

An Internal Audit View

Welcome to the sixth edition of 'An Internal Audit View'.

In this bulletin we focus on change and how internal audit should be well positioned to support management through the change process. An important part of that will be the development of the annual audit plan. Next year's audit plans are now being prepared so early engagement is therefore recommended. Please contact your Head of Audit to discuss your priorities.

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The Role of Audit in Transformation

We are currently in an era where Local Government views the transformation of service delivery methods as a necessity rather than an aspiration. Here, traditionally cautious approaches to change are moving towards being replaced by a more pragmatic and proportionate approach to risk and control.

Whilst management of risk is clearly the responsibility of the Senior Officers within an Authority, Internal Audit will still be seen as key 'endorsers' of new approaches, methods, processes etc. There are also expectations that they themselves will be able to suggest innovative ways of working or applying controls.



One of the strengths of the Internal Audit profession is the peer support available through a variety of collaborative mechanisms such as network group meetings, online forums etc. 'Audit Together' itself is an excellent example of similar organisations working with each other to share good practice and help in problem solving; an approach that allows Internal Audit to bring the experiences of multiple organisations to bear when it is providing advice on governance and controls in new projects.

With risk appetites naturally varying across organisations, this collaborative approach gives Internal Audit a tremendous advantage when they input to projects: challenging established ways of thinking; and being able to evidence the successes brought about by alternative approaches being adopted elsewhere.

The types of activity that Internal Audit is typically involved with will include:

- Providing a 'critical friend' challenge during business case development;
- Working alongside services as projects are developed to offer practical solutions that ensure effective governance is not compromised; and
- Post-project reviews to ensure that the expected benefits have been realised and that the intended outcomes are being delivered.

With the financial pressures on Local Authorities meaning that many of the innovation 'quick wins' have already been exploited, there is a tangible desire to learn from early adopters who have already taken the more difficult decisions and moved out of their comfort zones. With its network of experience enhanced by a professional openness, Internal Audit is moving towards a position where it is, in effect, a repository of new ideas and solutions.

If you are involved in establishing new ways of working and are not currently working with Internal Audit you may be missing out on a huge amount of valuable experience and input, not only from the team themselves but from organisations all across the globe.

Project Management – lessons to learn

Recent financial problems at Bristol City Council are a helpful reminder of what can go wrong with projects and why it is important to establish effective governance arrangements from the outset to ensure they deliver against their objectives.

Similar problems with major change management and savings projects have been experienced elsewhere in the public sector with many of the same issues being reported.

Background

Bristol City Council identified the need to deliver savings of £112m over a three year period ending in March 2017. The largest element of the planned savings was a Single Change Programme which was expected to achieve savings of £64m. By September 2016 it was clear that the council was not going to deliver these savings and it was instead facing a budget deficit of £29.1m. The council subsequently appointed Steve Bundred to undertake an independent review to identify the causes and to make recommendations to improve financial management, reporting and accountability. Steve Bundred is a former chief executive of the Audit Commission. His report to the council's mayor was published in February 2017.

Lessons to learn

Steve Bundred's report criticised project management and leadership within Bristol City Council at the time. However, the issues and challenges he highlighted are likely to be relevant to any other major transformation or change programme in the public sector. His findings and recommendations therefore represent a helpful checklist for managers and leadership teams embarking on such projects.

The problems with the failed Single Change Programme included:

- The business case was inadequate and appeared to have been written some months after the project started
- The corporate finance team were not adequately represented on the project and the financial information reported to the Change Board could not be relied upon
- There was no independent review of claimed savings built into the project governance arrangements

- The project objectives were not properly identified and understood. The Change Programme therefore focused on organisational development rather than the achievement of savings.
- Individual business plans for elements of the overall programme often lacked sufficient detail and analysis.
- Where expenditure was being incurred on savings initiatives the related implementation plans lacked substance or were not prepared. There was also no prioritisation of funding for these savings initiatives.
- Reports to elected members were often difficult to follow and lacked sufficient information to enable progress and risks to be properly understood. The reports were also often over-optimistic.
- Officers failed to recognise the implications of delays in the delivery of the Change Programme and consistently underestimated the complexity of delivering savings initiatives. Where risks materialised no attempt was made to revisit the original business case.
- The risks of double counting budget savings were not immediately recognised.
- At no stage did the council's corporate risk register adequately reflect either the possible impact or likelihood that the expected budget savings would not be delivered.
- Remedial actions (to help mitigate the increasing budget pressures) were unplanned and mostly panic measures

Other problems included reluctance by managers to report bad news and weaknesses in basic administration and records management.

A copy of Steve Bundred's full report is available by following the link:

<https://www.bristol.gov.uk/council-spending-performance/an-independent-report-on-our-financial-deficit-in-2016/17>



What keeps you awake at night?

It will soon be that time of year again when your internal audit teams will be making contact with you to discuss next year's audit plan. Whilst, in the scheme of things, these meetings may not feel like your highest priority, don't underestimate the importance of these discussions and the ultimate value they will bring you and your organisation.



All local authorities continue to face significant financial pressures coupled with a rapidly changing risk landscape and, in such times, the importance of identifying, understanding and gaining assurance over the most significant of your risks cannot be taken too lightly. There are a range of sources of assurance available for stakeholders and these are exploited to varying degrees by local authorities. One of the most valuable of these is your internal audit function.

However, in order to really maximise this value, the focus of internal audit activities needs to be right and this is very much dictated by the annual audit plan. In developing the plan, your internal audit team will draw on a wide range of information sources, including those shown above. Whilst all of these are important and help to build a fuller picture, it is the views of stakeholders that are most crucial to ensuring that internal audit activity is directed toward the key areas of risk and delivers greatest benefit to your organisation.

Ultimately, internal audit work is driven by risk and auditors recognise that no-one understands their services and associated risks better than management. This is why your contributions are so important and why, in the long run, this collaborative approach could end up helping you sleep just that little bit easier at night!

Is your Internal Audit Service in the 21st Century?

Richard Chambers, President and CEO of the Institute of Internal Auditors, recently spoke of the need for auditors to be progressive, and not, as he described them 'Jurassic' Auditors. This was nothing to do with the age of the auditor but rather a question on whether they are progressive in their thinking. Referring to the Jurassic period, Richard made the point that the vast majority of species from that period were now extinct because they were unable to adapt. It is a challenge for all of us to make sure we are current and relevant.

Richard highlighted 7 traits that could identify a 'Jurassic' Auditor, as follows:

- Obsesses the past
- Builds plans based on cycles rather than risks
- Develops an annual plan and sticks to it come what may!
- Avoids using technology
- Avoids auditing technology
- Enjoys writing about findings more than recommendations
- Still calls clients "auditees"



Yes, we can learn from the past, but Internal Audit's focus must be on the present and the future; looking out to the horizon and anticipating new and emerging risks. Many organisations are going through unprecedented change. Of course, change should be a positive thing, but change is now becoming essential to survival.

How can your audit teams help? Well, to start with, your audit plan must be focussed on the right risks. It must be focussed on the present and future, and not redoing what has always been done. The plan should effectively utilise limited resource by ensuring that collective assurance is optimised.

As a profession we need to ensure that we do not hide behind the cloak of 'independence' – we must, when the time is right, roll up our sleeves and position ourselves as your Trusted Advisors, adding real value to your organisation.

Are you getting the best from your internal audit service? If you're in doubt, please feel free to speak to any of our key contacts listed at the end of this bulletin.

Agile Auditing

This article describes the innovative approach now being taken by the Central Midlands Audit Partnership (CMAP) to planning and delivering audits.

The Approach

The increasing pressures placed on Public Services to deliver 'more with less' provides a significant challenge to our organisations and the necessity to deliver services differently presents new and emerging risks for Internal Audit to respond to.

Modifying the agile principles, originally conceived for software development, is seen to be a means of providing our stakeholders with a more reactive internal audit service that is adding significant value to their organisations by way of faster and improved results.

The agile principles need to be applied to both Audit Planning and Audit Execution. The agile Audit Plan would ideally cover a shorter timeframe and have greater flexibility than the traditional annual plan. Both planning methods should use a risk based approach, but a quarterly plan taking into account the outcomes from audit work and any emerging risks identified by the organisation, allows audit resources to be prioritised to the areas of greatest need. Getting our organisations and Audit Committees to embrace a different approach to Audit Planning is a concept that we will have to promote. A change in our stakeholders' expectations of internal audit from 'delivering an Audit Plan' to 'addressing key risks' will need to be engendered within each organisation. This may take time, but the agile attitude requires an iterative approach to achieving improvements and efficiencies.

Within CMAP we have made efforts to increase our engagement with stakeholders (management and Audit Committees) on emerging risks and we have proactively sought to make changes to Audit Plans to demonstrate the flexibility of our approach and our ability to respond to change.



We have also applied the agile principles to a select sample of individual audit assignments across the Partnership. The intention of an agile approach within assignments is to secure greater engagement with management and to accelerate the delivery of each assignment.

We are trialling a collaborative approach whereby a team of auditors and managers Scrum together to agree the scope, risks and timeline for delivery of the audit assignment. This is quickly followed by a team of auditors undertaking the fieldwork over a two week timeframe (Sprint). The findings are reviewed, agreed and presented to management on an ongoing basis and the final report is distributed at the end of the two weeks.



The feedback we have received on the whole has been positive. Clients were happier overall with the collaborative approach and took greater ownership of the scope and the associated risks and solutions. The condensed audit period was less disruptive for client staff and everyone appreciated the quick turnaround to final report. The larger team involvement brought greater depth of knowledge to the process. The process has promoted dynamic team working and has allowed junior staff to gain knowledge and experience the whole audit process. We also believe that the more focused approach will provide opportunities to reduce the number of days spent on individual assignments.

This agile approach is still in a pilot stage and we will continue to enhance and improve the process in collaboration with our stakeholders. The technique lends itself better to some audits than others, so it's not a wholesale change of approach, but it's proving to be another valuable string to our bow.

Annual CIPFA Fraud and Corruption Report

The CIPFA Counter Fraud Centre (CCFC) recently published their annual fraud and corruption tracker. The report is intended to help local authorities to better understand where fraud losses could be occurring and hence where counter fraud activities should be prioritised. CIPFA estimates that total fraud against councils of £336.2m was detected or prevented in 2016/17.

The key findings from the report are that:

- procurement, social care and council tax single person discount are regarded as the areas of greatest fraud risk
- the largest number of investigations conducted by council fraud teams related to council tax fraud (76% of the total) but the area where the most fraud was detected in terms of value was housing (£263.4m)
- whilst the risk of fraud is high – the last full annual survey in 2013 estimated that fraud in local government totalled £2.1bn – only 38% of organisations who took part in the latest survey had a dedicated counter fraud resource.

The full report can be found by following the link:

<http://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker>

Audit Together is shortlisted for prestigious award

The Audit Together partnership has recently been recognised for its contribution to supporting the delivery of internal audit within local government. The work of the partnership including the production of this newsletter has resulted in Audit Together being shortlisted in the internal audit category of the Public Finance Innovation Awards 2018.

The shortlisted finalists have been chosen by a panel of independent judges with the awards ceremony itself taking place in London on 25 April.



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The group meets quarterly and we circulate periodic bulletins to our Partner organisations with the aim of sharing information and best practice.

We hope that you find the bulletins useful. If you have any comments or feedback on this bulletin or have suggestions for future articles then please contact one of the individuals above.