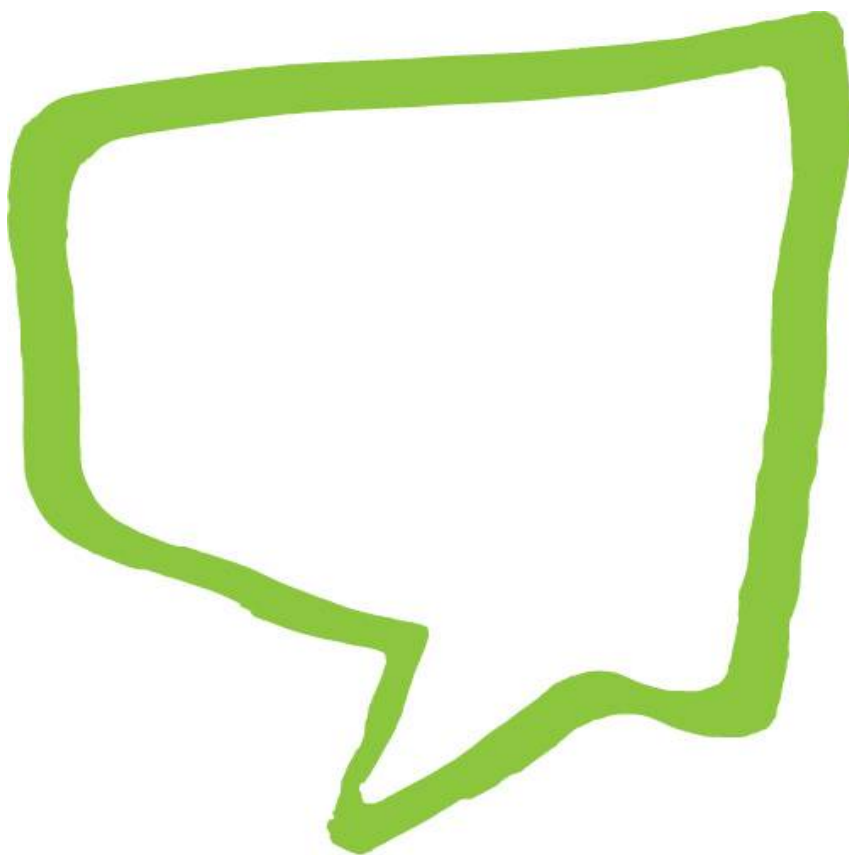


Triennial Review of Internal Audit

West Yorkshire Integrated Transport Authority and
Executive

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 In accordance with the International Standards on Auditing (United Kingdom and Ireland) - (ISA UK&I) 610 'considering the work on Internal Audit' we have reviewed the Internal Audit function of both the PTE and the ITA.
- 2 (ISA UK&I) 610 required us to obtain an understanding of the Internal Audit (IA) function including the organisational status of IA and the scope of their responsibilities.
- 3 At least once every three years we are required to undertake a full review of IA's compliance with IA standards as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 issued by the Chartered Institute of Public Finance and Accountancy.
- 4 The purpose of this report is to provide an assessment of IA against the CIPFA standards and to identify areas for development and improvement.

Audit approach

- 5 In line with the requirements of ISA 610 we have reviewed IA against the internal audit standards as set out in the CIPFA code of practice.
- 6 Annually we seek to assess the work of IA to determine the reliance external audit can place on the work of IA in meeting our Code of Audit Practice objectives.
- 7 This triennial review covers both the periodic and annual reviews referred to above. We have undertaken this evaluation by
 - assessing compliance with CIPFA's Code of Practice for Internal Audit in Local Government in the UK 2006;
 - reviewing IA's self-assessment against the CIPFA code;
 - following up recommendations from previous years;
 - interviewing IA staff;
 - reviewing IA manuals and policies; and
 - reviewing a sample of IA files - Payroll, Main Accounting System, Pre-paid Tickets, Procurement (PTE) and ITA Financial Management Systems.

Main conclusions

- 8 Our review concluded that Internal Audit is compliant with the majority of the CIPFA internal audit standards and there have been a number of significant improvements since our last triennial review including:
 - the establishment of a ITA Audit and Governance Committee;
 - improved coverage of ITA financial systems; and
 - updated IA Manual, Terms of Reference and Strategy.
- 9 In addition, IA has recently re-introduced the three year audit plan (May 2009).
- 10 This is an achievement for a very small IA department, particularly given the specific, sometimes complex requirements of auditing the PTE's bespoke systems such as prepaid tickets and concessionary fares, whilst also contributing to the risk management group.
- 11 Our review also identified a number of areas for further improvement, notably in the standard relating to undertaking audit work. Before our review IA had already recognised the need to improve the quality of audit working papers. To help achieve this the IA manager is currently looking at potential audit software programmes and updating the audit manual
- 12 As a result of our review, we have been able to place reliance on some specific IA tests in 2008/09 and their systems' documentation. .
- 13 The recommendations arising from our review are listed below. A summary of our findings against the CIPFA Code can be found in Appendix One. Some recommendations are relevant to a number of Code areas.

Recommendations

R1 Set up an annual programme of meetings with other auditors, including PTEG and the Audit Commission, to address quality assurance issues including audit risk matrices. Develop a joint working protocol with external audit (Audit Commission). (Medium priority)

R2 Review the audit planning mechanism to ensure that:

- appropriate audit risks are clearly included in audit work and detailed testing programmes;
- key risks, expected controls and relevant tests are appropriate; and
- sample sizes and the period to be covered by testing are adequate and are clear on the audit planning documents. (High priority)

R3 Improve time control within the IA team to include recording time spent on audit work and the initial allocation of time per audit job. (Low priority)

Recommendations

R4 Improve team effectiveness through:

- updating team audit procedures to include standard audit team meeting agendas;
- minuting of key team meetings; and
- holding discussion sessions to challenge how the team could improve overall effectiveness and focus of its work. (Medium priority)

R5 Review the current approach to recording audit work to ensure that all work undertaken is clearly set out and could be understood by other auditors. (High priority)

R6 Update quality assurance procedures to include the key milestones for review of work and to cover the review requirements in instances where the fieldwork has been performed by the IA manager. (High priority)

Appendix 1 – Summary of findings against the CIPFA Code

Table 1 Audit Findings

Summary of findings against the CIPFA Code. Internal Audit is mostly compliant with the CIPFA internal audit standards with a number of areas identified for further improvement

Code area	Outcome	Areas for Improvement	Recommendation
Scope	Mostly		R2
Independence	Fully		
Ethics	Fully		
Audit Committee	Fully		
Relationships	Mostly	More frequent sharing of best practice with PTEG and other auditors, including the Audit Commission	R1
Staff and Training	Fully		
Audit Strategy and planning	Mostly	Assessing IA resource needs from first principles rather than maintaining existing assurance levels. This should include a clearer link between current strategic risks, the risks associated with individual systems, the overall audit plan, and impact on audit time budgets. This could provide more scope for IA to undertake Value for Money reviews.	R2

Appendix 1 – Summary of findings against the CIPFA Code

Code area	Outcome	Areas for Improvement	Recommendation
Undertaking audit work	Partially	<p>Reviewing and updating as necessary the approach to planning work on individual systems to include for example the risk associated with each system, the findings from previous audits, the sample sizes required and coverage of the whole year.</p> <p>Reviewing and updating as necessary the key risks, expected controls and associated tests on a system by system basis to ensure that all risks identified are adequately addressed and the audit work is commensurate with the risks identified. It is understood that the IA audit manager has earmarked some time to do this in June 2009.</p> <p>Time recording system - the IA department has encountered problems with the software used for recording time spent on audit assignments.</p> <p>More formalised structure for team meetings at key stages of audits.</p> <p>Evidence of regular monitoring and review, especially at audit planning stage, signed off by the audit manager and team.</p> <p>Improvements to audit working papers to clarify links between work performed and how the work supports audit conclusions. There is scope to improve the referencing between the tests, the detailed working papers and the results.</p>	R2, R3, R4, R5, R6
Due professional care	Mostly		R4, R6
Reporting	Fully		
Performance Quality and Effectiveness	Mostly	Review of quality assurance procedures, especially in reviewing fieldwork performed by audit manager to avoid self-review.	R3, R4, R5, R6

Audit work and CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Set up an annual programme of meetings with other auditors, including PTEG and the Audit Commission, to address quality assurance issues including audit risk matrices. Develop a joint working protocol with external audit (Audit Commission).	2	Internal Audit Manager	Yes	Internal Audit will continue to attend and take an active role in PTEG Internal Audit Group. Discussion will take place with the Audit Commission concerning the establishment of a formal timetable of meetings to discuss audit coverage and technical aspects of work performed.	October 2009
5	R2 Review the audit planning mechanism to ensure that: <ul style="list-style-type: none"> appropriate audit risks are clearly included in audit work and detailed testing programmes; key risks, expected controls and relevant tests are appropriate; and sample sizes and the period to be covered by testing are adequate and are clear on the audit planning documents. 	3	Internal Audit Manager	Yes	Corporate risks will be more clearly linked to Internal Audit plans and individual assignments through the introduction of an electronic audit management solution. Work has commenced on reviewing key risks and significant controls for all systems identified in the audit universe. The output from these reviews will be used to develop revised audit testing programmes which will include guidance on sample sizes. This information will be used as the basis for individual audit assignments and will be introduced as part of the roll-out of the electronic audit management system.	End of 2009.
5	R3 Improve time control within the IA team to include recording time spent on audit work and the initial allocation of time per audit job.	1	Internal Audit Manager	Yes	The new audit management system will include a time recording module.	End of 2009.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R4 Improve team effectiveness through: <ul style="list-style-type: none"> • updating team audit procedures to include standard audit team meeting agendas; • minuting of key team meetings; and • holding discussion sessions to challenge how the team could improve overall effectiveness and focus of its work. 	2	Internal Audit Manager	Yes	A written record of discussions which take place at audit team progress meetings will now be provided. (See R2 too.)	October 2009.
6	R5 Review the current approach to recording audit work to ensure that all work undertaken is clearly set out and could be understood by other auditors.	3	Internal Audit Manager	Yes	New audit management system will improve the clarity of links between work performed and conclusions along with automating the referencing of working papers.	End of 2009.
6	R6 Update quality assurance procedures to include the key milestones for review of work and to cover the review requirements in instances where the fieldwork has been performed by the IA manager.	3	Internal Audit team	Yes	Electronic audit management system will include functionality to formally provide evidence of quality reviews. The Internal Audit Manager only very rarely performs audit testing work. However, in these instances, this work will be reviewed by another member of the audit team.	Done

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