

External Quality Assessment - Validation of Client's Self-Assessment of Conformance to the Public Sector Internal Audit Standards

Oldham Metropolitan Borough Council's Internal Audit Service

Final Report

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Self-Assessment Validation of Oldham Metropolitan Borough Council's Internal Audit Service – 4th and 5th September 2017

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). Public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, an external reviewer must undertake a full assessment or validate the service's own self-assessment at least once in a five year period.

2. Background

Oldham Metropolitan Borough Council's (OMBC) Internal Audit Service is based at the Civic Centre in Oldham and currently provides internal audit services to Oldham Metropolitan Borough Council and the Greater Manchester Waste Disposal Authority. The Internal Audit and Counter Fraud Service comprises twelve staff in total at various levels (including the Head of Governance) and includes four qualified accountants and three part qualified accountants or technicians. Included in the twelve are two experienced counter-fraud specialists, and three 'individual budget' auditors.

The Service has been operating under PSIAS for over four years, so this was deemed a good time for their first external review against the standards and the local government application note (LAGN) produced by CIPFA.

3 Validation Process

The self-assessment validation comprises a combination of desktop and actual on-site review and cannot reasonably consider all elements of the PSIAS and LGAN self-assessment in the time available. The desktop period of the review focussed on determining the strengths and weaknesses of the Internal Audit Service, and formed the key lines of enquiry used during the on-site stage, in order that the review itself is risk-based, timely and adds real value to the organisation. The key lines of enquiry assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

The Service provided a comprehensive range of documents that they used as evidence to support their self-assessment and these were available for examination prior to and during this validation review. These documents included:-

- the self-assessment against the standards and the LGAN;
- the QAIP;
- the audit charter and audit strategy;
- Head of Internal Audit's annual report and opinion;
- audit plan and covering report to the Audit committee;
- audit manual;
- reports to the Audit committee;
- individual audit reports and working papers; and
- staff training and development records.

The on-site stage of the validation process involved interviews with the head of internal audit, the audit team, and a sample of key stakeholders, together with a review of a sample of audit reports and working papers. A questionnaire was also sent to the key stakeholders and the results analysed during the review.

4. Conclusion and Opinion

The Council has a professional and well-respected internal audit service that is effective and follows best practice. The validation process has not revealed any areas of non-compliance, or any significant areas of partial non-compliance, with the standards that the Service has not already identified during their self-assessment and included in their quality assurance and improvement plan (QAIP).

The validation process identified some minor areas of partial conformance with the standards, together with some recommendations (R) and suggestions (S) to rectify these. The process also identified some opportunities for the Service to enhance its operations, and we have made some suggestions (S) for the Service to consider. These are all set out in the tables at section 5 of this report, and the action plan at Appendix 1.

On this basis it is our opinion that the self-assessment is a good reflection of Internal Audit's practices and its contribution to the organisation, and as such the Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the Local Government Application Note.

The co-operation of the Head of Governance, the Audit and Counter Fraud manager, the members of the internal audit team in providing all of the information asked for, and those stakeholders that made themselves available for interview, was much appreciated.

Ray Gard, CPFA, FCCA, FCIIA, DMS

5. Summary of observations, recommendations and suggestions

Standard	Compliance	Observations	Recommendations and Suggestions	No
Mission of Internal Audit	Partially Conforms	Minor Observation The audit charter sets out the role and purpose of the Internal Audit Service in three places but does not use the specific Mission Statement as set out in the Public Sector Internal Audit Standards (PSIAS).	Replace one of the 'role and purpose of internal audit statements' in the Audit Charter with the Mission Statement from the PSIAS at the next revision	R1
Core principles of internal audit	Generally Conforms			
Code of Ethics	Generally Conforms			
Attribute Standards				
1000 Purpose, authority and responsibility	Generally Conforms			
1100 Independence and objectivity	Generally Conforms			
1200 Proficiency and due professional care	Generally Conforms	Opportunity to Enhance Services There are opportunities for the Service to perform internal audits by expanding their use of computer assisted audit techniques (CAATs). At present this type of audit work is delivered	Evaluate the specialist data interrogation and analysis software applications that are available and obtain the one that best meets the	S1

Standard	Compliance	Observations	Recommendations and Suggestions	No
		through an arrangement with Salford City Council, however the Service now has the appropriate skills to carry out this work in-house but has yet to obtain a suitable interrogation application to use. Obtaining such an application would not only enable the service to test a greater number of transactions within specific systems but will also enable the Service to redirect auditors to work on audits that are better performed through manual processes.	needs of the Service.	
1300 Quality assurance and improvement programme	Generally Conforms			
Performance Standards				
2000 Managing the internal audit activity	Generally Conforms	<p>Minor Observations</p> <p>The audit charter does not specifically mention whether the Head of Governance believes he has sufficient resources to deliver an effective internal audit service to the Council.</p> <p>The Service does not have a strategic statement on internal audit setting out how the overall service and specific types of audits will be delivered. This can be a separate stand alone document, or the statement can be incorporated into another document such as the audit charter or, more commonly, the audit plan report where more detail can be provided</p>	<p>Add a statement to the audit charter to confirm whether the Service has sufficient resources to deliver an effective internal audit service to the Council.</p> <p>Expand the audit plan report to set out how the overall internal audit service and specific types of audits will be delivered.</p>	<p>R2</p> <p>S2</p>

Standard	Compliance	Observations	Recommendations and Suggestions	No
		on how the various types of audit will be delivered.		
2100 Nature of work	Generally Conforms	Minor Observation Although risk management and governance are covered in the various audits undertaken, the Service has not undertaken specific audits on the overall risk management processes or the processes for producing the annual governance statement. These should be incorporated into the audit plan with sufficient safeguards in place as both activities come under the responsibility of the Head of Governance	Include audits of the risk management and annual governance statement processes in future audit plans	R3
2200 Engagement planning	Generally Conforms			
2300 Performing the engagement	Generally Conforms	Opportunity to Enhance Services The Service's current electronic audit management system (AMS) is now past its useful life and cannot cope with the volume or complexity of the audits. Consequently, the Service has reverted to manual processes to overcome the shortcomings, which although effective is not enabling the Service to make best use of their auditor resources. Approval has recently been given for the Service to obtain a replacement AMS and they now need to press on with exploring and evaluating the products that are on the market, including ensuring that any application obtained will meet the long term needs of the	Evaluate the specialist computerised audit management systems that are available and obtain the one that best meets the current and future needs of the Service.	S3

Standard	Compliance	Observations	Recommendations and Suggestions	No
		Service.		
2400 Communicating the results	Generally Conforms	<p>Minor Observation</p> <p>The Head of Governance’s annual report includes narrative on the processes that have been used to inform the audit opinion which include effectiveness of the system of internal controls, the risk management, and the governance arrangements.</p> <p>However, the actual opinion in the annual report only refers to the system of internal control and does not mention risk management or governance. This needs to be expanded to include the risk management and governance arrangements.</p>	Expand the Head of Governance’s annual opinion to include the risk management and governance arrangements	R4
2500 Monitoring progress	Generally Conforms			
2600 Communicating the acceptance of risks	Generally Conforms			

Appendix 1: Action Plan

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Replace one of the 'role and purpose of internal audit statements' in the Audit Charter with the Mission Statement from the PSIAS at the next revision	Agreed – this will amendment will be made to the Internal Audit Charter and presented to the Council's Audit Committee for approval.	Head of Corporate Governance	30 th March 2018
R2	Add a statement to the audit charter to confirm whether the Service has sufficient resources to deliver an effective internal audit service to the Council.	Agreed – this will amendment will be made to the Internal Audit Charter and presented to the Council's Audit Committee for approval.	Head of Corporate Governance	30th March 2018
R3	Include audits of the risk management and annual governance statement processes in future audit plans.	Agreed – these will be fully considered during the preparation of the 2018/19 Audit and Counter Fraud Plan and suitable arrangements made to audit using a risk based approach.	Head of Corporate Governance	30 th March 2018 (plan approval). Audits to be delivered in accordance with agreed Plan.
R4	Expand the Head of Governance's annual opinion to include the risk management and governance arrangements.	Agreed – the 2017/19 Annual Opinion will set out the opinion for these criteria and will be presented to the Council's Audit Committee for approval.	Head of Corporate Governance	30th May 2018

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	Evaluate the specialist data interrogation and analysis software application that are available and obtain the one that best meets the needs of the Service.	Agreed. This will commence with an options appraisal for review by the Head of Corporate Governance; and it will ensure that any solutions are considered as part of the development of requirements for the implementation of the new Audit Management System	Audit and Counter Fraud Manager	24 th December 2017
S2	Expand the audit plan report to set out how the overall internal audit service and specific types of audits will be delivered.	Agreed. This will clearly set out in the 2018/19 Audit and Counter Fraud Plan.	Head of Corporate Governance	30 th May 2018
S3	Evaluate the specialist computerised audit management systems that are available and obtain the one that best meets the current and future needs of the Service.	Agreed. The IT Project Manager has been assigned to the project and technical requirements will be finalised by 30 th September 2017 for implementation by 1 st April 2018.	Audit and Counter Fraud Manager	31 st March 2018

Appendix 2: Interviewees and Questionnaires

Person	Position	Organisation
Interviewees		
Mark Stenson	Head of Governance	Oldham Metropolitan Borough Council
Jane Whyatt	Audit and Counter Fraud Manager	Oldham Metropolitan Borough Council
Anne Ryans	Director of Finance & S151 Officer	Oldham Metropolitan Borough Council
Ray Ward	Executive Director of Corporate and Commercial Services	Oldham Metropolitan Borough Council
Clr Javid Iqbar	Audit Committee Member and Past Chair	Oldham Metropolitan Borough Council
Audit Team Members	Assistance Managers, Senior Auditors, Auditors, Counter Fraud Investigator, IB Auditors	Oldham Metropolitan Borough Council
Cathy Butterworth	Assistant Director of People	Oldham Metropolitan Borough Council
Questionnaires		
Carolyn Wilkins	Chief Executive	Oldham Metropolitan Borough Council
Colin Brittain	Assistant Borough Solicitor	Oldham Metropolitan Borough Council
Mark Warren	Director of Adults	Oldham Metropolitan Borough Council
Neil Consterdine	Head of Service – Public Health and leisure	Oldham Metropolitan Borough Council