

# **The Excellent Internal Auditor**

## **CIPFA Midlands Audit Group – 31<sup>st</sup> October, 2011**



# Rough Content

- Introduction
- National and Local Pictures - Context
- Why Auditors must take CPD seriously – cometh the hour
- The Excellent Auditor – Recap
- Simple Assurance Framework?
- A few risks, to audit and the organisation
- Questions

# Who am I?

- Head of Audit, Leeds City Council
- Regional representative on CIPFA Council
- Chair Board for the Regions
- Been involved with
  - Rough guide to SIC, AGS
  - The 'Excellent' Auditor (competencies)
  - Working with RG team and CIPFA Audit Panel to finalise guidance on the review of effectiveness of System of IA.
  - Member of new project team supporting CIPFA Better Governance Forum to develop a framework for "effective internal audit"
  - Member of CIPFA Procurement and Contract Audit Forum

# National Picture

- Radical change is needed!! CIPFA/SOLACE
  - A. Renegotiate the contract between state and individual
  - B. De-layer the public sector. More local decisions. Minimal oversight
  - C. Maximise economies by more effective collaboration
- Examples;
  - A. Review the services provided by the state, the people to whom they are provided, the way they are funded
  - B. Transfer additional responsibilities to local agencies e.g. Councils, Police, PCT. Reduce inspection regime
  - C. Shared Services, Total Place, Big Society

# National & Local Picture

- Europe wide - financial chaos and public unrest
  - Riots
  - Cuts cuts cuts cuts
  - Constant changes to public sector provision, change management, storm, storm, storm – no chance to form, norm, perform?
  - Bad publicity – driven by central government and press
  - Public Sector strikes
- 
- Can spending cuts be eased by efficiency savings and increases in local revenue collection?
  - How do we ensure cuts in services are managed effectively?
  - We are already looking at a significant budget overspend
  - Likely to be a continued scrutiny of corporate centre



# Very Local Picture



# Cometh the Hour?

- Questions to ask yourselves
  - Can you improve your contribution to reducing organisational risk by giving relevant, evidence based, assurances?
  - Given cuts are inevitable as is increased service demand - can you help the efficiency agenda?
  - Do you understand what outcomes are – and is your perception of risk influenced by this?
  - Are you seen as just another overhead, seemingly unaware of the real organisational pressures rather than being part of the solution?
  - Are you above simply criticising systems. Do you actively get involved in suggesting and (if needed) implementing the solutions?
  - Are you more than a one dimensional tick and turn auditor?
  - Do you want to go home on Friday night knowing how you added value to the organisation?

**To deliver you must embrace CPD and must embrace change  
The future's bright – the future is Internal Audit**

**Carpe Diem!!!!**

# So perhaps?





# **The Excellent Auditor**

## **A Simple (over egged) Competencies Matrix**

Defines level of competency expected for each key skill for every identified role/level of staff in IA

- Trainee Auditor/Administrator
- Auditor
- Lead Auditor
- Audit Manager
- Senior Audit Manager
- Head of Audit

# Reasons For Developing

- Informal approach for a number of years
- Combined public sector and private sector thinking
- CIPFA IA Code of Practice for Local Government – HOA responsibility for ensuring appropriate training/IA staff's CPD responsibility – Fear factor!
- Existing Council appraisal system not tailored to IA needs
- Awareness of generic skills sets for auditors regardless of level
- Links to in-house training strategy
- But, to be honest, we just made it a bit fancy to try and win the Cliff Nicholson award

# Development of Key Skills Sets

- Identified 3 generic types of skills:
  - Behavioural Skills
  - Technical Skills
  - Management skills

# Behavioural Skills Sets

- Negotiating and influencing
- Communication
- Assertiveness
- Enthusiasm and initiative
- Team work
- Professionalism



# Technical Skills Sets

- Audit methodology and scope
- Analytical review techniques
- Devising a testing strategy
- Sampling techniques
- IT skills and technique

# Management Skills Sets

- Performance management
- People management
- Leadership

# How it works in practice

- Annual appraisal
- Detailed scoring and in depth discussion of skills sets and whether meeting expected competency
  - 1 Area for Development
  - 2 Achieving Expectations
  - 3 Exceeding Expectations
- Link appraisal targets to areas for development - CPD

# Post-audit assessment

Developed summary form to reflect after each audit  
takes 10 minutes to complete

- Scored by auditor and line manager against appropriate competencies
- Whether audit routine or demanding
- Reviews performance on an ongoing basis
- Identifies training/development needs
- Opportunity to identify/formally record good outcomes
- Feeds back into next round of appraisals



# Summary

- Did not win the Cliff Nicholson Award
- Got a CIPFA publication (no money but credits in foreword)
- Chance to do presentations
- But it works!
- Needs regular updating and not the holy grail but it is simple

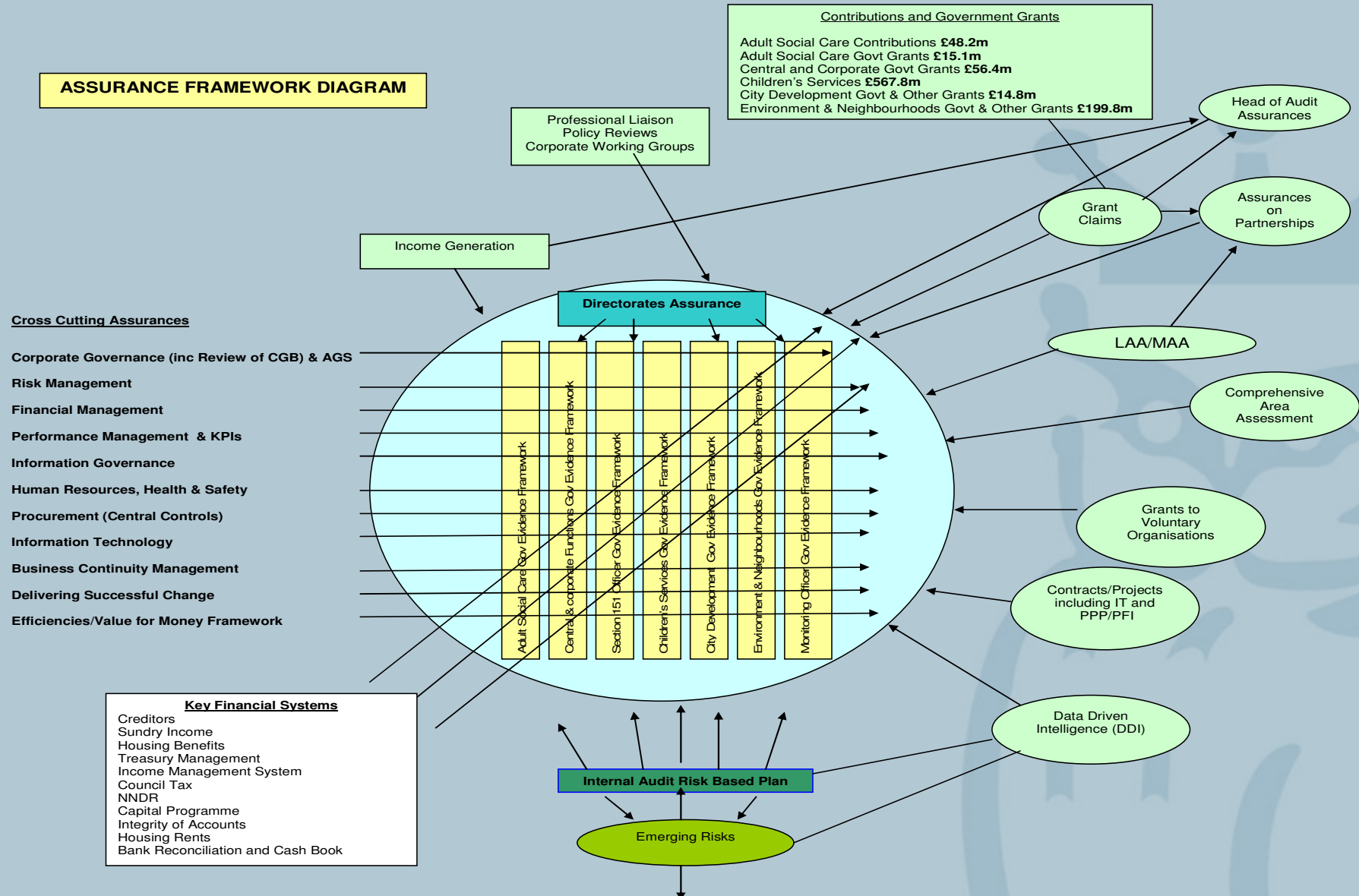
# Why are we here - reminder

- RESPONSIBILITIES AND OBJECTIVES OF INTERNAL AUDIT

- The Head of Internal Audit is required to produce an annual report giving an opinion on the adequacy and effectiveness of the Council's *entire* internal control environment, providing details of any weaknesses that would qualify this opinion and bringing attention to any issues that are relevant to the preparation of the AGS.
- The report must present a summary of the work from which the opinion is derived, including *reliance placed on work by other assurance bodies*.
- The report should also provide evidence and assurance that *internal audit operates to the standards set out in the Code of Practice* for Internal Audit in Local Government in the UK to enable the Council to take assurance from this opinion.

**So – a simple *Assurance Diagram* could look like this**

## ASSURANCE FRAMEWORK DIAGRAM



CROSS CUTTING: Contingency, Counter Fraud Strategies and other Anti Fraud and Corruption work including Investigations, whistle-blowing policy, anti-fraud and corruption policy and anti

## Leeds' current 'Plan'

- Fraud - Proactive and Responsive work
- Policies & Procedures, FPR, CPR, WB, VFM etc,.
- Key Systems Audit
- BPR CtW, ASC, Childrens,
- VFM policy and studies
- Procurement (savings) – include open book
- Experion – work with partner
- Compliance – traditional plan type work, assurance
- Risk Based Audit
  - Childrens
  - Adults
  - ALMOs
- External work



## How are we shaping up?

- We should be ahead of the game (Pre-empted!)
  - Team players, understand business risks and objectives
  - Modern Audit Plan
  - Modern Structures, Qualified or IIA/CCAB trainees
  - High level of required skills/competencies
  - Highly skilled business analysts – Lean systems/VFM
  - Positive culture, e.g. hard work, role, adding value, CPD. Can do attitude!
  - Team culture – challenging & supportive
  - Responsive and flexible

# Internal Audit – Risks

- Section 151 not enough to justify existence
- Perceived as an overhead and no added value.....
- Skills & Competencies – is there a gap?
- Motivation – change is a challenging time
- Reduction in staff resource – or are we immune? 4 in 10 ☹️
- Assurances still needed – weekend work or smarter (or both!)?

# A comment on one specific risk

- **Shared Services, partnerships, outsourcing**

- The firms WILL want your business
- They WILL undercut you (in total price – not necessarily on day rate)
- They WILL give the same assurances
- They SHOULD NOT be able to add the same value!!! But.....
  - So decide – an opportunity a threat or a distraction to ignore?
  - Know what your PI's are saying and how you demonstrate added value
  - Tell stakeholders how good you are!!! The firms will and will market better than you!!
  - For some reason the firms names mean something. They are sexy and professional. Shame its not based on reality like Enron, world bank collapse and countless other failures.
  - Fight – they really are no better than you and your potential is far greater! 😊
  - One day the private sector may understand the public sector values – but perhaps not quite yet.

## Action Needed

- Team Players – *Internal Audit*
- Tangibly Add Value and work even harder to protect members, officers and above all the many stakeholders who interact with and rely upon the Council.
- Ensure the Internal Audit Plan directs resources to the high risk areas of the organisation
- Work with management to improve the entire control environment whilst having a keen understanding of risk, materiality and the cost of control.
- Less traditional audit work and same assurance equals more scope to generate income or expand in house services offered
- Further increase credibility by sound argument and logical, efficient and effective recommendations.
- Remain, or begin to be, visibly active in the efficiency agenda



# Action Needed

- There are no easy jobs – all require an excellent level of diligence, application and review.
- Constantly changing skills mix – need to keep up to date. Up to you – its your future, your career, your public sector!!
- Need to ensure that all staff got the skills/knowledge and experience to complete work that allows the Head of IA to give evidence based assurances and understand VFM on all aspects of work.
- Efficiencies affect Internal Audit as well – must become smarter, budgets for 2011 onwards are very tight, and who loves audit?!!

# Thinking about 3 Risks – and audit impact

## ☐ Current economic climate

- Less staff may mean less controls
- Short cuts – avoiding *'time consuming'* bureaucracy
- Employees more tempted to be naughty
- Contractors needing every penny to stay in business may attack;
  - Weak controls
  - Weak employees

## ☐ Increased Commissioning

- Partners not adopting appropriate governance procedures – and not just the voluntary sector! Big Society = Big Risks ☺

## ☐ VFM

- Business transformation agenda – new systems but perhaps not with traditional controls – 'back to basics'.
- How can we identify areas that are not efficient?
- Policies/procedures modern, communicated, embedded, complied with and measured for impact.

# Possible audit activity?

## ☐ Anti Fraud and Corruption Strategy

- Have you a strong corporate core?
  - Policies and procedures, procurement, contract monitoring and HR
- Whistle-blowing, internal/external

## ☐ VFM

- Policy
- Culture
- Embed
- Organisational Footprint
- All audit work should have VFM element
  - Individual projects (from footprint)
  - Policy/culture compliance

# Possible audit activity?

## ☐ Compliance

- Systems should now be sound so look at impact
  - 2008 Grand National winner
  - Or, risk focused, review controls - are they still needed???

## ☐ Governance

- Still relevant, much lighter touch
  - Objectives aligned to Corporate Priorities
  - Risk register and MIS/PI's linked and monitored
  - Corporate policies /procedures are communicated/embedded and routinely complied with in practice
  - Key 'partnerships' monitored
  - Assurances, responsibility and accountability

# Possible audit activity?

## ☐ Partnerships

- Option appraisal
- Shared objectives, priorities aligned
- Monitoring
- Benefit realisation

## ☐ Procurement – big savings (so they say)

- Get into the supply chain, not just standard controls
- Framework contracts;
  - economies of scale
  - Compliance
  - Feedback loops

# Possible audit activity?

## ☐ Open book reviews

- Really easy and common sense
- Access
- Contract specification and terms
- Price plus quality and continual improvement/efficiency
- Sound awareness of accounting methods – year end is obvious risk
- Prime documentation
- Overheads
- Group trading
- MONITORING is better than cure

## ☐ BPR

- Trading Account?
- Major change programmes – outcome not ICT led!



# Questions