

Internal Audit Transformation

Report by:

Interim Chief Assurance Executive

Purpose:

To provide some background to prospective Chief Assurance Executive candidates on the current state of internal audit at Chelmsford City Council and the direction of travel that the Director of Financial Services and the Audit Committee wish to adopt for the Council's assurance service.

This paper is based on a paper presented and approved at the Audit Committee in June 2017.

INTRODUCTION

1. Over recent times the internal audit function at Chelmsford City Council has not been seen as providing a service that has sufficiently challenged the Council or acted as a critical friend that the Council wants.
2. An Interim Chief Assurance Executive was engaged to review the Service and make recommendations as to how the Internal Audit service could be modernised and taken forward.

THE CURRENT SERVICE

1. The assessment of the current approach has been conducted, based on:
 - A range of interviews across the Council (key stakeholders and users of the service)
 - Observation of the team in action
 - Review of the current audit approach/methodology
 - A review of the scope of current internal audit work
 - A review of outputs, in terms of reports and recommendations.
2. The assessment concluded that the current internal audit arrangements at the Council need development to ensure it provides the Council with a modern, challenging and risk focused assurance function. The function should effectively challenge the Council to improve internal controls and help to ensure there is a robust Assurance Framework that effectively mitigates risks across the Council.
3. Notable improvement areas identified included:
 - The Assurance approach needs to engage effectively with its stakeholders, and have a clear view on their expectations, both at a strategic planning level and when looking at individual assignments. Stakeholders will value audit more if their needs are considered
 - The team needs to maintain its focus on providing assurance over risks, internal audits is one of the tools it uses to provide assurance and should not be seen as the only approach that may be applicable
 - There needs to be a more modern, risk focused approach to audits, looking at how internal controls mitigate those risks and considering where management may get other forms of assurance
 - Audits should be a root and branch review of current risks and controls. As well as the details of a process, reviews should take a strategic view of a process, this will enable assurance recommendations to be focused on improving the Council's ways of working
 - A different approach to the Audit Plan should be considered to more fully reflect the Council's strategic priorities, including the consideration of assurance reviews that look at specific emerging risks and to consider reviews that have a wider organisational impact
 - Looking at other efficient and effective ways to provide assurance, including using analytical tools that can provide on-going assurance, or undertaking department control health checks without the need for full blown audits

- There needs to be effective business partnering to ensure that the Assurance team is aware of issues across the Council, but also to develop that feeling of trust and acting as a critical friend to the Council.
4. Ultimately, Internal Audit must be seen as a source of sound advice on internal controls or how to develop well controlled, effective organisational processes.

WHAT SHOULD AN INTERNAL AUDIT AT CHELMSFORD ASPIRE TO?

5. The aim for Internal Audit at Chelmsford should be to be a 'Trusted Advisor', Providing value-added services and proactive strategic advice to the Council well beyond effective and efficient execution of the audit plan. This should include:
- Being one part of an overall Assurance Framework that gives confidence to the Council that its risks are being effectively mitigated to an appropriate level
 - Focus on the risks that matter to the leadership of the Council – risks to the successful delivery of value to stakeholders and the objectives of the Council
 - Provide assurance over processes and risks that can be easily understood, is relevant, actionable and timely – supporting leadership in making informed decisions and where necessary, so action can be taken promptly and effectively
 - The form of internal audit assurance should be an annual formal opinion on whether the systems of internal control and risk management provide reasonable assurance that the most significant risks are effectively managed
 - In addition to formal assurance, internal audit should provide objective insight on any area critical to the achievement of Council objectives
 - Work effectively with management to assist them to upgrade their processes, systems, organisational structure, controls and people as needed.
6. This aim of being a Trusted Advisor needs to be embedded within the Core Principles that underpin the work of Internal Audit:
- Internal Audit aligns with the strategies, objectives and risks of the organisation
 - Provides risk-based assurance
 - Is insightful, proactive and future-focused
 - Promotes organisational improvement
 - Demonstrates integrity, competence and due professional care
 - Is objective and free from undue influence
 - Demonstrates quality and continuous improvement.

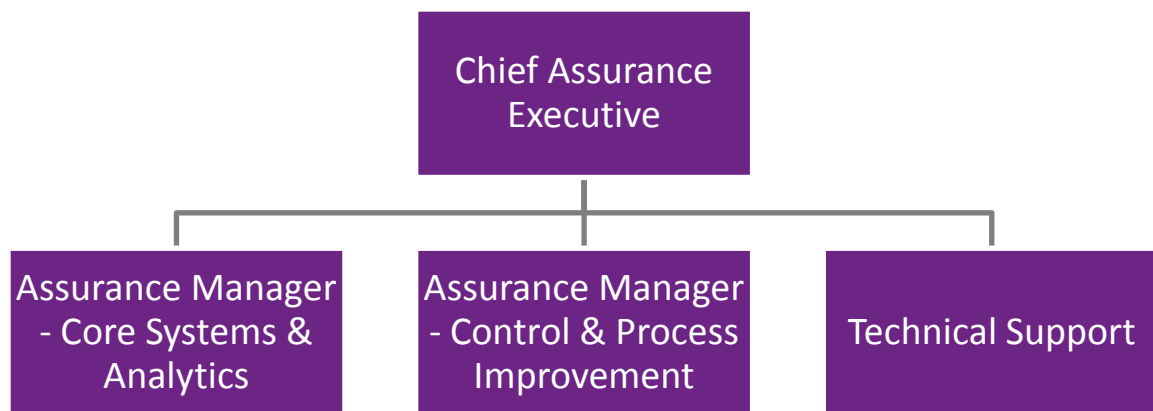
THE NEW ASSURANCE APPROACH

7. After consideration of the various pros and cons the Director of Financial Services and the Audit Committee committed to:

**KEEPING THE SERVICE IN-HOUSE WITH A MISSION TO BE EXEMPLAR LOCAL AUTHORITY
ASSURANCE TEAM WITHIN 3 YEARS**

Look to lead shared services in the future with other nearby Authorities once the service has shown it is on track to meet its exemplar ambitions

8. To fulfil this, the team has been consulted and the following team structure adopted.



Chief Assurance Executive	<p>Leadership and drive come from this role. The appointment of the right person to the role will be critical for a successful in-house team</p> <p>Likely that this role will undertake strategic assurance work and act as the Assurance Business Partner for Corporate Services and the Chief Executive.</p>
Assurance Manager – Core & Analytics	<p>One member of the team whose primary focus is the on-going assurance over the core systems using a mixture of end-to-end process audits; quarterly control testing; and a simple suite of data analytics</p> <p>Good IT skills would be a pre-requisite as well as being a qualified accountant (or actively studying)</p> <p>Role acts as Assurance Business Partner for Finance. Having a role like this within the team means that it could be used as a finance team secondment if the role became vacant and could represent a development opportunity.</p>

Assurance Manager – Control & Process Improvement	<p>The focus of this role will be to act as the Assurance Business partner for the Operational departments across the Council.</p> <p>The person will need to be a strong auditor with sound relationship management skills and the ability to take an independent and pragmatic approach to their work whilst maintaining strong relationships</p> <p>The core focus is improving operational processes and understanding the needs of Council’s customers is key to success in this role.</p>
Technical Support	<p>The audit team should maintain a call-off arrangement to provide some technical audits such as around IT.</p>

Detailed job descriptions have been consulted and approved for all the permanent roles.

WORKSTREAMS

9. Since approval of the approach the following Workstreams are underway to drive the transformation programme, focusing on four areas:
 - **People** – recruiting the new CAE and ensuring the existing team have the right skills to deliver the new vision
 - **Methodology** – developing and documenting a new approach to assurance assignments that encourages more engagement and focusing of management concerns as well as the core assurance requirement
 - **Measures** – developing the right measures to assess Assurance performance and ensure they are reported to management and the Audit Committee at least quarterly
 - **Stakeholder Engagement** – aligning the Assurance staff to departments and key stakeholders across the Council and start the process of regular meetings to develop assurance knowledge

LIST OF APPENDICES:

- 1 Outline Role Profiles
- 2 What is Modern Audit Presentation

IA Roles – Chief Assurance Executive

Role Purpose

- To provide strategic direction on assurance and internal audit to the Council and be responsible for assessing the adequacy and effectiveness of the Council's control environment to ensure it mitigates the key risks that the Council faces and report an opinion annually.

Role Scope

- Identify and embed a risk focused internal audit methodology aligned to the strategic direction and strategic risks that the Council faces
- Work closely with the Manager responsible for Risk to understand the Council's strategic risks and their mitigation and the wider Assurance environment that operates within the Council and that makes up the overall Council Control Environment
- Accountable for all IA work undertaken for the Council and ensure it is preformed to a high standard and aligned to both IIA and PSIAS requirements
- Ensure that the function acts as a critical friend to the Council and challenges the Council to continuously improve its response to risks, improve controls and identify process improvements

Key Accountabilities

- Development and ownership of an on-going audit universe
- Develop and maintain an Assurance Framework that considers how core risks are mitigated and how assurance is provided over risks and processes
- Develop and maintain a risk based internal audit methodology and ensure its usage on an on-going basis
- Provide an annual audit and governance opinion to the Council via the Audit Committee
- Maintain an Internal Audit Plan that supports the provision of an annual opinion on the control environment
- Undertake complex and strategic audits in the audit plan
- Organise and manage the use of any external audit resource
- Provide periodic management reporting on the performance of internal audit to the Council's leadership
- Provide training and insights on risk and assurance to the Council's leadership and Audit Committee
- Attendance and present on Internal Audit and assurance over risks at the Audit Committee.

IA Roles – Assurance Managers

Role Purpose

- To plan, conduct and report the results of audits and special investigations as directed by the Chief Assurance Executive, with a view to identifying weaknesses and making recommendations to strengthen the Council's Internal Control system and to improve efficiency.

Role Scope

- Work closely with designated areas of the Council to understand the work of their departments and assist in identifying their key risks and appropriate controls
- Accountable for the delivery of high quality risk based audits that identify gaps in the way risks are mitigated and make value adding recommendations to improve the Council's control framework
- Ensure all work is carried out in line with the agreed methodology and is aligned to both IIA and PSIAS requirements
- Ensure that the function acts as a critical friend to the Council and challenges the Council to continuously improve its response to risks, improve controls and identify process improvements

Key Accountabilities

- Take responsibility for specific parts of the internal audit plan. Contribute to the development of the internal audit plan and the audit universe, and ensure that is constantly updated based on the outcome of audit work and relevant business intelligence
- Develop strong working relationships with operational management while maintaining professional independence and objectivity
- Agree the audit approach with the Chief Assurance Executive and prepare detailed audit plan,
- Identify key risks and related controls within the audited process. Perform tests to assess the adequacy of controls. Evaluate the significance of audit findings,
- Prepare draft audit reports for management outlining weaknesses and significant findings and making recommendations to overcome such weaknesses. Discuss findings with line management and agree constructive and practical steps to strengthen and improve controls and procedures
- Follow up report recommendations and monitor progress in achieving their implementation

What is Modern Internal Audit

An attempt to define a modern Internal Audit approach for Chelmsford
City Council

An Internal Audit Opportunity

Chelmsford has recognised the need to improve its internal audit provision, consequently it is ideally placed to undergo a change process for Internal Audit.

The following represent what a well respected, modern internal audit team should look like:

- Auditing That Matters
- Internal Audit Definitions
- Organisational Alignment
- Focus on Risk
- 3 Lines of Defence
- Methodology Attributes
- Assurance Approach
- Technology
- Service Culture

Auditing That Matters

- Focus on the risks that matter to the leadership of the Council – risks to the successful delivery of value to stakeholders and the objectives of the Council
- Provide assurance on those risks that is easily understood, relevant, actionable and timely – supporting leadership in making informed decisions and where action is necessary it can be taken promptly and effectively
- The form of internal audit assurance should be an annual formal opinion on whether the systems of internal control and risk management provide reasonable assurance that the most significant risks are effectively managed
- In addition to formal assurance, internal audit should provide objective insight on any area critical to the achievement of Council objectives
- Communicate what internal audit stakeholders need to know, when they need to know, and in a form that is easily consumed, relevant and actionable
- Work effectively with management to assist them to upgrade their processes, systems, organisational structure, controls and people as needed.

Internal Audit

- MISSION CIPFA - To enhance and protect organisational value by providing **RISK-BASED** and objective assurance, advice and insight.
- DEFINITION IIA - Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of **RISK MANAGEMENT**, control and governance processes.
- Inst of DIRECTORS - Internal Audit is a key component of corporate governance. When properly resourced, positioned and targeted, internal audit can act as invaluable eyes and ears inside an organisation, giving an unbiased and objective view of what is happening within the organisation

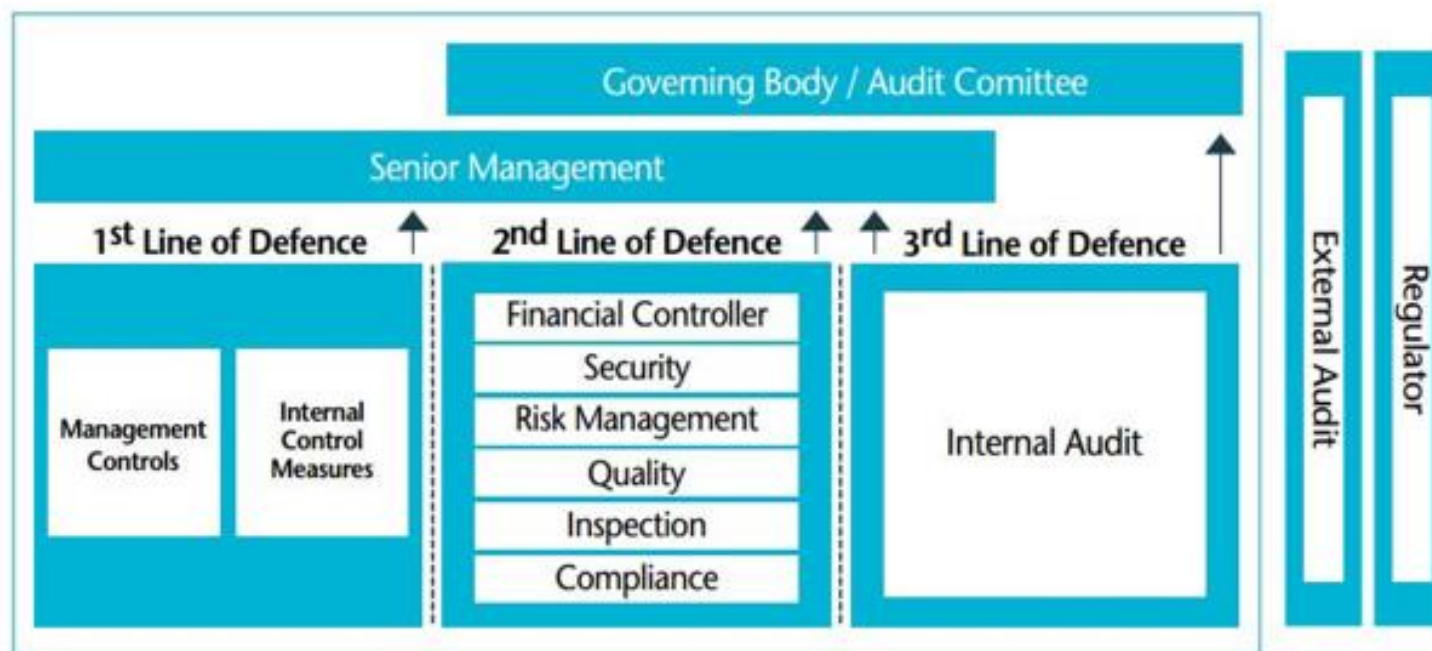
Focus on Risk

- Internal Audit cannot operate outside of the risks that are relevant to the Council and that will prevent the delivery of Council strategy and objectives
- This is embedded in the Internal Audit Core Principles:
 - IA aligns with the strategies, objectives and risks of the organisation
 - Provides risk-based assurance
 - Is insightful, proactive and future-focused
 - Promotes organisational improvement
 - Demonstrates integrity, competence and due professional care
 - Is objective and free from undue influence
 - Demonstrates quality and continuous improvement.
- The '3 Lines of Defence' risk and assurance model is widely known and accepted and provides a clear indication about how risk should be managed.

What is Modern Internal Audit

APPENDIX 2

Focus on
Risk,
3 Lines
of
Defence
Model



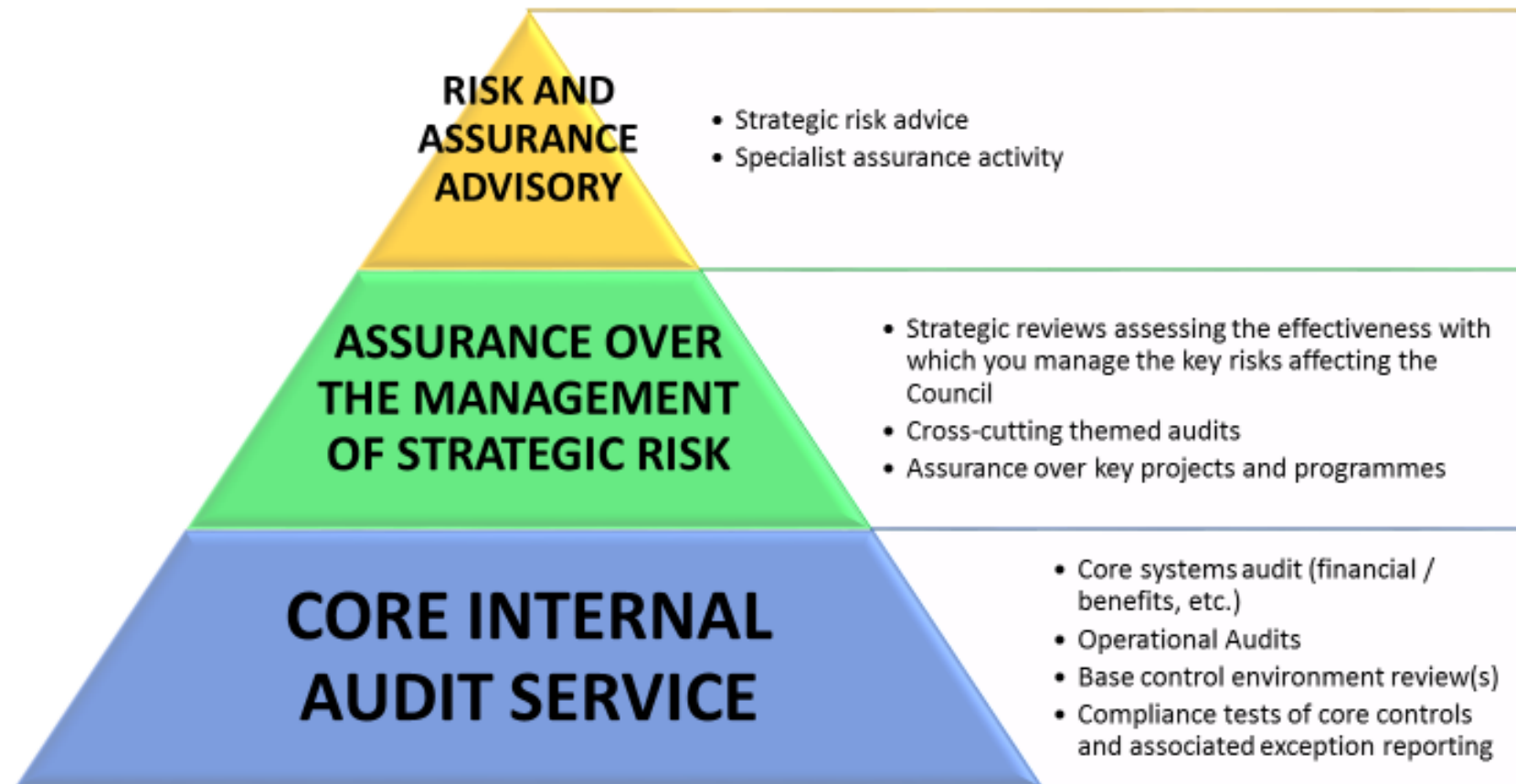
1 st Line of Defence	2 nd Line of Defence	3 rd Line of Defence
Operational management has ownership, responsibility and accountability for assessing, controlling and mitigating risks together with maintaining effective control.	Functions within the business facilitate and monitor the implementation of effective risk management practices by operational management and assist risk owners in reporting adequate risk-related information up and down the organisation.	Corporate Internal Audit activity will provide assurance over the effectiveness of governance, risk management and internal control to the organisation's governing body and senior management, including the manner in which the first and second lines of defence operate.

Internal Audit - Methodology Attributes

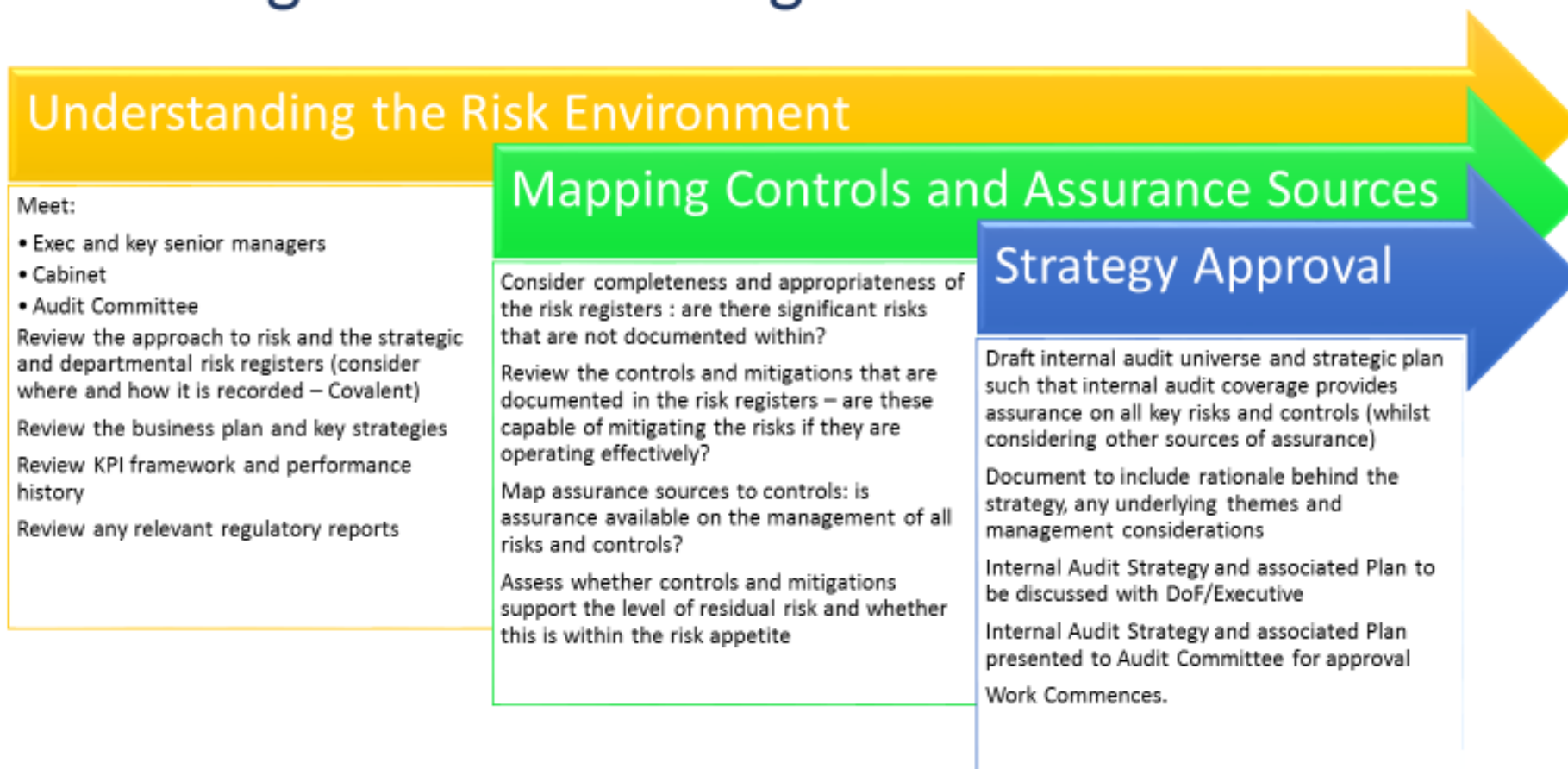
In order for Internal Audit to be effective it must have a clear methodology that supports its approach

- The Methodology must be risk-based and focused on the Council's ability to deliver its strategic objectives – holistic audit plan based on an up to date audit universe
- Maximises the value obtained from other assurance activity and providers
- Meets and exceeds the definition of Internal Audit as issued by the Institute of Internal Auditors (IIA) and the Public Sector Internal Audit Standards (PSIAS) – these were issued in 2016
- Will be subject to successful external scrutiny
- Is consistent with best practice guidance on risk management and effective control
- Is pragmatic and proportionate enabling efficient assurance.

Internal Audit (Assurance) Approach



Strategic Audit Planning



Annual Planning

- Flexible approach to planning – need to understand business priorities and how they change – how can IA act as a trusted Assurance Partner if it does not maintain flexibility and match organisational need
- IA needs to consider different types of reviews and ways of providing assurance to meet different circumstances, for example:
 - business improvements reviews as well as control reviews
 - Process Health checks
 - On-going control testing – so what are the different types of audits
- Risk and Assurance cannot be detached from the rest of the organisation, they must focus on business priorities, but have an independent and challenging mindset
- Must consider other Assurance providers

Assignment Attributes

Each stage of an audit assignment will be considered to ensure that all audits are:

- Risk Prioritised – outcomes designed to assist in mitigating strategic risk
- Constructively Challenging – ensuring reasons for doing things in a particular way still remains valid
- Proportionate and Pragmatic – recommendations are tailored to specific situations in the Council
- Forward Looking – with pro-active advice on potential and forthcoming challenges
- Customer Focused – consider as to how processes and controls reviewed can enhance your customer experience (internal and external customers)
- Adding Value – all work will consider the identification of real efficiency and financial saving opportunities.

Programme of Audit Work

