



# **SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION**

**SOUTH WEST AUDIT PARTNERSHIP**

**MAY 2012**

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8. While SWAP has a good process for Training, including a Strategy, it does not have a formal process for effectively measuring CPD. In addition comments received through staff feedback and associated interviews identified issues around the extent of training in connection with skills or knowledge required for audit assignments in highly technical areas.
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13. External assessments must be carried out at least once every five years by a qualified independent reviewer or team from outside the organisation. The chief audit executive must discuss with the board the need for more frequent external assessments; and the qualifications and independence of the external reviewer or review team, including any potential conflict of interest.”

## **EXECUTIVE SUMMARY**

The self-assessment team conducted a quality assessment (QA) of the internal audit (IA) activity undertaken by the South West Audit Partnership (SWAP) across its many client organizations in preparation for validation by an independent assessor. The principal objective of the QA was to assess the IA activity's conformance to The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.

## **OPINION AS TO CONFORMITY TO THE STANDARDS**

**It is our overall opinion that the IA activity generally conforms to the *Standards* and *Code of Ethics*.** For a detailed list of conformance to individual standards, please see Attachment A. The QA team identified opportunities for further improvement, details of which are provided in this report.

The IIA *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally Conforms" is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

## **SCOPE AND METHODOLOGY**

As part of the preparation for the QA, the IA activity prepared a self-study document with detailed information and sent out surveys to its staff and a representative sample of senior client officers. A summary of the survey results (without identifying the individual survey respondents) has been furnished to the IA activity. The team also reviewed the IA activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA activity's workpapers and reports.

## **OBSERVATIONS AND POSITIVE ATTRIBUTES**

The IA activity environment is well-structured and progressive, where IIA *Standards* are understood and management is endeavoring to provide useful audit tools and implement appropriate practices. Some successful practices in place are:

- Working together in Partnership - Opportunity to share best practice and information.
- Integrated Web Based Tool – MKi 7.1 Ability to work flexibly and remotely.
- Balanced Scorecard – KPI's Demonstrates SWAP performance and transparency.
- Initial Meeting Template Ensures consistency and clarity of objectives, risks and controls.
- Performance and Quality Review Process - Consistency and improvement in the quality of output.
- Training and Development Strategy - Successful retention of staff, ensures professional standards and skills are maintained.
- New Staff Guide - Initiates staff at an early stage into the standards expected of working for SWAP.



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- Every Day Guide to SWAP - Provides consistency of working practices across SWAP and provides every day information to staff to assist them in doing a good job.
- SWAP Staff Away Days - Team building and information sharing.
- Use of SKYPE - Communication for remote working.
- Weekly Management Meetings - Communication and ensuring SWAP continually moves forward.
- Staff Suggestions and Questions - communication with and involvement of staff in SWAP's development.
- Partner Information Bulletins - Sharing current information and best practice across all clients.
- Ad-hoc Fraud Bulletins - Keeping partners up to date on potential threats.
- Standardised Committee Reporting across Partnership - Consistency and efficiency of delivery.

Consequently, the comments and recommendations by the team are intended to build on this foundation already in place in the IA activity.

## RECOMMENDATIONS

The recommendations are divided into two groups:

- Those that concern the SWAP Management Board as a whole and suggest actions by senior client management.
- Those that relate to the IA activity's structure, staffing, deployment of resources, and similar matters that should be implemented within the IA activity, with support from senior management.

Highlights of the more significant recommendations are set forth below, with details in the main body of the report.

### PART I – MATTERS FOR CONSIDERATION OF SWAP MANAGEMENT BOARD

1. **Lack of a formal job description for the Head of the Audit Partnership.** The Chair of the Management Board should draw up in consultation with the current post holder an appropriate job description and person specification outlining the role and requirements of the post holder for formal agreement by the Management Board (Successful Practice)

### PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY

1. SWAP has no formal process for benchmarking its costs or performance. Without comparative data there is a risk that SWAP will fail to be able to demonstrate to its Partners that it is providing value for money in comparison to other service providers. (Successful Practice)
2. The Standards require that periodic review should also be completed to ensure the quality of the Internal Audit Service is maintained. This does not have to be a full review such as this one but can be evidence gained from questionnaires or benchmarking data. Without such there is a risk that a deviation from the Standards will occur over a period of time. (Standard 1312)
3. The Registers for Declaring Interests and Gifts or Hospitality are not reviewed by the SWAP Management Team (Standard 1130.A1 and C2)
4. A Register capturing Declarations of Interest is maintained by the PA to the HoIAP. However, there are no annual reminders sent out and as a result the Register is out of date. (Standard 1130.A1 and C2)
5. The Audit Manual has not been regularly reviewed. The process for updating and adding new procedures has become disjointed and staff do not have access to the whole Manual, only the documents held on the MKi Library. (Standard 2040)
6. SWAPs Mission, Vision and Objectives are all captured in the Partnership Business Plan. However, these are not regularly reviewed or presented to staff for refreshment. (Successful Practice)

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7. Implementation Standard 1000.A1 states that if assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter. Some external clients do not have agreed IA Charters. Such clients should at least have a document that outlines the SWAP approach to External Client Engagements. (Standard 1000.A1)
8. Attribute Standard 1230 requires that internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. While SWAP has a good process for Training, including a Strategy, it does not have a formal process for effectively measuring CPD. In addition comments received through staff feedback and associated interviews identified issues around the extent of training in connection with skills or knowledge required for audit assignments in highly technical areas. (Standard 1230)
9. Implementation Standard 2330.A2 states that the CAE must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements. SWAP does not have such guidance formally documented. (Standard 2330.A2)
10. It is not explicit within the Data Sharing Policy that SWAP will only share data with outside bodies if they receive consent from the relevant Partner. (Standard 2330)
11. The Staff Questionnaire Returns have highlighted a number of matters that need consideration by the Management Team and a plan devised as to how SWAP will respond to improve some of the issues raised. (Successful Practice)
12. The Client Questionnaire Returns have highlighted a number of matters that need consideration by the Management Team and a plan devised as to how SWAP will respond to improve some of the issues raised (Standard 1311)
13. External assessments must be carried out at least once every five years by a qualified independent reviewer or team from outside the organisation. The chief audit executive must discuss with the board the need for more frequent external assessments; and the qualifications and independence of the external reviewer or review team, including any potential conflict of interest." (Standard 1312)

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Ian Baker – Group Audit Manager Performance and Quality

**OBSERVATIONS AND RECOMMENDATIONS**

**PART I – MATTERS FOR CONSIDERATION OF SWAP MANAGEMENT BOARD**

These observations and recommendations originated principally from the comments received from the management survey, our interviews with selected executives, and follow-up of these matters. All are of direct importance to enhancing effectiveness and added value of the IA activity.

<p><b>1. Observation</b> The Head of Internal Audit Partnership (HoIAP) does not have a Job Description.</p>
<p><b>Recommendation</b> The Chair of the Management Board, in liaison with the HoIAP draws up a Job Description and Personal Specification for the HoIAP outlining the role and requirements of the post holder; both documents should be formally agreed by the Management Board.</p>
<p><b>Senior Management Response</b></p>

**PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY**

<p><b>1. Observation</b> SWAP has no formal process for benchmarking its costs or performance.</p>
<p><b>Recommendation</b> SWAP Management Team should devise a process for benchmarking SWAP against other service providers</p>
<p><b>Internal Audit Response</b></p>

**2. Observation**

Periodic Reviews of SWAP should be regularly completed.

**Recommendation**

SWAP Management Team should agree a time period for regular reviews, currently recommend every five years minimum, with an interim review part way through the agreed period.

**Internal Audit Response**

**3. Observation**

The Registers for Declaring Interests and Gifts or Hospitality are not reviewed by the SWAP Management Team

**Recommendation**

SWAP Management Team should periodically review the Gifts and Hospitality Register and sign the document off as an accurate record.

**Internal Audit Response**

**Recommendation**

SWAP Management Team review the Declaration of Interest Register at least annually to approve all declarations as acceptable and ensuring that adequate processes are in place to manage any potential conflicts.

**Internal Audit Response**

**4. Observation**

A Register capturing Declarations of Interest is maintained by the PA to the HoIAP. However, there are no annual reminders sent out and as a result the Register is out of date.

**Recommendation**

SWAP Management Team should ensure that annual reminders are sent out to all staff with specific reference to any items individuals may have on the Register to ensure it is current.

**Internal Audit Response**

**5 Observation**

The Audit Manual has not been regularly reviewed. The process for updating and adding new procedures has become disjointed and staff do not have access to the whole Manual, only the documents held on the MKi Library.

**Recommendation**

The content page of the existing Manual should be revisited by the SWAP Management Team to ensure it is relevant, accurate, current and complete.

**Internal Audit Response**

**Recommendation**

The SWAP Management Team should ensure that each documented procedure is reviewed for accuracy and currency and that where gaps are identified, a plan is put in place to develop the Manual further.

**Internal Audit Response**

**Recommendation**

Whilst waiting for an MKi solution, the Audit Procedure Manual should be made available to all staff on the shared drive via a shortcut link from their pc desktop.

**Internal Audit Response**

**6 Observation**

SWAPs Mission, Vision and Objectives are all captured in the Partnership Business Plan. However, these are not regularly reviewed or presented to staff for refreshment.

**Recommendation**

The Head of Internal Audit Partnership should ensure that awareness of the Mission, Vision and Objectives of SWAP is periodically raised with staff.

**Internal Audit Response**

**7 Observation**

Implementation Standard 1000.A1 states that if assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter. Some external clients do not have agreed IA Charters. Such clients should at least have a document that outlines the SWAP approach to External Client Engagements.

**Recommendation**

The Head of Internal Audit Partnership engages with external bodies where an annual opinion is offered to ensure an External Clients Engagement document is introduced and agreed.

**Internal Audit Response**

**8 Observation**

Attribute Standard 1230 requires that internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. While SWAP has a good process for Training, including a Strategy, it does not have a formal process for effectively measuring CPD. In addition comments received through staff feedback and associated interviews identified issues around the extent of training in connection with skills or knowledge required for audit assignments in highly technical areas.

**Recommendation**

The Group Audit Manager, Resources introduces a framework whereby CPD can be demonstrated and monitored.

**Internal Audit Response**

**Recommendation**

When devising in-house training courses the Group Audit Manager, Resources should ensure that they are assessed for CPD value.

**Internal Audit Response**

**Recommendation**

Consideration should be given to identifying suitable training and support for audit staff in relation to technical areas they may be required to audit as this could improve the quality and the credibility of the audit service to clients

**Internal Audit Response**



**9 Observation**

Implementation Standard 2330.A2 states that the CAE must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements. SWAP does not have such guidance formally documented

**Recommendation**

The Head of Internal Audit Partnership should ensure that a Document Retention Policy is developed within SWAP which includes the secure disposal of information no longer required.

**Internal Audit Response**

**10 Observation**

It is not explicit within the Data Sharing Policy that SWAP will only share data with outside bodies if they receive consent from the relevant Partner.

**Recommendation**

The Group Audit Manager, Resources should include a more definite statement within the Data Sharing Policy which confirms that SWAP will never share a Partners data without first receiving their consent.

**Internal Audit Response**

<p><b>11 Observation</b></p> <p>The Staff Questionnaire Returns have highlighted a number of matters that need consideration by the Management Team and a plan devised as to how SWAP will respond to improve some of the issues raised. Particular concerns include lack of knowledge or understanding of SWAPs vision and its future business objectives, concern that Group Audit Managers are increasingly out of touch with the rest of the staff. Concerns over continual changes to procedures, over emphasis on performance management , lack of career progression opportunities and training and also disparities in salary levels between staff expected to undertake the same roles</p>
<p><b>Recommendation</b></p> <p>The SWAP Management Team review the results of the staff questionnaire and focus priority on the areas identified above. This is critical to maintain service delivery and staff support.</p>
<p><b>Internal Audit Response</b></p>
<p><b>Recommendation</b></p> <p>SWAP Management Team should review the comments made by staff and prepare a response plan for each theme, where appropriate.</p>
<p><b>Internal Audit Response</b></p>
<p><b>Recommendation</b></p>
<p><b>Internal Audit Response</b></p>

**12 Observation**

The Client Questionnaire Returns have highlighted a number of matters that need consideration by the Management Team and a plan devised as to how SWAP will respond to improve some of the issues raised. There were six Sections to the Questionnaire covering:

1. Relationships with Management – 3.24
2. Audit Staff – 2.88
3. Scope of Audit Work – 3.20
4. Audit Process and Report – 2.88
5. Management of the Internal Audit Activity – 3.20
6. Value Added – 2.97

The scores are shown alongside each of the Sections where 1 would represent Poor, 2 Fair, 3 Good and 4 Excellent. In line with its strapline SWAP, as a Partnership, aims to deliver 'Excellence'. Three of the Sections (on average) are heading that way and it must be recognised from the results that individual Partners will have different needs. However, three Sections (on average) fall below the level of 'Good'; all three relating to delivery of the audit. Whilst the overall average of the feedback scored 3.01 (Good), individual Partner scores ranged from 2.12 to 3.60. Appreciating that the lowest score has come from the newest two major Partners, it is evident that Management Resources should be targeted to these areas to address their concerns, where possible. In addition, individual scores from Partners falling below 3 (Good) should be followed up on a one to one basis by Group Audit Managers to ascertain if there is opportunity for improvement; it should however be recognised that in some instances the Partner does not require IA input to the category under question.

**Recommendation**

SWAP Management Team review the results of the client questionnaire and focus priority on the three areas identified above.

**Internal Audit Response**

**Recommendation**

The Head of Internal Audit Partnership should ensure that Group Audit Managers follow up all scores assessed below 3 (Good) with individual Client Officers.

**Internal Audit Response**

**Recommendation**

In conjunction with following up on scores assessed below 3 (Good), the Head of Internal Audit Partnership should ensure that Group Audit Managers follow up on all comments made with individual Client Officers.

**Internal Audit Response**

**13 Observation**

External assessments must be carried out at least once every five years by a qualified independent reviewer or team from outside the organisation. The chief audit executive must discuss with the board:

- The need for more frequent external assessments; and
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.”

**Recommendation**

The Head of Internal Audit Partnership (HoIAP) should use the results of this review to determine whether there is a need for more frequent external assessment. As a very minimum it is essential that the HoIAP ensure that the observations and issues arising from this Assessment form the basis of a Quality Assessment Improvement Plan (QAIP).

**Internal Audit Response**

## ATTACHMENT A STANDARDS CONFORMANCE EVALUATION SUMMARY

### SOUTH WEST AUDIT PARTNERSHIP

: Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	PC	DNC
<b>OVERALL EVALUATION</b>				
<b>ATTRIBUTE STANDARDS</b>				
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	X		
1010	Recognition of the Definition of Internal Auditing	X		
<b>1100</b>	<b>Independence and Objectivity</b>	X		
1110	Organisational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>			
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>			
1310	Requirements of the Quality Assurance and Improvement	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement	X		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Nonconformance	X		
<b>PERFORMANCE STANDARDS</b>				
<b>2000</b>	<b>Managing the Internal Audit Activity</b>			
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures		X	
2050	Coordination	X		
2060	Reporting to Senior Management and the Board	X		

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: Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	PC	DNC
<b>2100</b>	<b>Nature of Work</b>			
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
<b>2200</b>	<b>Engagement Planning</b>			
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
<b>2300</b>	<b>Performing the Engagement</b>			
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
<b>2400</b>	<b>Communicating Results</b>			
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
<b>2500</b>	<b>Monitoring Progress</b>	X		
<b>2600</b>	<b>Management's Acceptance of Risks</b>	X		
<b>IIA Code of Ethics</b>		X		

## Definitions

**GC – "Generally Conforms"** means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has

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not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, “successful practice,” etc.

**PC – “Partially Conforms”** means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organization.

**DNC – “Does Not Conform”** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

## **ATTACHMENT B INDEPENDENT VALIDATOR STATEMENT**

The validator was engaged to conduct an independent validation of the SWAP self-assessment. The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the IA activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*. Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive (CAE).

In acting as validator, I am fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period 21<sup>st</sup> May 2012 to 8<sup>th</sup> June 2012, consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with the Chair of the SWAP Management Board, Chair of Somerset County Council Audit Committee, External Audit Manager for Somerset County Council, representative client senior management, representative sample of SWAP staff, the Head of SWAP and the leader of the QA Review team.

I concur fully with the IA activity's conclusions in the self-assessment report attached. Note that observations numbers 8 and 11 in Part 2 have been strengthened by the validator in light of discussions with staff and client managers and recommendation 8.3 in the report, which is considered successful professional practice, was recommended by the validator and accepted by the CAE for inclusion in the final report. In addition recommendation 11.1 was strengthened by the validator to reflect successful practice.

Implementation of all the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the IA activity and ensure its full conformity to the *Standards*.

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Martin Gould BSc CPFA

Independent Validator

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Date 7<sup>th</sup> June 2012