



# CORPORATE RESOURCES INTERNAL AUDIT SECTION

## MEASURING THE EFFECTIVENESS OF INTERNAL AUDIT

**Open**  
We are open and honest about the difficult choices we face, and allow people to have their say on what's important to them and their communities

**Fair**  
We champion fairness, recognising that with less resource we need to prioritise services for those who need them most

**Together**  
We work with our communities and partners across the city to deliver the best outcomes for the people of Cardiff



## **Audit Committee**

### **Subject: Measuring the Effectiveness of Internal Audit**

#### **(Quality Assurance & Improvement)**

##### Background

In today's modern audit teams measuring performance to provide assurance around complying with standards and meeting statutory obligations, of having an "efficient and effective" audit service, is gaining impetus. With the Finance Service Review last year identifying an in-house delivery model as the best way to move forward, it is considered important that the IA team is able to demonstrate that it is performing at a high level and in compliance with professional standards.

The Accounts and Audit Regulation (Wales) 2015 now sets out for the first time a requirement for an annual assessment of the effectiveness of Internal Audit, recognising the importance that the audit function provides within the public sector, in the way it contributes to sound governance arrangements.

Joining the Core City group of councils this year has opened up a new networking opportunity and a means of sharing ideas and best practice with others of like size and make up. These contacts are already proving useful by way of assurance in what we do and providing some new ideas for us to consider.

In striving to be efficient, and to maximise service delivery in times of reducing resources, we have proactively embraced "lean thinking" and our processes have been repeatedly challenged and streamlined. We are seen to be leading on a number of initiatives to further promote and develop professional standards. That said, we need to continue to monitor how we provide the services we do and be flexible enough to adapt to increasing demands of our clients, changing risk profiles and the increasing pressures faced within the Council.

##### Issues

There are considered to be a number of different elements to how Internal Audit performance can be measured:

- Delivery against the Audit Plan
- Delivery against Annual Objectives
- Internal quality assurance reviews
- Extent to which audit recommendations are agreed and implemented
- Director meetings and audit assurance questionnaires
- PSIAS – self assessment
- IIA – "What Every Director Should Know" self-assessment
- Audit Committee view as part of Audit Committee Self-Assessment
- Benchmarking
- External Assessment
- WAO Opinion on IA and overall financial control opinion
- Management Performance Review

##### Issues

This report aims to set out progress in each of these areas and any initiatives undertaken to demonstrate how audit performance has been measured. These tend to be either a form of self-assessment including built in control / quality assurance mechanism, various ways of gathering information from feedback from our key stakeholders or through comparisons with others providing services similar to ours. The reported position is at the half year ending September 2015.

### ➤ *Delivery against the Audit Plan*

Prior to the commencement of each year an Audit Strategy is prepared, a key element of which sets out the planned audit coverage for the financial year ahead. This is produced based on a number of factors identified within the Strategy and forms a risk based Annual Audit Plan. It is important to note that this is a position statement prepared at a point in time, looking ahead with senior managers at what they perceive are the main risks and challenges they face over coming months. These risks and challenges change and it is important that Internal Audit has the flexibility to react to this, to target emerging issues to best effect. That said a way of measuring what Audit has done over a period of time is by comparing planned and actual work and understanding where the differences have occurred. Audit management are continually assessing the changing risk profile, through their general knowledge and experience of Council business, their findings from the work they undertake and meetings they attend, and awareness of emerging issues, which may result in reprioritising their Plan. The Audit & Risk Manager reports quarterly on audits undertaken and reports issued and a range of other work undertaken, so the Head of Finance, the Section 151 Officer and Audit Committee members have oversight of what audit coverage has been. As the year progresses audits unlikely to be undertaken in the current year are identified and reported, based on an assessment of what other work is considered to merit prioritisation.

The % Plan achieved is used as a measure of audit performance in benchmarking exercises but it is difficult to comment on figures, without an understanding of the changing risk profile of the Individual authority. Figures for 2014/15 showed we achieved 71% of our Plan compared to a Welsh average of 83% but Cardiff has been undergoing significant changes over recent years, which has very much influenced where audit attention has been considered to be best placed, given the reducing resources we have available.

Work currently ongoing on assurance mapping should help support our Audit Plan going forward and help with how we best utilise the resources we have available.

### ➤ *Delivery against Annual Objectives*

Each year when developing our Strategy we undertake a SWOT analysis which helps set out our key objectives and Delivery (Business) Plan for the year ahead. This considers how the Audit teams contribute to the overall objectives as set out in the Corporate Plan. This Business Plan sets out the objectives for the Section as a whole and how we intend to measure performance against each. This then sets the scene for all officers within Audit for their team and individual performance objectives / targets providing a “golden thread” to the corporate objectives that have been set. These objectives are regularly monitored through the PPD review process, allowing every team member the opportunity to meet with their Line Manager and discuss their performance and training needs.

Despite the many pressures over the past six months it is considered Audit is on track to deliver the objectives as set out and this is evidenced through regular reporting and updating of our Delivery Plan and Service review plans, to the Section 151 Officer and more recently the Head of Finance. This will continue to be our focus for the remainder of the year in order to ensure high standards of service delivery are maintained.

### ➤ *Internal quality assurance reviews*

Prior to reports being issued to senior managers, a Senior Auditor undertakes a quality assurance review to ensure professional standards are maintained. One change in recent months has been to introduce a “light touch” review, where audits have resulted in a “good” or “satisfactory” audit opinion and there are no significant concerns arising from the audit. This helps auditors take ownership of their assignments and they have to meet and sign off with their findings with clients. There is ongoing engagement with a Senior Auditor throughout

every audit and for any limited or no assurance opinion a full quality assurance review is undertaken before reports are prepared and issued.

A post audit assessment is also completed for every audit where an auditor and a Reviewer / Manager will score performance against a set of behavioural and technical competencies. This informs development and training plans. A sample of the Post Audit Assessment and Audit Client Feedback Form is shown at Appendix A.

Every month each auditor has an assignment portfolio review to discuss work done, matters arising, performance issues and priorities for the coming weeks.

A skills gap exercise has also been undertaken over the summer, based on a Competencies framework recommended by CIPFA and the outcomes are to be considered as part of half year development reviews.

➤ *Extent to which audit recommendations are agreed and implemented*

Another measure of client feedback is through analysing the level of agreement to audit recommendations proposed at the conclusion of an audit. This is used as an indicator that the auditor has grasped a good understanding of the risks and issues arising from the audit and identified some meaningful recommendations for managers to consider to enhance control.

Implementation of recommendations is reviewed as part of Director's meetings.

Figures are encouraging with over 99% of recommendations agreed (100% for red risks) and an improvement has been noted in a reduction in "open audits / actions" over recent months.

More details are available in progress reports (See Half year report).

➤ *Director meetings, audit assurance questionnaires and Director survey*

Meetings are held at least every three months with each Director. A member of the Audit management team is assigned a directorate and meets with the Director and is often invited to his/her management team, to discuss audit matters. This is proving mutually beneficial and allows an opportunity to review how audit is delivering its role in adding value. It also provides audit with really valuable insight of the risks and issues within the directorate and puts audit in a prime position to be able to influence risks as they arise.

Following each audit a Principal / Senior Auditor contacts the appropriate Line Manager and a quality assurance questionnaire is completed. This seeks the views of the auditee on a range of matters and details are regularly reported as a key indicator. Current results are encouraging at 99% satisfaction and more detail can be found in the Half Year progress report (reporting to Audit Committee in November).

To supplement this ongoing dialogue and feedback and recognising the key role of Directors in terms of the Internal Audit delivering a professional service, they have been asked to complete a questionnaire. This sought views on the level of engagement, the protocol for undertaking and reporting and a general view on the IA service.

The main messages from the returned questionnaires are encouraging as Directors responded very positively in all areas. It is considered that the participative approaches we adopt in undertaking our role is welcomed and Directors feel engagement is very good. The professionalism of the audit team was recognised by all and all felt confident in being able to approach the team for advice and guidance. The response to one or two questions will be explored with Directors to see if Audit can do more in adding value in support of their responsibility for financial control.

➤ *Public Sector Internal Audit Standard – self Assessment*

The standard provides a detailed self-assessment document which is aimed to measure compliance with its key principles and it is recommended that Heads of Audit complete this. Wales Audit Office refers to this in forming a view on the work of IA.

The self-assessment exercise has been undertaken and currently information is being gathered to support the scores assigned. The outcome provides a high level of assurance regards compliance with the standard. The document will be reviewed in the autumn and consideration will be given to this being incorporated and reported within the Audit Strategy later in the year. Further information on this is available from the Audit & Risk Manager.

➤ *Chartered Institute of Internal Auditor document – “What Every Director Should Know”*

In April this year the CIIA produced a document entitled “What Every Director should know” which set out “ten ways to get the most from Internal Audit.” This guide is aimed at Audit Committee members considered to be Directors, in terms of their role on the Audit Committee.

This guide has been studied and the ten recommended audit committee practices for effective internal audit oversight have been extracted and a matrix produced which sets out to identify evidence to support where these practices are in place. This has provided a high level of assurance but some recommendations merit further consideration.

The guide is to be saved on the Audit Committee SharePoint reference site, and the Audit & Risk Manager intends to discuss with the Chair how best to present the information to members.

➤ *Audit Committee view – part of Audit Committee Annual Assessment*

A section of the Audit Committee self-assessment is devoted to Internal Audit and when this is considered it reflects on what service IA provide to Committee. In its role it is vitally important that the Committee receives timely and informative information from a number of sources and IA play a key role in doing so. The views of Audit Committee members are therefore very important and welcomed.

The Committee self-assessment exercises undertaken to date have always provided 100% assurance of satisfaction around the service they receive from the Audit & Risk Manager and his team. Evidence of this is shown on the completed assessment documents.

➤ *External Assessment*

The PSIAS sets out that every Audit Section is subject to an external assessment at least once every five years. This assessment must be carried out by a professionally qualified and experienced internal auditor. In Cardiff we need to arrange and undergo an assessment over the next 2 ½ years. The approach to be used is one of self-assessment and then an external evaluation and report. Much of the work as outlined in this document is building up momentum in anticipation of this assessment.

The Audit & Risk Manager is leading on an exercise across Wales to establish a peer review group whereby the assessors will be selected from within the group. This is being done to protect independence and guard against any conflicts of interest concerns and this approach will save significant costs, considered to be in the region of around £12,000 (what some are paying for external assessment by private companies.)

The outcomes of any external assessment would be shared with the Section 151 Officer, Head of Finance and the Audit Committee Chair as potential sponsors for the exercise.

### ➤ *Benchmarking*

Benchmarking provides valuable comparative data to inform how a service is delivered. Clearly there are risks of not comparing like with like and uncertainty over the accuracy of data submitted by others, but data comparatives can be helpful in providing assurances and also to highlight potential areas for further consideration, seeking improvement.

For many years Cardiff has been a member of two benchmarking clubs, namely the Welsh Chief Auditor Benchmarking group and the CIPFA Benchmarking Group. Both provide different information and the CIPFA annual exercise allows each authority to select up to 18 authorities to compare with as well as across the group as a whole.

Comparisons focus primarily on service delivery, performance, quality and cost and the CIPFA exercise also provides information on audit coverage, particularly useful for planning and a “scrap book” which captures examples of good practice in a number of areas. This good practice is used to inform the Audit opportunity log.

Attached at Appendix B are graphics reporting on some key indicators from both exercises for the 2014/15 year. For the CIPFA exercise the information provided relates to the comparison with our selected group of authorities, considered to be a more meaningful comparison. More information on the wider UK CIPFA exercise is available from the Audit & Risk Manager (Graphs being similar for almost all indicators to the selected group.) Also included is some useful indicators relating to the Audit Committee.

Joining the UK Core Cities Group recently has opened up further opportunities for comparing our performance with others and some initial work has begun on this. This is considered a real benefit as comparison with core cities, many similar in size and make up to Cardiff, will be invaluable.

### ➤ *WAO Opinion on IA and overall financial control opinion*

WAO work closely with IA to avoid overlap or duplication of efforts and undertake some review of audit work and will consider the self-assessment exercise undertaken each year around compliance with the PSIAS. Overall WAO have provided a positive opinion of IA performance and have not raised any significant issues around compliance with standards in the past.

### ➤ *Management Performance Review*

Management within Internal Audit prepare a set of SMART objectives based on delivering the Section’s Business Plan. The PPD review process requires managers to measure and report on their achievement against the Business Plan every 6 and 12 months. This involves a rigorous challenge by their direct manager, and sign off by a senior manager within the directorate. The performance of managers often reflects that of the team that they oversee, so challenging manager’s achievements does provide a view on performance overall. The Audit & Risk Manager completes his 6 and 12 monthly reviews, which is signed off by the Head of Finance/Section 151 Officer, and is countersigned by the Section 151 Officer/Chief Executive. It is considered this provides a meaningful review of performance for all teams within Audit.

## **Summary**

The monitoring and measurement of audit performance is becoming increasingly important, in order to be able to demonstrate high and consistent standards of performance and compliance

with professional standards, crucially important in fulfilling statutory Section 151 obligations i.e. to provide an efficient and effective audit service. It is also important to be able to show best practice and it acts as a catalyst for innovation and change.

The work of Internal Audit has traditionally been subject to a high level of scrutiny, and this has necessitated a rigorous means of measuring work and performance. This can impact on productive time available and it is important a balance is struck between undertaking productive work and the time taken on monitoring and reporting on service delivery and performance.

Much of the work in pulling together the above and identifying the different elements of our Quality Assurance & Improvement programme should stand Cardiff in good stead when an “external “assessment is undertaken and provides Senior Managers, such as the Head of Finance and Corporate Director Resources, and Audit Committee members, with the assurance their roles require. We will continue to proactively monitor the areas as set out and also look at other means of capturing information which may serve to help us to develop and improve the way in which we provide the services across the Section.

**Audit & Risk Manager**  
**October 2015**

## POST- AUDIT ASSESSMENT (PAA)

This assessment should be completed and discussed with the Reviewing Manager following the issue of the final report. A copy of the completed document should be forwarded to the Audit Manager once completed.

<b>Audit Subject:</b>	<b>Audit Opinion:</b>	<b>Auditor(s):</b>	<b>Reviewer:</b>
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<b>Completion Date of PAA Form:</b>	<b>Start Date (as per the TOR):</b>
<b>Date draft report / action plan to reviewer:</b>	<b>Finish Date (Final Report):</b>
<b>Original Planned Days:</b>	<b>Actual Days:</b>
<b>Original Planned Cost (£):</b>	<b>Actual Cost (£):</b>

*N.B. If any time reassessments were completed, please attach to the bottom of this form*

**Assessment Section**

*Key – 1= Outstanding, 2= Effective, 3= Developing, 4= Ineffective*

The comments column should include any relevant comments to support your assessment.

	<b>Auditor</b>	<b>Manager</b>	<b>Comments</b>
1. Scoping & TOR – The scope was clearly defined at the outset of the audit with clear objectives identified.			
2. Methodology & Testing – A professional approach was taken to the audit, with key risks & controls identified and included within a test matrix. Adequate sampling & testing was undertaken & results analysed appropriately.			
3. Report Writing – a good quality, accurate and concise report / action plan was produced			
4. Communication – appropriate dialogue was held with the Line Manager & Client throughout the audit.			
6. Time Management – good time management was demonstrated by delivery of a good quality audit on time.			
7. Value for Money - the audit contributed to achieving greater efficiency or value for money.			
8. Documentation – all reports and supporting working papers were scanned, well organised, referenced and filed appropriately.			
9. Client Satisfaction – the client was communicated with appropriately throughout the audit and found the audit and the recommendations / advice offered helpful & constructive			

Auditor Comments:	Date:
General Comments (Reviewing Manager) – to include any identified development needs:	Date:
General Comments (Audit & Risk Manager):	Date:



## AUDIT CLIENT FEEDBACK FORM

Upon completion of the above PAA, the Reviewing Manager should contact the client by phone to discuss the auditor's performance. Below is a template for this discussion.

<b>Audit Title:</b>	<b>Auditor:</b>
<b>Reviewing Manager:</b>	<b>Date of Contact:</b>
<b>Manager Contacted:</b> (Name & Grade)	

**1. How well did the Auditor communicate with you throughout the Audit?**

Excellent                  Good                  Satisfactory                  Unsatisfactory

**2. How helpful & constructive did you find the advice offered to you during, and at the conclusion of, the audit?**

Excellent                  Good                  Satisfactory                  Unsatisfactory

**3. How useful did you find the Audit Report / Action Plan? (Accuracy, Management Value & Promptness)**

Excellent                  Good                  Satisfactory                  Unsatisfactory

**4. How acceptable was the overall performance of the Auditor(s)?**

Excellent                  Good                  Satisfactory                  Unsatisfactory

**5. Do you feel the audit offered "added value"?**

Yes                  No

**6. Do you have any other comments regarding the Auditor or Internal Audit overall?**

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**7. Can you suggest any ways in which the Audit Service could be improved, or areas you consider would benefit from future audit reviews?**

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**ANY COMMENTS OR CONCERNS RAISED BY THE CLIENT SHOULD BE RESPONDED TO WITHIN 10 WORKING DAYS**

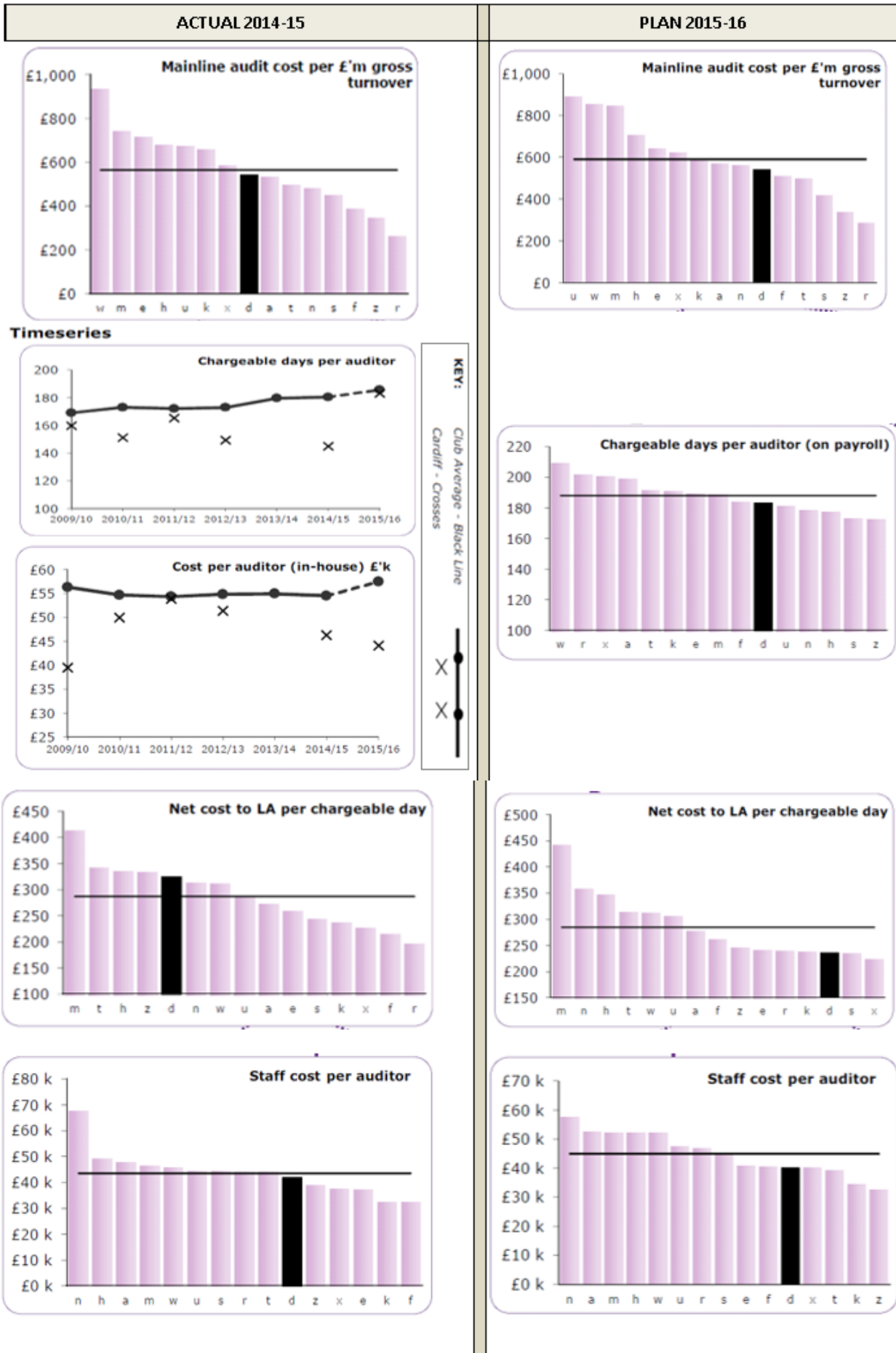
**Date Responded to Client Feedback** (where applicable):

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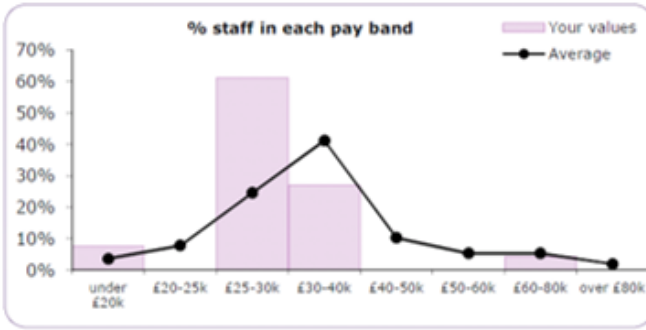
**Name of Auditor who Responded** (where applicable):

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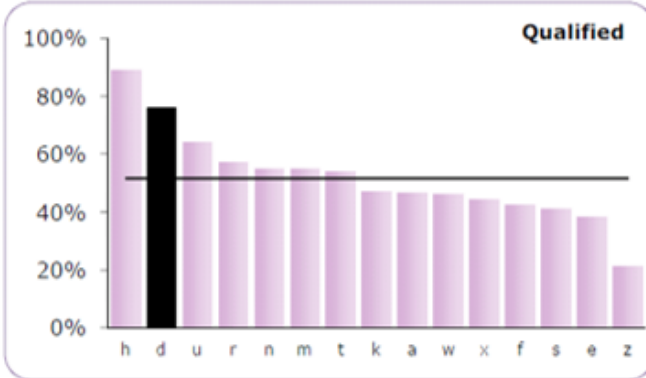
CIPFA AUDIT BENCHMARKING CLUB 2015 - Comparator Report



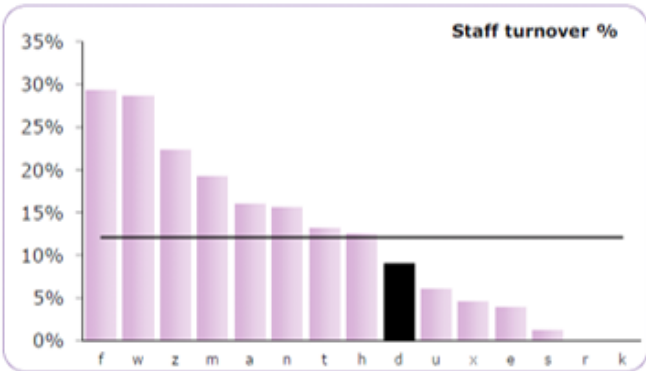
Staff Salary Bandings as at 31.03.15



Audit Qualifications as at 31.03.15

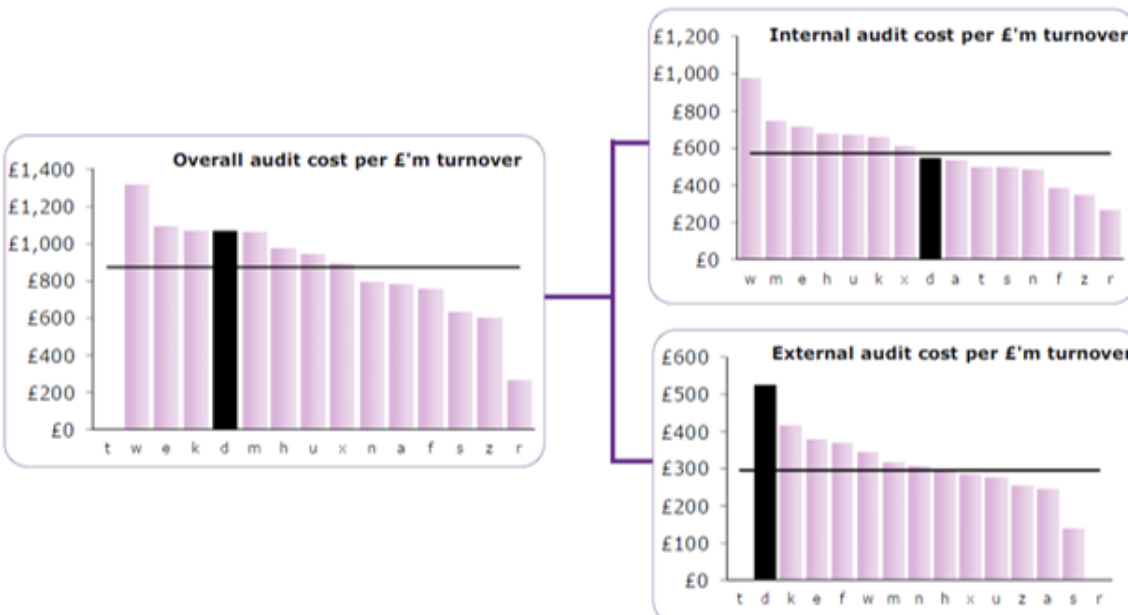


Audit Staff Level Changes



OVERALL AUDIT COSTS

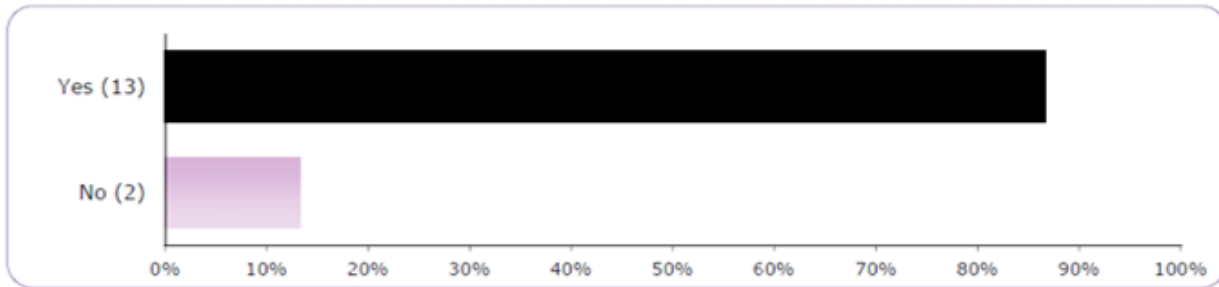
Internal and External 2014-15 Actuals



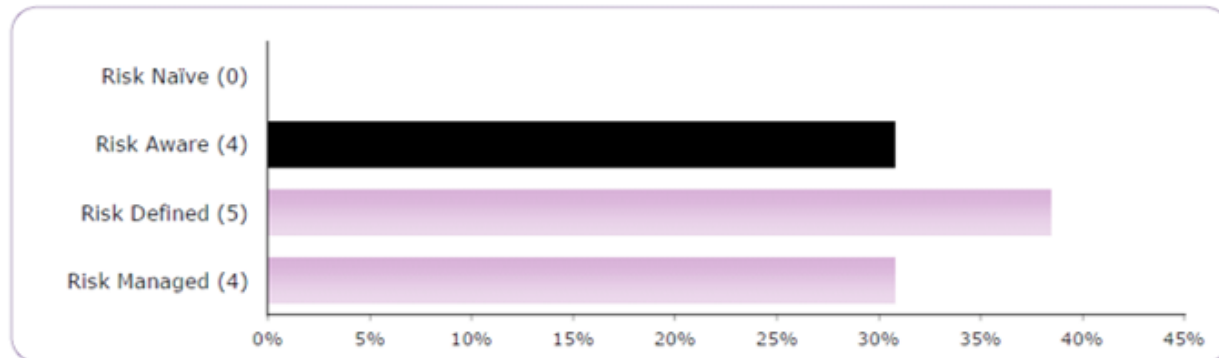
## CORPORATE GOVERNANCE

### THE COUNCIL

Has risk maturity been assessed?

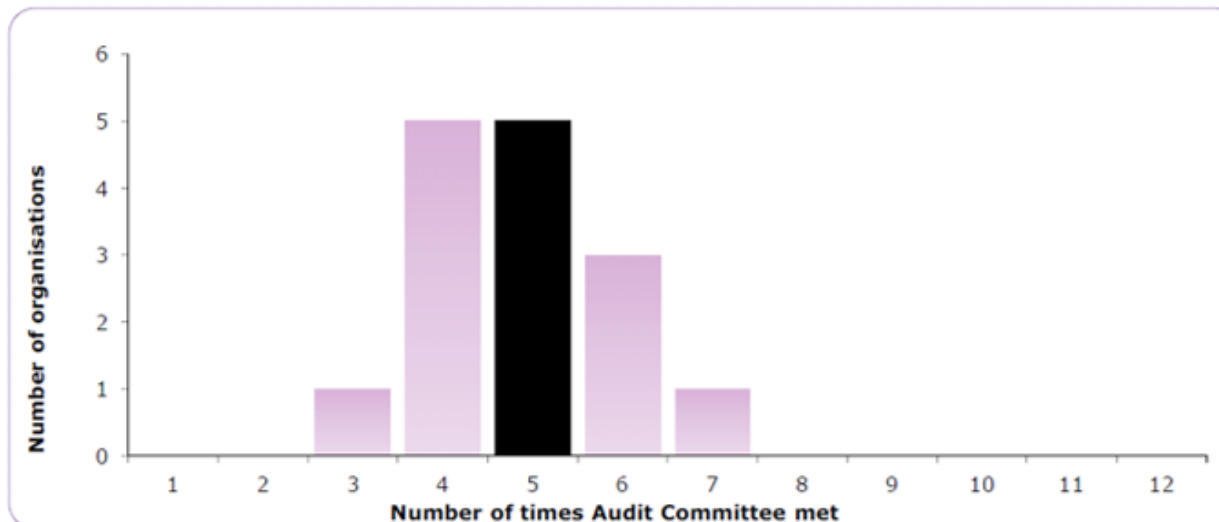


If so, what was the outcome?

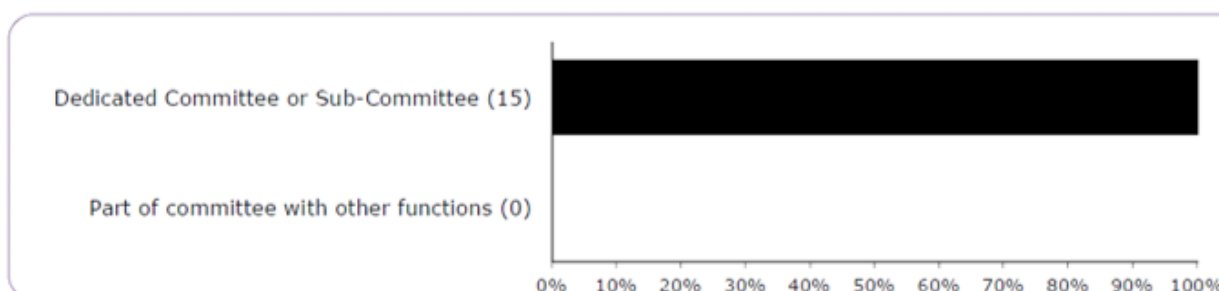


### REPORTING TO MEMBERS

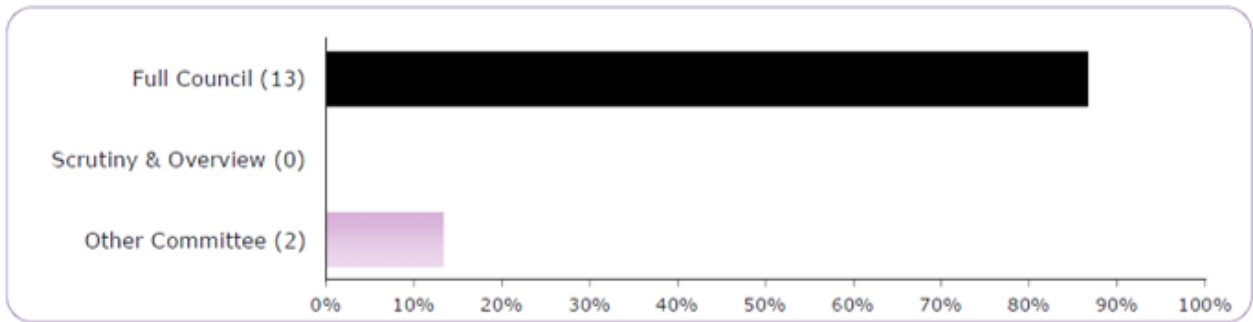
How many times did the Audit Committee meet in 2014/15?



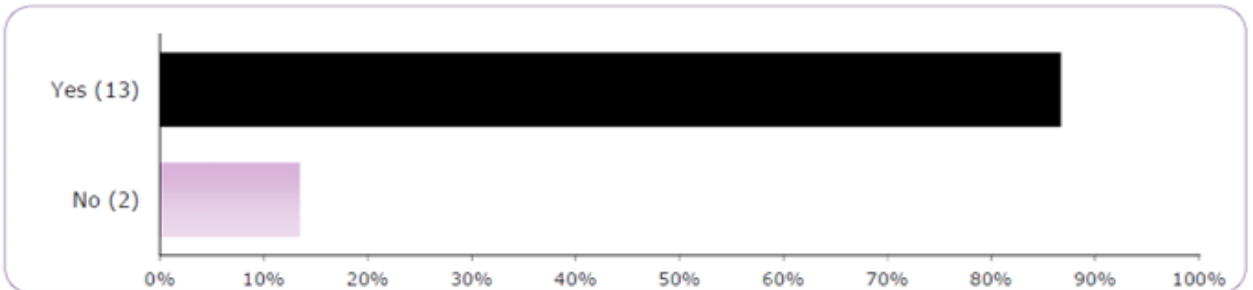
How is your Audit Committee constituted?



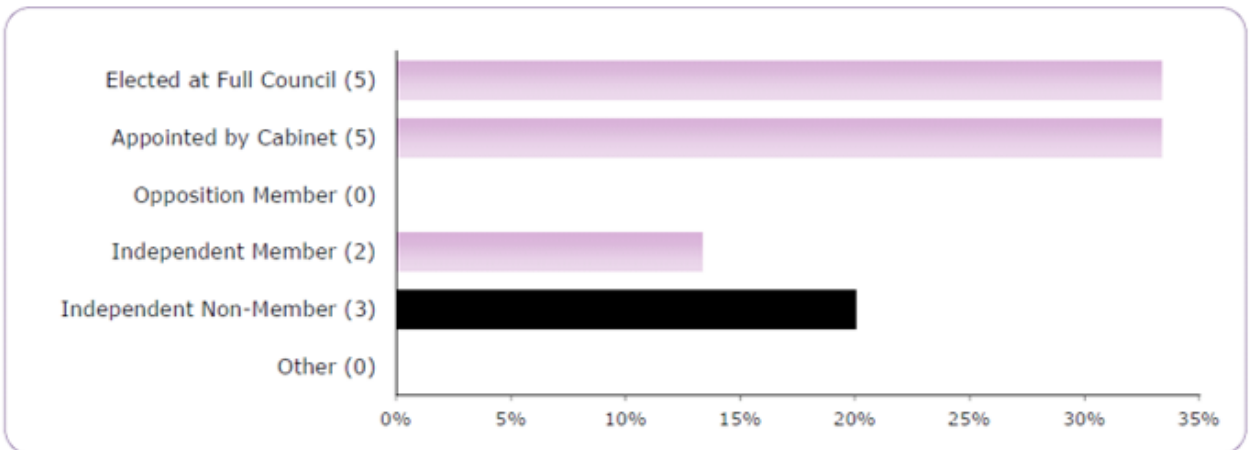
**Where does this body report to?**



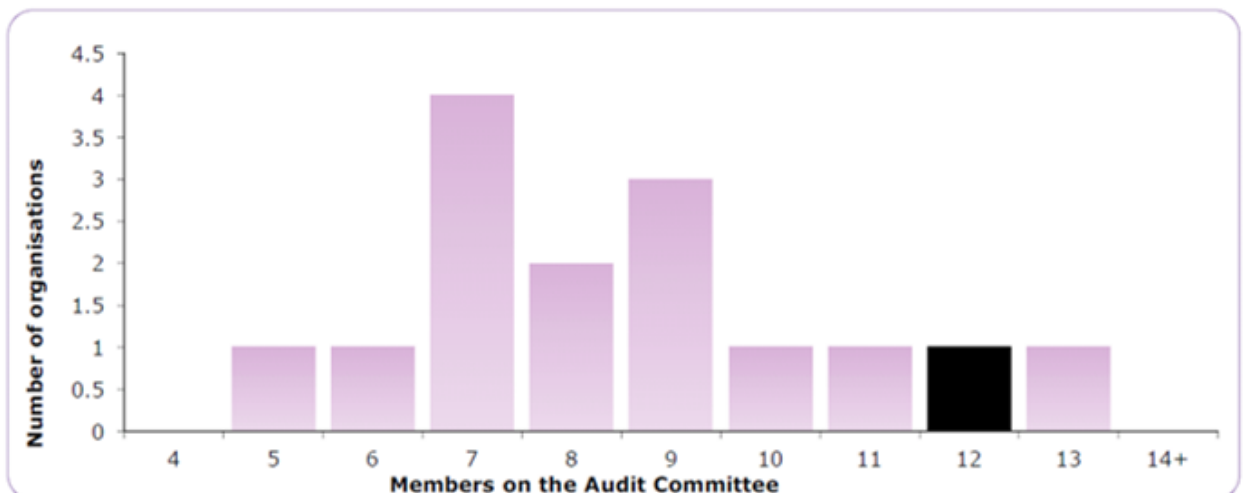
**Is your Audit Committee politically balanced?**



**How is the chairperson selected?**



**How many members are on the Audit Committee?**



## WELSH CHIEF AUDITOR'S GROUP – BENCHMARKING CLUB 2014-15

