



Internal Audit: How We Undertake a Planned Assignment

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We are INTERNAL Audit

- As part of the organisation we share the organisation's ambition to succeed and to be efficient, effective and economic, all in an equitable way.
- We want to deliver ASSURANCE about how well RISK is being CONTROLLED and to play a POSITIVE role in improving management of risk.
 - Not finding fault, catching out, picking on, telling tales, laying the blame, criticising, nit-picking.....



Public Sector Internal Audit Standards

- Standard 2200 Engagement Planning: Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.
- Standard 2300: Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.
- Standard 2400: Internal auditors must communicate the results of engagements.



Shared Internal Audit Arrangement

- Since April 2017, have an arrangement to share the Audit Manager with Fenland Council (As agreed by Audit Committee July 2016)
- Audit Plan shows slight reduction in available audit days, but also reduction in audit costs
- Still delivering sufficient audit work to support the annual opinion



Annual Planning

- Assurance Framework
 - Consistent analysis / risk assessment of the Council's systems / activities
 - Considers financial values, transaction volumes, complexity, regulatory issues, potential reputational impact and staffing issues.
- Provides the “toolkit” to propose an Annual Plan



Audit Manual

- Our own AUDIT MANUAL contains a section on “Procedures for Conducting Audit Work” which reflects the requirements of the Public Sector Internal Audit Standards.
- We use standardised documentation to record work in a consistent way.



Audit Files

Each planned assignment has an electronic and a paper file following a set structure

- 1 – Audit Terms of Reference
- 2 – Reports
- 3 – Time record
- 4 - Review Notes
- 5 – Correspondence
- 6 – System Description
- 7 – Finding / test Sheets
- 8 – Background Papers
- 9 – Risk Assessment
- 10 – Follow up



Planning for an assignment

- **Background research**
 - Previous audit work / any significant developments since last audit work?
 - Legislation / Regulations / good practice.
 - Management concerns / known issues.
- **Contact Sheet** – make sure we identify all the key people we need to know about to perform the audit
- **Terms of Reference** document (Executive Director sign off) and the **Scoping** document set out the specific matters over which we want to achieve assurance (Audit Objectives) and the boundaries of what will, and what will not, be covered by the audit.
- **Assignment Plan** document – sets out what activities we intend to undertake to achieve the audit objectives.



Ascertainment

- Understand and document how the system / process / activity takes place
 - Narrative descriptions
 - Flow diagrams
- How?
 - Interview staff
 - Read manuals / policies / operating procedures – anything that helps us understand what happens and how it happens
- Why?
 - Identify specific RISKS and the CONTROLS in place to mitigate them.
- Sometimes immediate FINDINGS emerge at this stage which are documented for carry through to the Audit Report



Testing

- Are identified controls actually being applied in practice?
 - Compliance
- Is the application of controls effective?
 - Substantive
- Test using suitable samples
 - Acquire evidence to form a conclusion (Would another qualified auditor come to the same conclusion based on this evidence?)
- Are controls the best controls for the purpose?
- Is there over / redundant control?
- Document our tests with sufficient supporting evidence



As we go along...

- Check our understanding with managers – ensure we have got it right.
- Keep management informed of emerging issues – “no surprises” when a draft report is issued.
 - Managers often respond immediately.
- Discuss with colleagues to test and check our own judgement



Concluding

- Assignment Plan also serves as a conclusion forming document.
- An assurance level is determined for each Audit Objective, in turn informing the assignment assurance level
- For a lot of generic systems (Eg – Council tax, Creditors, Debtors) CIPFA* produce Generic Control Matrices to assist and support documentation and evaluation of audit work.

* = Chartered Institute of Public Finance and Accountancy



Review

- Internal “Quality Assurance” is built in to the process
- Before a report is issued the complete file is reviewed, usually by the Audit Manager
 - Has the audit work covered the planned scope?
 - Are the conclusions supported by adequate and appropriate evidence?
 - Are there any “loose ends”?
- Review queries are documented and responded to by the auditor



Reporting

- Standard Internal Audit Report template
 - “Exception Reporting” principle
 - Sets out issues in consistent format
 - Observation / consequence / recommendation.
- Meet with management to discuss and agree report content (Draft Report).
- Management add in their response with detail of what will be done, by whom, and when.
- Report becomes Final and is issued to relevant Executive Director and Portfolio Holder.
- 2 weeks later a copy goes on “InSite” (in PDF format) and is copied to other stakeholders including the Chief Executive and External Audit .



Assurance

- The report offers assurance at overall level and at the level of each Audit Objective
 - **FULL:** “A sound system of internal control that is likely to achieve the system objectives and which is operating effectively in practice”.
 - **SUBSTANTIAL:** “A sound system of internal control but there are a few weaknesses that could put achievement of system objectives at risk”.
 - **LIMITED:** “ A system of internal control with a number of weaknesses likely to undermine achievement of system objectives and which is vulnerable to abuse or error”.
 - **NONE:** “A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error”.



Follow Up

- Follow up is normally six months after issue of the Final Report
 - Purpose is to assess whether progress with implementation of agreed actions is very good / good / adequate / poor / inadequate
- A formal Follow Up report is issued (and placed on InSite)
- Depending on the timescale of the action plan more than one follow up may be appropriate



The Internal Audit team

- Kathy Woodward: Shared Internal Audit Manager
- Gordon Adam: Auditor
- Jamie Hay: Investigations Officer/Auditor*
- Matthew Head: Auditor

* Has commenced professional training



Some Useful Links

- Internal Audit Reports on InSite:
http://insite.west-norfolk.gov.uk/service_areas/FinanceAndResources/internal_audit/default.aspx
- Public Sector Internal Audit Standards:
<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>
- Chartered Institute of Internal Auditors:
<https://www.iaa.org.uk/>

