function. Overall responsibility for Internal Audit in Wirral rests with the Director of Finance as S151 Officer, who exercises this responsibility through the Deputy Director of Finance and the Chief Internal Auditor (CIA). The Deputy Director of Finance has line manager and strategic operational responsibilities for Internal Audit. In recognition of this role, the Deputy Director of Finance does not have direct operational responsibilities for other services within the finance department. The strategy of the Internal Audit section and the programme of work is presented to Members in the Annual Audit Plan.

- 6 The findings from Internal Audit's work is summarised in regular reports to the Audit and Risk Management Committee (previously the Finance and Corporate Management Select Committee). In addition, IA have quarterly update meetings with the Chief Executive, and periodic meetings with the Deputy Director of Finance, to review the key issues arising from their work.
- 7 The role of IA has been to provide assurance on the adequacy and effectiveness of systems of internal control that are designed to promote the effective use of resources. In recent years, the role has developed to embrace assurance about the management of financial and operational business risks, corporate governance and the entire internal control framework.

Audit approach

- 8 The focus of our cyclical review of IA is to ensure that IA meet their own professional and statutory requirements, set out in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA Code). This CIPFA Code provides standards for the Internal Audit role and responsibilities in the following areas.

Table 1 Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA Code)

Expected compliance with the standards from the CIPFA Code

Organisational standards	Operational standards
Scope of Internal Audit	Audit strategy
Independence	Management of audit assignments
Audit Committee or equivalent	Due professional care
Relationships with management, other auditors, and other review bodies	Reporting
Staffing, training, and development	Quality assurance

- 9 We based our assessment on:
 - our cumulative knowledge of the Council;
 - review of IA documentation;
 - discussions with officers, including the Director and Deputy Director of Finance, CIA, Deputy CIA, Group and Principal Auditors and other staff on the IA section;
 - reports to the Audit and Risk Management Committee; and
 - review of published comparative information from other councils.

- 10 The main fieldwork was completed in January - July 2006. The review of available comparative information was completed in July to October 2006.

Main conclusions

- 11 The overall conclusion is that the Council's IA section provides an effective service and makes a good contribution to the Council's system of Internal Control through the work it undertakes. Table 2 summarises our overall conclusion that standards have been met in all key areas, although at the time of the initial review there was only partial compliance in respect of quality assurance arrangements. Action has been taken to improve quality assurance arrangements. Further improvement opportunities have been identified in several areas.

Table 2 Summary of Overall Assessment of Internal Audit

Compliance with the standards from the CIPFA Code

CIPFA Code Standard	Standard met	Improvement opportunities
Scope of Internal Audit	Yes	Yes
Independence	Yes	Yes
Audit Committee or equivalent	Yes	Yes
Relationships with management, other auditors and other review bodies	Yes	Yes
Staffing, training, and development	Yes	Yes
Audit strategy	Yes	Yes
Management of audit assignments	Yes	Yes
Due professional care	Yes	No
Reporting	Yes	No
Quality assurance	Yes	Yes

- 12 Summary conclusions for each of the review areas are as follows.

Scope and objectives

- 13 There are no undue limits on Internal Audit's access to records or scope of activities. Internal Audit's scope and objectives are detailed in their Charter. The Charter complies in most parts with CIPFA's Code of Practice, although there is scope to update and strengthen the Charter in some areas. These include:
- outlining IA's roles and responsibility in relation to the newly created Audit and Risk Management committee;
 - listing IA's access rights to partner organisations, and IA's authority to obtain such information from these bodies; and
 - widening the reported scope of IA work to reflect their broader remit which includes corporate reviews, such as risk management and Statement of Internal Control.

Independence

- 14 IA is independent from any operational roles and responsibilities within the Council, has access to Members, as appropriate via the Director of Finance and provides regular, direct feedback to the Chief Executive. There is evidence that IA determines its own priorities, based on a risk assessment, in consultation with Chief Officers. Declaration forms for disclosing any conflict of interest were on file for all IA staff, although evidence wasn't available to confirm these had been completed for all staff for the previous March declaration. Arrangements have now been strengthened and declaration of interest forms are completed by all audit staff on an annual basis.

Audit Committee

- 15 An Audit and Risk Management Committee was introduced in June 2006. The timing of our initial review meant we did not review in detail the operation of this new committee. However, its overall role, responsibility and scope appears reasonable, and meetings to date indicate it is making an effective contribution to the governance of the Council. An area to develop is the need for the Audit Committee to consider the effectiveness of IA. The 2006 Cipfa Code states that the Audit Committee's review of the Council's Statement on Internal Control should 'include the results of the review of the effectiveness of the system of internal audit'. The Committee should also consider the results of IA's quality review processes. The Committee will need to consider how it will meet this requirement.

Relationships with Management

- 16 The CIA and Deputy CIA specifically, and audit staff generally, have good working relationships with officers at all levels both internally within the Council and externally with partners and other inspection bodies. Arrangements in place to promote good working relationships include regular liaison with Chief Officers. IA have plans to further strengthen arrangements in this area by, for example, increasing the value and volume of client feedback information and developing the IA intranet site to provide for more effective interaction with clients.

Staffing, training and development

- 17 There is a strong commitment to staff training and personal and professional development with a formal appraisal system in place identifying these needs. Initial indications suggest staffing levels are broadly comparable with IA sections of neighbouring authorities. However, the IA section at Wirral is experiencing an increasing problem in respect of the loss of key experienced staff.

Audit Strategy

- 18 IA has a Charter which outlines its strategic roles and responsibilities. The Charter is supported by a detailed annual audit plan. There is scope to further develop the Charter in some areas, including the arrangements for dealing with peaks and shortfalls and providing audit services in some specialist areas, such as IT audit. There is a structured approach to identifying (and re-prioritising) work coverage and inclusion of work in the strategic and annual audit plans. Arrangements could be further improved by strengthening and documenting the process whereby the prioritisation of audit work to be included in the original, and any subsequent revised, plan is subject to review by the Deputy Director of Finance. This should include review of the type of work planned, scope and allocated resources.
- 19 IA have measured their performance in terms of days delivered against a planned target. During 2005/06 IA experienced recruitment and retention issues with the loss of experienced staff and the inability to replace these with suitably experienced staff. This had a direct impact on the delivery of the annual audit plan in terms of coverage, range and complexity of work completed and total days delivered. Whilst additional resource seconded into the section did contribute to delivering an increased proportion of planned days, their relative lack of experience will have impacted on the nature and complexity of reviews completed in the fourth quarter.
- 20 In the past two years the section has lost experienced staff and faced increased requests from Chief Officers for audit reviews, including an increased focus on more challenging corporate reviews. There is a need to keep recruitment and retention issues within the section under review to ensure the structure of IA, in terms of number and skill-mix of staff, is adequate to deliver increasing demands for audit reviews

Management of audit assignments

- 21 The assignments reviewed as part of our work met the required standards and CIPFA's good practice. There was evidence that a detailed audit brief had been prepared outlining the scope and objectives of the planned work before commencement; together with evidence of supervision and review. Working papers supported detailed finding, conclusions and recommendations included in the final report. At the time of our initial review the Internal Audit manual had not been fully updated for seven years. A revised manual, including working papers and procedural guidelines, was introduced during 2006/07. IA have arrangements in place for following-up their own work, although these arrangements are not fully documented.

Due Professional Care

- 22 IA have adequate procedures in place to ensure due professional care is taken by its auditors. We did not identify any concerns about the professional skills of individual auditors.

Reporting

- 23 Audit reports are issued promptly and recommendations made are appropriately supported and documented. IA results and progress are regularly reported to the Audit and Risk Management Committee and the Chief Executive.

Quality Assurance

- 24 Quality assurance and quality control are a fundamental part of monitoring and ensuring appropriate standards are set and maintained. Our review found that there are adequate arrangements in place for the supervision and review of each piece of audit work. However there was a need to improve the evidencing and structuring of formal quality assurance processes by the CIA and Deputy CIA. The arrangements for documenting quality assurance have recently been improved and revised quality standards are detailed in the updated audit manual. IA recognises the need to further strengthen these arrangements to comply with the requirements of the new Cipfa Code. This will require formalising a quality assurance programme to include, for example, provision for carrying out internal quality reviews and reporting findings and learning through an action plan.
- 25 IA have recognised the need to strengthen the arrangements for monitoring and reporting performance measures for the section. Additional performance measures for 2007/08 have been agreed with the Deputy Director of Finance. These should be agreed with, and subsequently reported to the Audit and Risk Management Committee.

Key recommendations

- 26 The report sets out a number of recommendations to further strengthen IA arrangements. The key issues include the need to:
- confirm arrangements for the annual review of the effectiveness of the system of IA, including consideration of the role of the Audit and Risk Management Committee in relation to reviewing the effectiveness of Internal Audit and the reports of other inspection agencies;
 - strengthen and document the process whereby the prioritisation of audit work to be included in the original, and any subsequent revised, plan is subject to review by the Deputy Director of Finance. This should include review of the type of work planned, scope and allocated budgets;
 - keep under review the structure and skill-mix of the IA section to ensure it is able to recruit and retain sufficiently experienced staff to deliver its remit;
 - formalise a quality assurance programme, including provision for carrying out internal quality reviews, to comply with new CIPFA guidelines and standards; and
 - agree the set of performance measures to be used to monitor IA with the Audit and Risk Management Committee.
- 27 We will follow up the recommendations of the report as part of our annual assessment of the effectiveness of IA.

Next steps

- 28 The report will then be presented to the Audit and Risk Management Committee. Officers will be asked to prepare an action plan setting out the Council's response to our recommendations.

Detailed report

Scope

- 29 Based on our review, we have concluded that there are no undue limits on IA's access to records or scope of activities. The scope, objectives and responsibilities of IA are set out in the Internal Audit Charter which has been approved by Members. The Charter complies, in most parts with CIPFA's Code of Practice, although there is scope to strengthen some areas. The Charter should be reviewed and amended in light of the introduction of an Audit Committee at the Council.
- 30 The purpose, authority and responsibility of IA at Wirral is defined in the Internal Audit Charter which was approved by Finance and Corporate Management Select Committee in November 2004. The Internal Audit Charter provides a written statement of IA's:
- purpose – refers to Accounts and Audit regulations 2003 and CIPFA's code of Practice;
 - scope – outlines the roles and responsibilities of Internal Audit and states its independence and who it reports to in the management context;
 - status – reiterates its independence and outlines its unrestricted access to senior management and all records relating to the Council;
 - planning – outlines the process for preparing a strategic and annual audit plan, based on a risk assessment approach and in consultation with Chief Officers;
 - reporting – outlines process for reporting to officers and Members; and
 - management role – summarises IA's role and responsibility to management.
- 31 However, there is scope to improve and strengthen the Charter to fully comply with CIPFA's Code of Practice by:
- detailing the reporting lines and relationships between the Chief Internal Auditor (CIA); and:
 - (i) those charged with governance; and
 - (ii) those parties to whom the CIA may report, including as appropriate individual Members and the Chair of the Audit and Risk Management Committee.
 - clarifying the organisational independence of Internal Audit and its accountability;
 - clearly listing access rights to partner organisations, and IA's authority to obtain such information from these bodies. IA's access rights to information held by third parties (eg contract information) should be clearly stated in the Charter and may need to be added to the detailed contract agreement;

- ensuring the scope of IA activity as outlined in the Charter is widened to reflect the broader remit that IA has been asked to adopt in recent years, such as the corporate reviews in areas such as risk management, Statement of Internal Control and corporate governance;
- ensuring IA's Charter (Terms of Reference) is widely circulated throughout the Council and its partners; and
- ensure the Charter reflects IA's relationship, roles and responsibilities in connection with the Audit and Risk Management Committee, including the right of direct access to the Committee as necessary.

Recommendations

R1 Strengthen the Internal Audit Charter to fully comply with Cipfa's Code of Practice and reflect additional disclosure requirements.

Independence

- 32** IA is independent from any operational roles and responsibilities within the Council, has access to Members, as appropriate via the Director of Finance and provides regular, direct feedback to the Chief Executive. There is evidence that IA determines its own priorities, based on a risk assessment, in consultation with Chief Officers. Declaration forms for disclosing any conflict of interest were evident for all IA staff, although at the time of the audit the evidence wasn't available to demonstrate that forms had been completed for all staff for the previous March (2005) declaration. Arrangements have now been strengthened and declaration of interest forms are completed by all audit staff on an annual basis.
- 33** IA is sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities within the Council.
- 34** IA determines its priorities based on a process of risk assessment and in consultation with Chief Officers. Where it is evident that the Audit Plan cannot be delivered, work load is re-assessed and re-prioritised.
- 35** The CIA reports audit issues to the Audit and Risk Management Committee quarterly, in the name of the Director of Finance. The CIA also briefs the Chief Executive on audit issues on a quarterly basis. The CIA has sufficient status to facilitate effective discussion of audit strategies, plans, results and improvement plans with senior management in the organisation.

- 36 It is an important requirement that individual auditors have an impartial, unbiased attitude, an objective approach to work and avoid conflicts of interest. All internal audit staff have completed a declaration of interest form which lists, for example, relatives working in the Council. IA staff are required to complete this on an annual basis, and in the interim should circumstances change. Group and Principal Auditors plan and distribute the audit work to avoid conflicts of interest. There is no evidence to suggest that external factors are allowed to compromise professional judgement.
- 37 Staff conflict of interest forms were evident for all IA staff. At the time of the audit the evidence wasn't available to demonstrate that forms had been completed for all staff for the previous March (2005) declaration. Good practice suggests that conflict of interest forms should be updated at least annually or when employee's circumstances change. Arrangements have now been strengthened and declaration of interest forms are completed by all audit staff on an annual basis.

Recommendations

R2 Maintain appropriate evidence that Declaration of Interest forms are completed on an annual basis.

Audit and Risk Management Committee

- 38 During 2006 the Council established an Audit and Risk Management Committee, which met for the first time on 29th June 2006. The Committee is strengthening the scrutiny arrangements for reporting audit related issues to Members and IA are making an effective contribution to this Committee. The Committee will need to decide how it will review the effectiveness of IA as part of its review of the Council's Statement on Internal Control.
- 39 The terms of reference for the Audit and Risk Management Committee outline its purpose, in line with Cipfa guidance, to be 'To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process'.
- 40 The terms of reference and operation of this Committee are generally in line with the core functions of audit committees as envisaged in Cipfa guidance. One role not currently included in the terms of reference is to consider reports of inspection agencies, other than external audit.

- 41 The Cipfa Code on Internal Audit highlights how the Head of Internal Audit should facilitate the work of the Committee by:
- attending its meetings, and contributing to setting the agenda;
 - ensuring that the Committee considers its own remit and effectiveness;
 - ensuring it receives, and understands, documents that describe how IA will fulfil its objectives (eg the audit strategy, annual work programmes, progress reports);
 - reporting the outcomes of IA work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
 - establishing anything arising from the work of the committee that requires consideration of changes to internal audit's programme, and vice versa; and
 - presenting an Annual Internal Audit Report including an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.
- 42 In line with this, IA are making an effective contribution to the operation of the Council's Audit and Risk Management Committee.
- 43 One area for further review is the need for the Audit and Risk Management Committee to consider the effectiveness of Internal Audit. The amended Accounts and Audit Regulations require the Council to undertake an annual review of the effectiveness of the system of IA with the results being reported to the relevant Audit and Governance Committee. The 2006 Cipfa Code states that the Audit Committee's review of the Council's Statement of Internal Control should 'include the results of the review of the effectiveness of the system of internal audit'. The extent of this review will depend on the assurance the Council can take from its systems for review of performance and quality, and the results of any external quality reviews. The Committee should also consider the results of IA's quality review processes. The Council will need to consider how it will meet the requirement for the annual review of the effectiveness of the system of IA.

Recommendations

R3 Confirm arrangements for the annual review of the effectiveness of the system of IA, including consideration of the role of the Audit and Risk Management Committee in relation to reviewing the effectiveness of Internal Audit and the reports of other inspection agencies.

Relationships with management, other auditors and other review bodies

- 44 The CIA and Deputy CIA specifically, and audit staff generally, have good working relationships with officers at all levels both internally within the Council and externally with partners and other inspection bodies.
- 45 Arrangements in place to promote good working relationships include the following.
- Quarterly briefings with the Chief Executive on audit related issues.
 - Internal Audit plans and activities are determined in discussion with Chief Officers. Reports and action plans are agreed with Chief Officers.
 - Customer satisfaction surveys are issued to auditees following audit reviews. The forms seek yes/no responses regarding satisfaction for 14 areas covering timing, communication, audit reports and quality of service. Internal Audit's 2005/06 noted '100 per cent of Customer Survey forms returned', typically about 30 to 40 per cent, 'indicate a good opinion of the service delivered by the Section'.
 - Regular and effective meetings between Internal and External auditors to update progress and exchange issues.
 - Liaison and contribution to Merseyside Internal Audit forum
- 46 IA recognise that this is an area that can be developed further. Planned developments for early in 2007 include:
- Increasing the value and volume of client feedback information by re-launching the Customer Satisfaction Survey forms, including allowing for them to be completed via the intranet. Also planned to report feedback and IA response to Members.
 - Introducing annual satisfaction surveys for Members and Chief Officers, seeking views on the ongoing effectiveness of the audit service and the quality and value of recommendations identified in reports.
 - Further developing the IA intranet site to provide for more effective interaction with clients.

Staff training and development

- 47 There is a strong commitment to staff training and personal and professional development with a formal appraisal system in place identifying these needs. Initial indications suggest staffing levels are broadly comparable with IA sections of neighbouring authorities. However, the IA section at Wirral is experiencing an increasing problem in respect of the loss of key experienced staff.

- 48 Cipfa Code requires that IA should be appropriately staffed in terms of numbers, grades, qualifications and experience. Internal auditors should be properly trained to fulfil their responsibilities and should maintain their professional competence through a development programme.
- 49 In terms of overall staffing, IA's 2005/06 Annual report showed an outturn of 4,155 chargeable and 1405 non-chargeable days. This level of chargeability is approximately in line with two neighbouring councils and better than the other council for which comparative data was available.
- 50 Wirral's IA section had approximately 13 productive days per 1000 population and 10 productive days per £1m net expenditure, compared to a range of 8.5 to 9.5 days and 5 to 7 days respectively in the three neighbouring councils. This reflects a much higher chargeability rate (productive days per person during the year) at Wirral compared to one neighbour and, for another council, the exclusion of approximately 1,800 days that are devoted to Benefits fraud work.
- 51 Although there are limitations to such a quick indicative comparison, it does suggest that overall Wirral's IA section does appear adequately resourced in terms of total days.
- 52 However, the section is experiencing an increasing problem in relation to the loss of experienced staff and, at times, the mix of staff available to deliver the audit plan. This is considered in the next section.
- 53 The management of the section show a good commitment to staff training and personal and professional development.
- 54 The section has a good mix of professional staff and range of professional qualifications, including part/fully qualified CIPFA, AAT, and IAA, which are appropriate to the respective roles and relevant to the work undertaken.
- 55 Development and training days received by Internal Audit staff in 2005/06 amounted to 427 days, which represents 7.7 per cent of the total chargeable days available. This compares well with available comparative information for one neighbouring council which shows training days as 4.7 per cent of total days in 2005/06, reducing to a planned 3.6 per cent in 2006/07
- 56 Individual staff training needs are identified through a structured staff development scheme. This process is documented and there is evidence that training and development needs are identified and that staff have received the appropriate identified training. A formal record of training is maintained for each member of staff. Staff are rotated periodically between audit groups to give them greater exposure to the range of Council activities and allow personal development.

- 57 However, staff training and development can be strengthened in some areas. These include the following.
- The internal quality assurance process should be formally documented and included in the Internal Audit Manual. The quality assurance process should detail how outcomes are recorded and issues are to be addressed through staff training and development needs either of the Audit section as a whole, or on an individual basis.
 - Whilst the CIA and Deputy CIA have good experience at the corporate level, there is a need to develop a broader corporate awareness among other staff in the section, particularly those at team leader level (eg group/principal auditors). Audit staff have a good understanding of their roles and responsibilities in relation to day to day regularity audit work, as evidenced through completed action plans and customer satisfaction response questionnaires. However, there have been examples where Chief Officers have challenged the practicality of implementing the recommendations, given a wider corporate context. For non-routine investigations and more corporate-wide reviews, there is a need to ensure staff supervising reviews and drafting reports are able to develop their awareness of corporate issues and context. This will assist in ensuring Members receive effective reports that deliver improvement. Initiatives could include occasional attendance at meetings with Chief Exec, Chief Officer meetings and the A&RM Committee.

Recommendations

R4 Ensure training and developments needs are formally captured from internal quality assurance reviews.

R5 Introduce arrangements to broaden the awareness and understanding of team leaders of key corporate issues and context.

Audit strategy

- 58 IA has a Charter which outlines its strategic roles and responsibilities. The Charter is supported by a detailed annual audit plan. There is scope to further develop the Charter in some areas, including the arrangements for dealing with peaks and shortfalls and providing audit services in some specialist areas, such as IT audit. There is a structured approach to identifying (and re-prioritising) work coverage and inclusion of work in the annual audit plan. Arrangements could be further improved by strengthening and documenting the process whereby the prioritisation of audit work to be included in the original, and any subsequent revised, plan is subject to review by the Deputy Director of Finance. This should include review of the type of work planned, scope and allocated resources.

- 59 IA have measured their performance in terms of days delivered against a planned target. During 2005/06 IA experienced recruitment and retention issues with the loss of experienced staff and the inability to replace these with suitably experienced staff. This had a direct impact on the delivery of the annual audit plan in terms of coverage, range and complexity of work completed and total days delivered. Whilst additional resource seconded into the section did contribute to delivering an increased proportion of planned days, their relative lack of experience will have impacted on the nature and complexity of reviews completed in the fourth quarter.
- 60 In the past two years the section has lost experienced staff and faced increased requests from Chief Officers for audit reviews, including an increased focus on more challenging corporate reviews. There is a need to keep recruitment and retention issues within the section under review to ensure the structure of IA, in terms of number and skill-mix of staff, is adequate to deliver increasing demands for audit reviews

Audit strategy

- 61 The audit strategy is the high-level statement of how the Internal Audit service will be delivered and developed. Good practice suggests, that the strategy should:
- state how the assurance for the annual statement on internal control will be demonstrated. This will include how the CIA will contribute to the review of the organisation's corporate governance arrangements, risk management processes and key internal control systems;
 - establish the resources and skills required for its delivery, including the relative allocation of audit resources between assurance work and any fraud-related or consultancy type work; and
 - include a risk-based audit plan designed to implement the audit strategy. The risk-based plan should outline the areas to be covered, the assignments to be carried out and the broad resources and skills required to deliver the plan, highlighting any shortfall in resources. It should indicate the priorities for each assignment.

- 62 Internal Audit's overall strategy and terms of reference is in the form of a Charter, which is a written statement detailing their purpose and scope. The Charter outlines Internal Audit's roles, responsibilities and structure, status, planning arrangements, reporting and management role. The Charter states Internal Audit will:
- independently review and report on the adequacy of the system of control throughout the Council;
 - provide an opinion to Management on how internal controls operate;
 - review the extent of compliance with system, policies and legislation;
 - recommend improvements in systems to achieve better control;
 - advise on the adequacy and effectiveness of controls in new and developing systems;
 - advise on the prevention and detection of fraud and assist Management in investigating suspected fraud; and
 - conduct reviews with a wider brief than reviewing controls, as specified by Management.
- 63 The Charter is supported by a detailed annual Audit Plan.
- 64 The annual audit plan is based on an assessment of risk and resources available. Compilation of the plan involves a detailed risk assessment process that assesses risk for each audit area across a range of risk factors and results in a scored risk assessment which is used to prioritise work and allocate audit resources. This is then subject to a qualitative assessment by group auditors and the CIA and Deputy CIA. It is reported to the Audit and Risk Management Committee in March and includes a summary of the perceived high risk areas. The plan could usefully include a reference to demonstrate that counter fraud and corruption work is adequately resourced.
- 65 The Council can further strengthen the Audit Charter in respect of how it outlines the strategy for the IA function. In particular, the Charter should:
- outline arrangements to deal with peaks and troughs in work and shortage of particular specialisms; and
 - specifically, documenting the procedures to be adopted for amending Audit Plans when it is evident delivery cannot be achieved.

Audit delivery

- 66 Factors affecting the delivery of the audit strategy include:
- delivery of planned audit coverage; and
 - staffing complement, recruitment, retention.

- 67 During 2005/06 IA achieved 84 per cent completion of planned audit days. This was below IA's target for completion of 90 per cent, which reflects the national average and minimum level of achievement previously stipulated by the Audit Commission in its Auditor Judgements for Use of Resources. The target level of days planned was not achieved due to staffing, recruitment and retention issues.
- 68 The overall delivery of 84 per cent was achieved following action taken by CIA during the third and fourth quarters of 2005/06. During most of 2005/06, expected completion of the plan was between 60-70 per cent, as reported to Finance DMT. Action taken by CIA and Finance DMT included:
- CIA re-assessing work-load and re-prioritising the annual audit plan to match available resources. This involved re-prioritising existing audit assignments using a risk based approach, with lower assessed priority work deferred to future years. IA's Annual Report confirmed that the re-prioritising of delivery of meant IA were able to audit all of the business critical and high risk systems identified in the plan for 2005/06; and
 - seconding a number of graduate trainees into the section from elsewhere in the Finance Department.
- 69 These measures did succeed in delivering 84 per cent of planned days, however, they did give rise to a number of issues for further consideration. Specifically:
- in terms of documentation, there is a need to ensure the process, basis, assumptions used for revising the audit plan and re-assessing risk is evidenced and subject to robust review by the Deputy Director of Finance;
 - delivery of 84 per cent was achieved by seconding a number of graduate trainees into the section from elsewhere in the Finance Department. Whilst additional resource did contribute to delivering increased proportion of planned days, their relative lack of experience will have impacted on the nature and complexity of reviews completed in the third and fourth quarters. Additional supervision and review would have been required by more experienced staff;
 - the audit plan does not contain any contingency resource for additional work requested by departments or chief officers. The audit plan is re-prioritised each time additional work is agreed with lower risk assessed work often being deferred; and
 - IA focuses on the key performance measurement of days delivered against days planned. This measures input rather than output and achievement of, for example, high risk work completed as percentage of high work planned. IA have recently developed some additional performance measures. These are considered in the Quality Assurance section below.
- 70 In general, the reduced audit programme, in terms of planned days and review areas, arose largely as a result of:
- staffing levels consistently falling below expected levels during the year; and
 - additional requests for IA review by Departments and Chief Officers.

- 71 During 2005/06 and 2006/07 the IA section have lost one principal auditor and five senior auditors with, we understand, on average 10-15 years experience of audit, management and/or ICT. The section has also lost three auditors, where the breadth of experience gained at Wirral has proven attractive to other neighbouring audit sections. Three appointments have since been made, each with relatively limited audit experience. The section is currently carrying approx 4.5 FTE vacancies at senior and auditor level.
- 72 IA's annual report commented 'the Section has continued to experience severe problems retaining and recruiting staff during the year and has struggled to replace a total of 6 key members of staffduring the year'. However, the Annual Report stressed this was not just an issue for 2005/06, commenting that the current level of resource is 'barely adequate' to deliver the Audit Plan in its current form. Extreme difficulties are currently being experienced retaining existing audit staff and recruiting replacements.
- 73 The affects of the loss of experienced staff are exacerbated by the changing role and emphasis of IA in recent years and the increasing expectation levels amongst Members and Chief Officers. This is evidenced by the number of additional requests for work from Chief Officers during the year. The nature of this work is generally more complex, corporate wide and challenging, with potentially a higher risk to IA reputation within Council and Council performance. Examples of the developing role in recent years for IA work have included the following.
- Re-focussed work on performance indicators.
 - Increased involvement with Comprehensive Performance Assessment, LPSA, new Local Area Agreements.
 - Increased involvement with Corporate Governance arrangements at strategic level, including the production of the Council's Statement on Internal Control and review of Risk Management arrangements.
 - Special projects, including 1 Business, Cheshire Lines, Lauries centre,
 - Management reviews, including Health and Safety, Key Issues Exchange, Recruitment and Selection, Training, and management aspects of systems reviews.
 - Partnering Contracts, eg Birkenhead Park, St James Centre,
 - Review of the Financial Management Standard in Schools.
- 74 The success of the IA section in delivering it's extended role has led to increased pressures in retaining experienced staff, as the skills and experience gained by staff has increased their marketability.
- 75 The resourcing issues currently faced by the section are having an impact on the ability of the section to deliver its strategic and annual audit plan. If the section is to continue to effectively deliver its work, including the corporate and challenging initiatives, there is a need to review the structure of the IA section to ensure they are able to recruit and retain sufficiently experienced and capable staff.

Recommendations

- R6 Strengthen and document the process whereby the prioritisation of audit work to be included in the original, and any subsequent revised, plan is subject to review by the Deputy Director of Finance. This should include review of the type of work planned, scope and allocated budgets.*
- R7 Consider incorporating contingency budgets into strategic and annual audit plans to allow for budget overruns and additional requests for work.*
- R8 Keep under review the structure and skill-mix of the IA section, to ensure it is able to recruit and retain sufficiently experienced staff to deliver its remit.*
- R9 Introduce procedures to ensure all additional work requests are subject to appropriate review and challenge prior to acceptance. This should include the impact such reviews will have on the delivery of key elements of the audit plan.*

Management of audit assignments

- 76** The assignments reviewed as part of our work met the required standards and CIPFA's good practice. There was evidence that a detailed audit brief had been prepared outlining the scope and objectives of the planned work before commencement; together with evidence of supervision and review. Working papers supported detailed finding, conclusions and recommendations included in the final report. At the time of our initial review the Internal Audit manual had not been fully updated for seven years. A revised manual, including working papers and procedural guidelines, was introduced during 2006/07. IA have arrangements in place for follow-up, although these are not documented.
- 77** There was evidence of supervision and review by Group and Principal Auditors, at the start of the work, during the audit assignment and on its completion. The audit assignments were signed off by the auditor and line manager. All review points where raised were cleared to the satisfaction of the reviewer.
- 78** Review of detailed files found that working papers were sufficiently detailed with findings and conclusions supported by the detailed work. Standards for documentation and working papers were generally found to be good.
- 79** As at April 2006, the IA manual had not been fully updated to reflect IA's current working standards, such as their documentation and working paper standards. A revised IA manual was introduced during 2006/07. This was based on a CIPFA template, tailored for Wirral. The detailed manual includes copies of all revised working papers and procedural guidelines and details concerning the audit reporting arrangements including the A&RM committee.
- 80** The revised audit working papers were also completed during 2006/07, based on CIPFA and IIA guidance and the Government Internal Audit Manual (GIAM). The approach is designed to mirror the audit working papers module of the APACE audit planning and management system that IA operate as IA have plans to move to a full electronic documentation system during 2007/08.

- 81 A report is prepared and discussed with management following each assignment. Review of the audit reports found that detailed audit work supported the findings, conclusions and recommendations.
- 82 An integral element of audit work is a timely follow up review on management action arising from its assignments. We understand IA routinely follow-up each review within 12 months and generally issue a brief follow-up report. The need for further follow-up work is also considered at the next cyclical review. Although the Annual Audit plan does not explicitly include a budget for such follow-up work, time is provided for in the budgets identified for the various review areas. The arrangements in place for follow-up work are not currently documented in the IA manual.

Recommendations

R10 Ensure the audit manual documents the arrangements for follow-up.

Due professional care

- 83 IA have adequate procedures in place to ensure due professional care is taken by its auditors. We did not identify any concerns about the professional skills of individual auditors.
- 84 Due professional care is the care and skill that prudent and competent internal auditors will apply in performing their duties. It covers principles such as working with competence and diligence, using audit skills, knowledge, judgement, integrity and objectivity.
- 85 IA has procedures in place to ensure due professional care is taken by its auditors. These include the following.
- IA staff complete declaration of interest forms which alert managers to potential conflict situations. Internal Audit managers assign audit work to avoid conflict.
 - IA staff are subject to the Council's corporate policy for offers and receipt of gifts and hospitality. Internal Audit staff are generally aware of gifts and hospitality guidance thorough departmental reviews of this area. However, the CIA should periodically remind IA staff of their responsibilities in this area.
 - Auditees complete a customer satisfaction questionnaire on completion of each audit assignment. Returned questionnaires show high level of satisfaction with audit staff in completing audit assignment. There is no evidence of compliance failures, or lack of due professional care of auditors in completion of their audit assignments. The Chief Internal Auditor confirmed that there have been no complaints made to him (or anyone else) regarding the conduct, competence or professionalism of internal audit staff.

- Internal Audit staff are bound to the Council's corporate Code of Conduct, which incorporates Code of Ethics. There is no evidence of breaches of the staff Code of Conduct or Code of Ethics. Individual auditors will raise any suspicions of fraud, corruption or improper conduct through the Council's established procedures.
 - Review of audit assignments indicated compliance with auditing standards on evidence and reporting.
- 86 One area where due professional care can be strengthened is in relation to quality reviews. The Cipfa Code states that the Head of Internal Audit should develop a programme of review to ensure that due professional care is achieved. This will principally be achieved through quality assurance methodologies. This is covered under Quality Assurance below.

Reporting

- 87 Audit reports are issued promptly and recommendations made are appropriately supported and documented. IA results and progress are regularly reported to the Audit and Risk Management Committee and the Chief Executive.
- 88 Our work reviewed a number of completed audit assignments which included a review of the reporting arrangements. Our review found that in general terms IA reporting followed good practice. Specifically:
- audit management reviewed and approved the reports before issue;
 - Internal Audit asked the recipients of their reports to comment on the contents and to confirm the agreed management actions before the final report is issued with reports agreed before finalisation;
 - reports were generally clear, concise, constructive and they were issued promptly following completion of the detailed work;
 - reports were circulated to appropriate officers, including Chief officers where required; and
 - final reports contained recommendations, where necessary, in the form of an agreed management action plan.
- 89 IA provide the Audit and Risk Management Committee and Chief Officers with regular updates on on-going and completed audit assignments in the form of quarterly progress reports and an annual report. The reports provide an effective summary of IA work in the period, with more detail provided for key risk areas. Members of the Committee are able to review and challenge action taken in respect of individual IA reports as they feel necessary in discharging their role. The CIA also produces the Council's Statement on Internal Control for consideration by Members.

Quality assurance

- 90** Quality assurance and quality control are a fundamental part of monitoring and ensuring appropriate standards are set and maintained. Our review found that there are adequate arrangements in place for the supervision and review of each piece of audit work. However there was a need to improve the evidencing and structuring of formal quality assurance processes by the CIA and Deputy CIA. The arrangements for documenting quality assurance have recently been improved and revised quality standards are detailed in the updated audit manual. IA recognises the need to further strengthen these arrangements to comply with the requirements of the new Cipfa Code. This will require formalising a quality assurance programme to include, for example, provision for carrying out internal quality reviews and reporting findings and learning through an action plan.
- 91** IA have recognised the need to strengthen the arrangements for monitoring and reporting performance measures for the section. Additional performance measures for 2007/08 have been agreed with the Deputy Director of Finance. These should be agreed with, and subsequently reported to, the Audit and Risk Management Committee.
- 92** The Cipfa Code requires The Head of Audit to develop a quality assurance programme designed to gain assurance by both internal and external review that the work of IA is compliant with Cipfa standards and achieves its objectives. This would involve the establishing and adhering to clear policies, procedures and performance standards to be contained within a local audit manual. The Code also expects the The Head of Audit to make provision for internal quality reviews to be undertaken periodically by experienced members of the Internal Audit function, with outcomes summarised in an action plan for improvement. Internal reviews would include appraisal of:
- the quality of audit work;
 - the quality of supervision;
 - compliance with set standards;
 - compliance with the local audit manual; and
 - achievement of performance standards/indicators.
- 93** Arrangements for supervision and review are in place and reasonable. Group and principal auditors are responsible for reviewing each piece of audit work and draft audit reports before they are issued to ensure compliance with agreed standards and processes. This function is documented and evidenced on each audit file. Performance measures and standards have recently been updated and are detailed in the revised IA manual.

- 94 At the time of our initial review, we found that the quality assurances process and methodologies were not adequately documented or evidenced. Independent quality assurance reviews were completed periodically by the CIA or Deputy CIA on a routine basis and the results were reported directly to group auditors. However, this process was not documented, properly evidenced, or the outcomes formally recorded. No central record was kept of the findings of quality assurance reviews or whether general or specific issues arising require the attention of individual auditors or the whole section. There was limited evidence that outcomes or identified weaknesses of internal quality assurance reviews resulted in training or development needs.
- 95 These concerns were raised with the CIA at the time of our detailed review. We understand that the CIA has recently introduced revised arrangements in respect of quality assurance. The IA section recognises the need to further strengthen these arrangements to comply with the requirements of the new Cipfa Code. This will require formalising and documenting a quality assurance programme to include, for example, provision for carrying out internal quality reviews.
- 96 The reporting to Members of performance management information for the IA section has to date been limited. The 2005/06 Annual report to Members only included the following performance measures;
- an estimate of days across audit review areas;
 - an indication of the number of audit reports and recommendations; and
 - a narrative summary of achievements and work completed.
- 97 The IA Section's Annual report to Finance DMT in April 2006 did include IA performance in respect of four established indicators. These were:
- completion of audit reports within 14 days;
 - 100 per cent of Customer Survey forms indicate a good opinion of the section;
 - satisfying the AC that IA are adequate, effective and efficient; and
 - the target of 90 per cent completion of planned 'productive' days in Annual Plan.
- 98 The enhanced arrangements for reporting IA activity to Members, through the establishment of the Audit and Risk Management Committee, provide the opportunity for improved reporting of IA performance.

- 99** The expectations being put on IA sections to report performance are increasing. The draft of the revised CIPFA Code proposes a new standard on 'performance and effectiveness'. This will require IA to have in place a performance management framework to demonstrate that it meets required standards, in that it is:
- meeting its aims and objectives;
 - compliant with the Code;
 - effective and efficient; and
 - continuously improving.
- 100** The requirements of the new Code emphasise the need for IA sections to develop meaningful performance measures and set challenging targets against which performance can be monitored. IA have recognised the need to strengthen the arrangements for monitoring and reporting performance measures for the section. In early 2007 IA have drafted proposals for a new set of additional performance measures, to be introduced in full from April 2007. The proposals include the following performance measures:
- percentage of Annual Plan achieved;
 - percentage of IA audits completed;
 - percentage of high risk systems audited during the year;
 - number of audit follow-up reviews completed as a percentage of audits undertaken;
 - percentage of systems audited (high risk/other) where the opinion provided is less than satisfactory; and
 - percentage of high/medium risk recommendations identified in reports.
- 101** The first four indicators will provide valuable additional measures to help review the performance of the IA section. The other two indicators will provide additional useful feedback on the conclusions of audit reviews; thereby contributing to the assessment of Council performance that will help inform the Council's Statement on Internal Control.
- 102** Further performance measures that the IA section may wish to consider include:
- the percentage of medium/high risk recommendations implemented; and
 - a measure reflecting performance in delivering reviews in line with planned resources.
- 103** The set of performance measures to be used to monitor IA should be agreed with the Audit Committee.

Recommendations

R11 Formalise a quality assurance programme, including provision for carrying out internal quality reviews, to comply with new CIPFA guidelines and standards.

R12 Agree the set of performance measures to be used to monitor IA with the Audit and Risk Management Committee.