

Audit Summary Report

August 2007



Review of the Council's Internal Audit Function

City of York Council

Audit 2006/07

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.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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Introduction

- 1 Under the requirements of International Standard on Auditing (ISA) 610 ('Considering the work of Internal Audit'), we are required to review the Internal Audit function. Our review considers whether the Internal Audit function complies with its required standards, and we conclude from this assessment whether we can rely on the work of Internal Audit for our own audit responsibilities.
- 2 This report summarises the main findings and recommendations arising from our recent review.

Background

- 3 The Accounts and Audit Regulations (2003) require that the Council:
'Maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control'.
- 4 Proper practices are defined as the Code of Practice for Internal Audit in the UK (the Code) which was re-issued by CIPFA in December 2006. Under the Accounts and Audit Regulations (2003), the Council's Internal Audit function is therefore required to comply with the Code's requirements.
- 5 Under the Audit Commission's Code of Audit Practice, we are required to give an opinion on the Council's financial statements, which include the Statement of Internal Control (SIC).
- 6 The internal audit function plays a fundamental role in providing assurance to Members that the Council's system of internal control is operating effectively or where weaknesses in the system have been identified.
- 7 Our review has assessed compliance with the proper practice as set out in the Code, and recommends where improvements can be made.
- 8 For the purposes of our Code of Audit Practice audit, this review will:
 - establish whether we can rely on Internal Audit work as part of the 2006/07 audit; and
 - provide us with information that may be relevant in relation to the Use of Resources work.

Audit approach

- 9 Our audit approach included:
 - interviewing key officers;
 - reviewing relevant council documents and policies; and
 - reviewing samples of recent Internal Audit work.

Main conclusions

- 10 We conclude that the Internal Audit function has met the requirements of all eleven standards set out within the Code. Consequently our review has provided assurance that we can rely on work carried out by the Council's Internal Audit function.
- 11 Our work has identified some opportunities to enhance the existing working arrangements under the following standards.
 - Standard 3 - Ethics for Internal Auditors.
 - Standard 5 - Relationships.
 - Standard 7 - Audit strategy and planning.
- 12 More detail on potential improvements and examples of good practice is provided in the detailed findings below. A summary of compliance against each of the standards within the Code is provided at Appendix 1.
- 13 Since our last review of Internal Audit, in 2004, improvements have been made, particularly in terms of resourcing, the structure of the IA function and in planning the audit work. Our review concluded that the way recommendations are followed up demonstrates good practice.

Detailed findings

Standard 3 - Ethics for Internal Auditors

- 14 Standard 3 of the Code requires that auditors are reminded of their responsibilities in terms of ethical behaviour on a regular basis.
- 15 The Council's Internal Audit Manual provides guidance to auditors as to what their responsibilities are in terms of ethical behaviour. During 2006/07, Internal Audit carried out an assessment of each individual auditor's skills against the requirements of their role. This assessment found that all auditors had an adequate understanding of their ethical responsibilities.
- 16 The Standard requires formal reminders to be issued to staff about their ethical responsibilities. Internal Audit plan to incorporate the skills assessments into the biennial staff performance appraisals, and we encourage the Council to take this opportunity to formally remind auditors of their ethical responsibilities.
- 17 Standard 3 of the Code also requires that auditors treat sensitive information in a confidential manner. The Council's Internal Audit Manual provides guidance to auditors in terms of confidentiality which we conclude meets the requirements of the standard. The Council plans to introduce a requirement for all auditors to sign a confidentiality statement and we welcome this as a movement towards best practice.

Recommendations

R1 Incorporate formal reminders of auditors' ethical responsibilities into performance appraisals as planned.

R2 Deliver plans to require all auditors to sign confidentiality agreements.

Standard 5 - Relationships

- 18 Standard 5 of the Code requires that the Head of Internal Audit manages its relationships in terms of the following.
- How it will liaise with management, external audit and other regulators with whom they work.
 - The nature of each relationship.
 - The expectations and objectives of each party.
- 19 The Internal Audit terms of reference contain protocols describing the relationship between Internal Audit and management and this represents good practice in this area.
- 20 Officers report that working protocols are in place for liaison with the Audit Commission, North Yorkshire Police and the Department for Work and Pensions.

Recommendation

R3 Ensure that the working protocols are kept up to date.

Standard 7 - Audit strategy and planning

- 21 Standard 7 of the Code requires Internal Audit to produce an audit strategy which outlines the following.
- Internal Audit's objectives and proposed outcomes.
 - How evidence will be gathered to support the Head of Internal Audit's opinion on the Council's control environment.
 - How the service will be provided.
 - How Internal Audit's work will address local and national risks.
 - The resources and skills required in order to deliver the strategy.
- 22 We conclude that the requirements of the Standard are met through documentation in a number of documents: the audit and risk management service plan, the Internal Audit five-year strategic plan and annual plan, and the consultation paper submitted to the Audit Committee to support the strategic plan.

- 23 Although the Standard does not require all the above areas to be contained in a single document, it may improve the clarity and transparency of Internal Audit's strategic purpose, direction and approach, to incorporate a narrative section to the Strategic Plan. This could set out:
- the objectives and proposed outcomes;
 - how the work supports the Chief Internal Auditor's opinion on the Council's control environment;
 - how the service is provided;
 - the risk assessment process; and,
 - the resources and skills that are required to deliver the strategy.

Recommendation

R4 Enhance the existing strategy by including narrative information to set out Internal Audit's strategic purpose, direction and approach.

Standard 10 - Reporting

- 24 In our opinion the Internal Audit function fully meets the requirements of standard 10 in terms of its reporting, both to management, and Members.
- 25 The way in which previous audit recommendations are followed up is an example of good practice, and should ensure that recommendations have significant impact in terms of improving the control environment within specific service areas.

Appendix 1 – Requirements of the Code of Practice for Internal Audit (2006)

Standard	Summary of requirements within the Code	Have the requirements of the standard been met?
Standard 1 - scope of Internal Audit	Formally defined terms of reference for Internal Audit should be in place. The scope of Internal Audit should be defined and should extend to reviewing services provided by partners if required, and to the investigation of suspected fraud and corruption.	Full compliance with Standard 1 has been achieved.
Standard 2 - independence	Internal Audit should be independent of the activities that it audits. The Head of Internal Audit should have the ability to report to management and those charged with governance, about any matter that he sees fit. The status of the Head of Internal Audit within the Council should be such that he is able to influence audit plans, reports and action plans. Individual auditors should be impartial and unbiased.	Full compliance with Standard 2 has been achieved.
Standard 3 - ethics for internal auditors	Head of Internal Audit must regularly remind staff of their responsibilities in terms of maintaining integrity, objectivity, competence and confidentiality.	Full compliance with Standard 3 will be achieved with the adoption of signed Statements of Standards and Values.
Standard 4 - Audit Committee	An Audit Committee should be in place within the Council and there should be a close working relationship between that committee and the Internal Audit function.	Full compliance with Standard 4 has been achieved.
Standard 5 - relationships	Internal Audit must ensure that it manages its relationships with management, the Audit Commission and other regulators, to ensure that it achieves the most effective audit coverage.	Full compliance with Standard 5 has been achieved.
Standard 6 - staffing, training and CPD.	Internal Audit should be staffed with sufficient resources, both in terms of numbers and the skills available, in order to achieve the audit plan. Training needs and continuing development should be regularly reviewed.	Full compliance with Standard 6 has been achieved.
Standard 7 - audit strategy and planning	An Internal Audit strategy should be in place which communicates the contribution that Internal Audit will make to the Council. An audit plan to span no more than a year should be implemented which should outline the work to be undertaken.	Full compliance with Standard 7 has been achieved through information in relevant documents.

Standard	Summary of requirements within the Code	Have the requirements of the standard been met?
Standard 8 - Undertaking audit work	Head of Internal Audit should set out the requirements in terms of standards of documentation within the audit manual and should put in place arrangements to ensure that these standards are met.	Full compliance with Standard 8 has been achieved.
Standard 9 - due professional care	Head of Internal Audit should develop a monitoring and review programme to ensure that due professional care is achieved and maintained. Arrangements must also be in place for auditors to be able to report any suspicions of fraudulent or corrupt behaviour.	Full compliance with Standard 9 has been achieved.
Standard 10 - reporting	Head of Internal Audit should set reporting standards to be upheld within all reports issued by Internal Audit. Appropriate arrangements for following up on recommendations should be in place and an escalation procedure when agreed actions are not carried out also needs to be implemented.	Full compliance with Standard 10 has been achieved.
Standard 11 - performance, quality and effectiveness.	The Head of Internal Audit should establish policies and procedures in an audit manual to guide staff in performing their duties. The manual should be regularly reviewed and updated to reflect changes in working practices and standards. The Head of Internal Audit should ensure that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff.	Full compliance with Standard 11 has been achieved.

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Incorporate formal reminders of auditors' ethical responsibilities into performance appraisals as planned.	2	Assistant Director (Audit and Risk Management)	Yes	Internal Audit staff are being reminded of their ethical responsibilities as part of the current round of appraisals. All future appraisals will also include this requirement.	Ongoing
5	R2 Deliver plans to require all auditors to sign confidentiality agreements.	2	AD (Audit and Risk Management)	Yes	All staff will be required to sign a statement of standards and values. This statement will include a commitment to safeguard confidential information.	31 October 2007
6	R3 Ensure that the working protocols are kept up to date.	1	AD (Audit and Risk Management)	Yes	All protocols with external agencies will be reviewed and updated on an annual basis.	31 December 2007
7	R4 Enhance the existing strategy by including narrative information to set out Internal Audit's strategic purpose, direction and approach.	3	AD (Audit and Risk Management)	Yes	This will be done as part of the formal update of the strategic audit plan in the autumn, prior to it being reported to Audit and Governance Committee.	31 December 2007