

# Review of Internal Audit

*Metropolitan Police Authority*

Audit 2000/01



DISTRICT AUDIT

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for the Audit Commission

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## Summary Report

## Action Plan

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## Introduction

Internal Audit forms a key part of the corporate governance arrangements put in place by the Authority to ensure adequate internal control. Following the introduction of the new Code of Audit Practice in March 2000, one of our key tasks is to consider whether the Authority has in place adequate arrangements to satisfy itself that its systems of internal financial control are adequate and effective in practice.

We undertook a detailed assessment of internal audit's performance against its own professional standards, which are based on those set out in CIPFA's Code of Practice (the Code). The Code provides clarification of the internal audit role and responsibilities.

This report summarises the findings of our review. Where relevant, recommendations for action have been made and these are detailed in the attached action plan.

## Objectives and scope

Our review assessed the following aspects of the internal audit function:

- Objectives and scope
- Independence
- Staffing and training
- Relationships
- Due care
- Planning and controlling
- Recording
- Evaluation of internal controls
- Evidence
- Reporting and follow up.

We held discussions with key internal audit staff, reviewed recent internal audit reports and recommendations and reviewed in detail the files for five audits completed during the audit year 2000/2001.

## Main conclusions

In our interim assessment of internal audit, we reported that “it is clear that internal audit work is of the type of quality that we would be able to rely on”. The findings of our detailed review do not give us cause to amend that view and in the main, we are pleased with the quality of internal audit identified during our audit.

We found that, subject to our recommendations for improvement, internal audit achieved the required professional standards. We welcome the revised internal audit manual and strategy, the risk based approach to planning that has been applied and the production of the strategic, annual and operational plans. This provides for the review of all systems over a five year period and an assessment of the audit resources required to fulfil this objective.

We also welcome the audit approach taken by internal audit in the use of the Control Evaluation Records (CERs) on each file. This provides that all appropriate controls within a system are identified and evaluated to ensure that the system control objectives are met, and accords with recommended practice. The practice of collating these CERs in a summary permanent audit file, together with the testing summary, the key findings and the subsequent recommendations to be reported, provides a clear, high-level trail of internal audit work and thought processes. This will, in future years, assist in analysing trends and weaknesses over time and in evaluating the effectiveness of internal audit recommendations for improvement.

We identified scope for improvement in a number of areas, for example in the controlling and monitoring of audits and in cross-referencing audit documentation. The 2000/2001 internal audit programme slipped considerably due to a variety of reasons, including a high staff turnover and the diversion of resources to unforeseen high risk reviews. This resulted in a coverage of only 66% of the original audit plan. In addition, delays are often experienced between the commencement and completion of audits, and between the completion of audits and the issue of a final report.

We acknowledge that this is often for reasons beyond the control of internal audit, and internal audit’s intention to achieve a full staff complement should assist in addressing this in future years. We also welcome internal audit’s flexible and responsive approach in managing such situations as they arise. High risk audits have remained prioritised throughout the audit year and we note that the proportion of time spent across the various internal audit areas is in line with the coverage originally intended in the strategy and annual audit plan. All revisions to the audit plan and diversion of audit resources were approved by the Audit Panel.

The amount of time charged to audits also appears high compared with our experience of other audits, which indicates possible weaknesses in the arrangements for monitoring and controlling audits.

The following sections summarise our findings in respect of each of the professional standards relating to internal audit, as set out in the CIPFA Code. Detailed recommendations for improvement are contained in the attached action plan.

### **Objectives and scope**

The internal audit strategy clearly sets out internal audit's aims and objectives, and how the achievement of these objectives will be evaluated and measured. The Financial Regulations also refer to internal audit's terms of reference. These could be updated, however, to clarify internal audit's rights of access to Members, appropriate records and assets, personnel, senior management (including the Commissioner) and their unrestricted range of coverage of the Authority's operations, in accordance with paragraph G5 of the Code.

### **Independence**

No concerns were identified with internal audit independence in terms of organisational status and personal objectivity. The Director of Internal Audit has the freedom to determine internal audit priorities and has direct access to, and freedom to report to, all senior management, the Audit Panel and Members of the Authority. The independence of internal audit is strengthened by its status as a separate department within the Authority.

### **Staffing and training**

Internal Audit has a comprehensive and structured training programme which is tailored to the needs of the individual. Performance targets are set, as detailed in the Internal Audit manual, which are designed to ensure individual auditors assist internal audit in achieving its strategic and professional objectives.

However, the internal audit function has been staffed below its establishment for some time. In conjunction with other factors, such as the diversion of resources to unforeseen high risk reviews and a high staff turnover, this has led to slippage in annual audit plans.

### **Relationships**

Internal Audit establishes and maintains high level relationships with key directorates and senior management, as well as with both internal and external review bodies. The Authority is currently in the process of evaluating its own corporate risks and priorities, and once this is completed, internal audit will need to ensure that its own identified risks and priorities are consistent with those identified by the Authority.

## Due care

Internal audit has adopted the standards of the Institute of Internal Auditors (IIA) and CIPFA. In addition, its own performance indicators, as set out in the revised internal audit manual, state that auditors must adhere to professional and ethical standards. Adherence to these standards is monitored through the appraisal system.

At present, no formal quality review of files is undertaken other than those reviewed by senior management prior to the issuing of a report. Although a peer review mechanism has been established, staff shortages and a diversion of resources have prevented its implementation. Internal audit recognise the fact that there is scope for increasing the level of quality and peer review of files to ensure consistent and adequate quality standards are maintained within internal audit files and working papers.

## Planning

We welcome the comprehensive planning structure in place. The rolling five year risk assessment and evaluation of resources required to audit all systems within a five year period informs the annual audit plan, which in turn informs the quarterly operational plan.

Although the annual plans are based on likely audit resources for the coming year, staff numbers have fallen further below predicted levels, and the intended workload has slipped. The use of consultants to undertake the excess workload is only partially effective due to the increased resources required to monitor such work.

Internal audit has ensured that high risk audits are prioritised and carried out, but there is a risk, due to the annual slippage in plans, that medium and low risk audits may not be covered over the five year period.

## Controlling

Internal audit has in place arrangements to ensure the consistency and quality of audit reports. However, there is, at times, little evidence of review of working paper files and detailed testing.

Details of audit time and cost are maintained on a database and the most costly audits analysed. The amount of time charged on certain audits appears high compared with our experience of other audits, even taking into account the increased size of audits at this Authority. This suggests some weakness in the effectiveness of internal audit's monitoring and control of audits as they progress, ensuring that they adhere to the agreed scope and terms of reference. Internal audit recognise that their effectiveness in this area has been less than robust and are taking steps to improve their performance.

## **Recording and Evidence**

Whilst the permanent audit files are clearly and consistently structured, referenced and indexed, there is often a lack of an audit trail between the permanent files and the supporting working paper files. The working paper files can be difficult to follow, with little in the way of a consistent structure or audit trail.

Internal audit thought processes are clearly documented within the high level permanent files. However, there is little documentation, within the detailed working paper files, of the audit trail or the audit approach adopted for detailed testing and little evidence of review of working papers throughout the files.

Internal audit files contain a substantial amount of evidence. However, the weaknesses in the structure and referencing within the detailed working paper files can make it difficult, for an auditor not familiar with the audit, to evaluate the extent to which the evidence obtained supports the audit findings and conclusions.

## **Evaluation of internal controls**

Internal audit has in place arrangements to ensure the range of systems across the Authority are evaluated in the form of its rolling five-yearly risk assessment and evaluation of audit resource needs. There are also arrangements in place to ensure the appropriate system controls are identified, tested and evaluated when undertaking individual audits.

## **Reporting and follow up**

In general, internal audit reports are well structured, easy to follow and present the findings and recommendations for improvement in a concise and clear manner.

Internal audit are aware that there has been slippage in their follow up of recommendations. As at the date of our review, only 63% of high risk recommendations made by internal audit during 2000/2001 had been implemented. The delays in undertaking follow up audits may be a contributing factor to this, although responsibility for implementing audit recommendations lies with the relevant departments. In the absence of formal follow up reviews, internal audit do check the progress made on implementing recommendations with telephone calls and correspondence.

Internal audit have now implemented a standardised assurance rating system to enable them to highlight to officers the significance of any system weaknesses identified in the audit on a consistent basis.

There are at times delays between the completion of audit work and the issuing of a final report. We acknowledge, however, that this is often for reasons beyond the control of internal audit.

## **Acknowledgement**

We would like to take this opportunity to thank your officers for their friendly and helpful co-operation during this audit.