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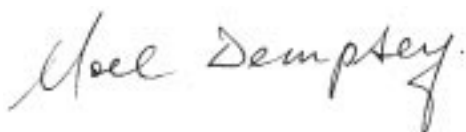


# Foreword

Report number 20, *'Internal Audit in Local Authorities'* is published in accordance with Section 14 (7) of the *Local Government (Financial Provisions) Act, 1997*. This report was prepared by my Department's Value For Money Unit.

Internal Audit has a vital role to play in ensuring that best practices are adopted by local authorities in the management of public funds handled by them and in the governance of operations generally.

For those reasons, I am directing local authority managements' attention to the findings, conclusions and recommendations contained in the report, which should be used to effect the relevant development of, and improvements to, the internal audit function in their respective authorities.



Noel Dempsey T.D.,  
Minister for the Environment and Local Government.  
December, 2000.



# Summary

This report is based on a study of internal audit in local authorities, carried out by the Value for Money Unit of the Department of the Environment and Local Government. The intent of the report is to aid and promote the development of a professional internal audit function in local authorities.

In Ireland, the internal audit function in local authorities has its origins in the role carried out by the County Checker. *Articles 44 and 45 of the Public Bodies Order, 1946* laid down the requirements for the checking of accounts of monies received on behalf of a local authority. In the past, scarcity of resources and staffing restrictions has inhibited the development of the internal audit function.

In recent times, the scale, diversity and funding of local authority operations has increased significantly with a corresponding increase in statutory and regularity requirements. This has led to the use of more complex and technically advanced financial and management information systems. While management is responsible to stakeholders for the establishment and maintenance of internal control, as systems become more complex, the need for a more professional internal audit function to assist management has become evident.

External interests such as the Department of the Environment and Local Government, the Local Government Audit Service and the European Commission also, increasingly, rely on the operation of internal audit for assurances.

Internal audit has been defined as:

*'An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, effective and efficient use of resources'.<sup>1</sup>*

Internal control has been defined as:

*'The whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records.....It is the responsibility of management to decide the extent of the internal control system, which is appropriate to the enterprise.'*

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<sup>1</sup> Auditing Practices Board

The findings/evaluations from the study are set out in the report under four headings as follows:

- staffing resources allocated to internal audit
- delivering internal audit
- operating framework for internal audit
- other internal audit issues.

### **Staffing resources allocated to internal audit**

In most local authorities, the level of staffing resources allocated to internal audit was inadequate and much of the time of staff assigned to it was spent on non-internal audit work. Moreover, there was a low staffing grade and a considerable amount of staff rotation. The development and growth of internal audit as a professional service is inhibited by these circumstances.

### **Delivering internal audit**

In local authorities, there is considerable scope for improvement to the practices and procedures used by internal audit to deliver a professional service.

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In general, there was an absence of effective planning and the scope of the actual work undertaken was limited. Important audit techniques, such as risk assessment were not employed and the level of systems review was low. Standard audit procedures in relation to controlling, recording and reporting were in need of development, as was the need for audit review procedures.

The absence of professionally qualified accountants/auditors in internal audit sections has contributed to the under development of internal audit operations. Moreover, the inadequate level of internal audit training currently provided, means that internal audit staff do not, in many instances, have the skills necessary to carry out audits to the standard now required.

### **Operating framework for internal audit**

In many authorities, there was a lack of clarity as to the role of internal audit and of its relationship with management. This was often reflected by the employment of internal audit in a line management capacity. Accordingly, there is a need for the establishment of an operating framework which would bring a greater understanding of the work and *raison d'être* for internal audit. One of the best practice ways of doing this is by setting out its role, responsibility, objectives and scope in an internal audit charter.

## Other internal audit issues

### *Value for Money (VFM)*

In some authorities, it was found that there was a diminution in the amount of audit coverage where internal audit was given the added task of monitoring and reporting on the implementation of recommendations from the national VFM reports.

### *Information technology (IT)*

There was considerable use of personal computer applications by internal audit staff with regard to word processing and spreadsheets. However, there was found to be a need for training in the use of more advanced computer techniques, such as computer assisted audit techniques (CAATs) and other tools for data extraction and analysis.

### *Implementation of laws, regulations and policies*

A significant number of local authorities did not use internal audit to review and report on compliance with laws and regulations. Of those that did, the extent of the laws and regulations examined was limited.

In most authorities, reviews of policy implementation were not formally undertaken by internal audit.

### *Contracting out specialised work*

There appears to be scope for contracting out specialised work, e.g. computer audit, where the required expertise is not available within the authority.

### *Performance indicators and benchmarks*

It was found that there were no indicators and benchmarks in place to monitor and measure internal audit performance.

### *Audit Committees*

Many local authorities acknowledged that an audit committee would be beneficial, however, only a small number had established one. Where an audit committee had been established, its membership consisted of executives and senior staff members only. There was no external representation on the audit committees.

## **Recommendations**

Recommendations, in respect of identified weaknesses, are set out in detail at the end of each section of this report. In addition, all the recommendations are brought together in the summary of recommendations on pages 9-11.

## **Internal Audit Guidance Handbook**

In conjunction with this report, an *'Internal Audit Guidance Handbook'* is being published. The handbook elaborates on many issues raised in the report and provides guidance on the implementation of recommendations contained therein.



# Summary of recommendations

## *Staffing Resources allocated to internal audit*

1. Internal audit should be adequately staffed, taking account of expenditure levels and according to audit coverage required.
2. The role of internal audit should be expanded from the checking of routine transactions. Undertaking non internal audit work should be discontinued.
3. The head of internal audit should be pitched at the appropriate grade level in order to attract a high calibre of candidate to develop the service, and to provide a career path in internal audit.
7. The strategic and annual audit plans should be reviewed by the internal auditor on a regular basis and updated, where necessary, to include an examination of changes in risks, particularly where a system/process has been amended or replaced.
8. An audit planning memorandum should be used to plan each audit assignment. This should summarise what the audit review hopes to achieve and how it proposes to do it.

## *Delivering internal audit*

4. Risk assessment should be used by internal audit at the overall planning stage and, also, when identifying the scope of an individual process review.
5. In consultation with the Manager, a strategic plan setting out audit priorities for the medium to long term should be prepared. It should show the intended coverage identified in the risk assessment process. All material areas within the authority should be reviewed regularly.
6. In line with the strategic plan, an annual audit plan should be prepared each year and agreed with the Manager. It should set out the intended coverage by internal audit for the year.
9. Internal audit should set out its findings and recommendations by means of formal written reports. These reports should be discussed and agreed with line management.
10. To maintain internal audit's independence, all reports issued should be submitted directly to the Manager.
11. To ensure that the impact of a report is not lost, formal detailed procedures for follow-up of agreed recommendations should be adopted.
12. A *Fraud and Corruption Alert Plan* should be developed by management in all local authorities.
13. Internal audit should formally assess the arrangements for preventing, detecting and investigating fraud and corruption, including the adequacy of a *Fraud and Corruption Alert Plan*.

14. Internal audit should examine, evaluate and report on the:

- accounting and other management information systems in place
- adequacy and integrity of financial and other data prepared
- establishment of, and compliance with, procedures and controls
- implementation of policies and achievement of stated goals
- adherence to laws and regulations
- attainment of economy, efficiency and effectiveness
- safeguarding and use of assets
- risk exposure to fraud and/or corruption.

Internal audit, inter alia, may also be called upon to:

- review performance and performance measurements
- carry out special investigations
- provide a consultative role to management
- co-operate with external audit.

15. Internal audit should examine and report on compliance with the requirements in relation to E.U. co-funded projects, as set out in:

- Commission Regulation (EC) No. 2064/97
- Department of Finance Circular 23/98 on Financial Management and Control Procedures for the ERDF
- EU Commission Management and Control Systems Audit Manual
- Circular letter 1A 1/'99

16. Adequate training to relevant professional/ accredited diploma level should be provided to internal audit staff, so that they have the skills to carry out audits effectively.

17. To ensure that professional standards and guidelines are incorporated into the work of internal audit in local authorities, the head of an internal audit section should be required to be a qualified member of one of the recognised accountancy bodies or of the Institute of Internal Auditors.

#### *Operating framework for internal audit*

18. Every internal audit function should operate under an *Internal Audit Charter*. The charter should include statements on the:

- role of internal audit
- responsibilities of internal audit
- status of internal audit
- independence of internal audit
- scope of internal audit's work
- audit methodologies used
- reporting arrangements
- Managers' role and responsibilities.

19. The *Internal Audit Charter* should be approved by the Manager and should be made available to all sections of the local authority, so that there is clear understanding about the role of internal audit within the authority.

20. Internal audit and the Local Government Auditor should liaise to ensure that:

- maximum coverage is achieved
- duplication of work is minimised.

#### *Other internal audit issues*

21. Internal audit should incorporate the appraisal of economy, efficiency and effectiveness into its audit schedules.

22. Internal audit, when assessing a local authority's IT risk, needs to consider the adequacy of the IT policy and procedures in place at the authority.

23. Internal audit needs to consider tools and techniques, such as computer aided auditing techniques, to make optimal use of IT when carrying out audits.

24. Audit coverage of laws and regulations, governing local authority operations, should be extended and incorporated into audit work schedules.

25. Internal audit should assess implementation and compliance with policy as outlined in strategy statements and business plans. This can form part of systems review or be undertaken separately.

26. The performance indicators identified in the *'Internal Audit Guidance Handbook'*, should be produced and monitored from year to year. Unless otherwise specified, the indicators should be reported for the financial year.

27. All internal audit units should evaluate their performance in comparison with the good practice benchmarks identified in the *'Internal Audit Guidance Handbook'*.

28. Local authorities should consider the benefits of having an audit committee. If set up, an audit committee should have written terms of reference, which sets out clearly its authority and duties. Consideration should also be given to external representation on the committees, in the interests of better governance.

# 1. Introduction

## 1.1 Background

This report is based on a study of internal audit in local authorities, carried out by the Value for Money Unit of the Department of the Environment and Local Government. The intent of the report is to aid and promote the development of a professional internal audit function in local authorities.

The total estimated amount of local authority expenditure for both revenue and capital amounts to £3.51 billion in 2000<sup>2</sup>. This expenditure will be funded by income from government grants, rates levied on commercial properties, charges for various services, long-term borrowing and other miscellaneous sources.

In Ireland, the internal audit function in local authorities has its origins in the role carried out by the County Checker. *Articles 44 and 45 of the Public Bodies Order, 1946* laid down the requirements for the checking of accounts of monies received on behalf of a local authority. In the past, scarcity of resources and staffing restrictions has inhibited the development of the internal audit function.

In recent times, the scale, diversity and funding of local authority operations has increased significantly with a corresponding increase in statutory and regularity requirements. This has led to the use of more complex and technically advanced financial and management information systems. While management is responsible to stakeholders for the establishment and maintenance of internal control, as systems become more complex, the need for a more professional internal audit function to assist management has become evident.

External interests such as the Department of the Environment and Local Government, the Local Government Audit Service and the European Commission also, increasingly, rely on the operation of internal audit for assurances.

## 1.2 Definitions

Internal audit has been defined as:

*‘An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, effective and efficient use of resources’.*

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<sup>2</sup> Source 2000 Annual Estimates published by the Department of the Environment and Local Government

Internal control has been defined as:

*'The whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records.....It is the responsibility of management to decide the extent of the internal control system, which is appropriate to the enterprise.'*

### **1.3 Scope of internal audit**

In line with the foregoing definitions, internal audit should examine, evaluate and report on the:

- accounting and other management information systems in place
- adequacy and integrity of financial and other data prepared
- establishment of, and compliance with, procedures and controls
- implementation of policies and achievement of stated goals
- adherence to laws and regulations
- attainment of economy, efficiency and effectiveness
- safeguarding and use of assets
- risk exposure to fraud and/or corruption.

Internal audit, inter alia, may also be called upon to:

- review performance and performance measurements
- carry out special investigations
- provide a consultative role to management
- co-operate with external audit.

### **1.4 Objectives of the study**

The study was undertaken to:

- evaluate internal audit in local authorities against best practices
- make relevant recommendations in respect of weaknesses identified
- provide a basis for local authorities to examine their own performance so that improvements can be introduced where necessary.

## 1.5 Methodology

The study was carried out in two stages:

### *Stage 1 – national survey*

A questionnaire<sup>3</sup> was issued to all county councils, county borough and borough corporations, as well as a number of the larger urban district councils. Through this questionnaire, data was collected in respect of audit objectives, staffing, training, relationship with the local government auditor, planning, recording, reporting, follow-up, information technology, European Regional Development Funds, fraud and corruption and Value for Money.

All councils surveyed returned completed questionnaires. As the smaller authorities did not assign any staff specifically to internal audit or receipt checking duties, the findings in this report are in relation to the county councils (29) and the county borough corporations (5).

### *Stage 2 – pilot visits*

Three authorities were visited to compare the current operating framework and delivery of internal audit against best practice criteria. Data gathered by the pilot authorities for the national survey were also reviewed.

## 1.6 Findings/Evaluations

The findings/evaluations from the study are set out in four sections as follows:

- staffing resources allocated to internal audit
- delivering internal audit
- operating framework for internal audit
- other internal audit issues.

In each section, the results of the survey and pilot visits are compared with best practices, which are followed by a conclusion and a set of recommendations.

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<sup>3</sup> All questionnaires were returned by September 1999

## 1.7 Internal Audit Guidance Handbook

An *'Internal Audit Guidance Handbook'* is being published in conjunction with this report. The handbook:

- elaborates on many issues raised in the report
- provides practical guidance on the implementation of recommendations made in the report in the following areas:
  - role of internal audit
  - role of the Manager
  - audit committees
  - risk management
  - audit planning
  - systems auditing
  - audit files
  - reporting
  - staffing and training
  - relationship with the Local Government Auditor
  - information technology
  - fraud and corruption
  - european co-financed projects
  - value for money.

## 1.8 Acknowledgement

The Value for Money (VFM) Unit would like to thank the heads of internal audit in the four external bodies who were contacted during the course of the study;

- Revenue Commissioners
- Central Bank of Ireland
- Aer Lingus
- Department of Agriculture, Food and Rural Development.

The VFM Unit would also like to thank each of the following, for their assistance and co-operation during the study:

- local authorities who returned the questionnaires and participated in the pilot visits
- officers of the DoE&LG
- the members of an advisory group<sup>4</sup> set up to assist the VFM Unit.

<sup>4</sup> E. Lusby, Finance Officer Galway County Council, S. Casey, Head of Internal Audit Dublin Corporation, J. Fitzgerald, Principal Officer DoELG.

## 2. Staffing resources allocated to internal audit

### 2.1 Evaluation criteria

Local authorities should ensure that internal audit staffing resources are sufficient to deliver the required audit coverage.

### 2.2 Resourcing internal audit

There should be a strong relationship between the expenditure base of a local authority and the staffing resources allocated to internal audit. During the study, an assessment was made of internal audit staff requirements in local authorities for different levels of expenditure. Operations were classified in order of priority and audit days were allocated on a risk basis. The result of the assessment was as follows:

<u>Total expenditure (Capital and Revenue)</u> <u>incurred in an authority:</u>	<u>Staffing requirements</u>
£100M - £200M	5.0 – 7.0
£ 50M - £100M	2.5 – 5.0
£ 20M - £ 50M	1.0 - 2.5

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The assessment was based on the:

- VFM Unit's audit experience of local authority operations
- scope of internal audit work, as outlined in section 1.3 on page 13
- audit coverage required over a three year period
- traditional probity audit approach.

The staff assigned to internal audit was then compared with the assessment, taking account of:

- the time spent on internal audit work <sup>5</sup>
- the grade level of staff allocated to internal audit work
- expenditure incurred in 1998 <sup>6</sup>

The results of the comparison are set out in chart form as follows:

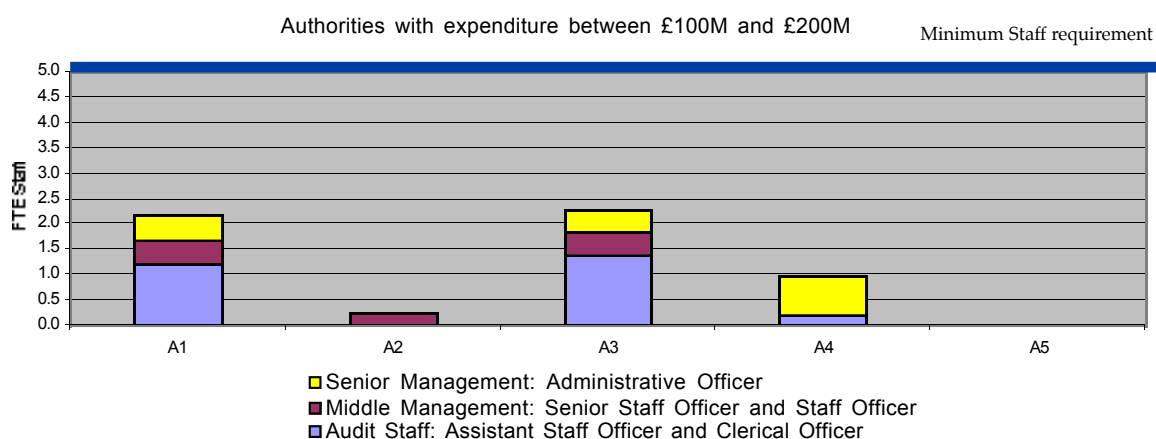
- Chart 1 - between £100M and £200M
- Chart 2 - between £50M and £100M
- Chart 3 - between £20M and £50M

<sup>5</sup> See Appendix 1 for an analysis of staff numbers and time spent across duties by authority

<sup>6</sup> See Appendix 2 for an analysis of time spent on internal audit and expenditure by authority



Chart 1:



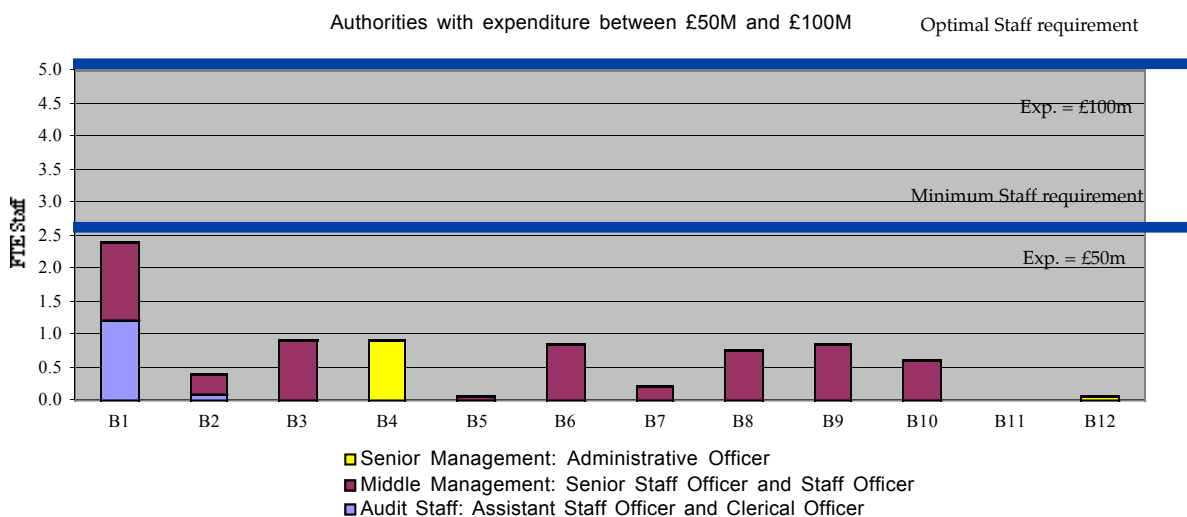
<i>Designated letter</i>	<i>Local Authority</i>	<i>Designated letter</i>	<i>Local Authority</i>
A1	Cork County Council	A4	Fingal County Council
A2	South Dublin County Council	A5	Dun-Laoghaire/Rathdown County Council
A3	Cork Corporation		

One authority under this classification of expenditure assigned no staff to internal audit work and a second authority allocated only 0.3FTE.<sup>7</sup> None of the authorities provided the assessed minimum staff requirement.

<sup>7</sup> FTE: Full time equivalents

Dublin corporation incurred expenditure of £413M in 1998 and allocated 9FTE staff to internal audit. This authority was excluded from the graphs because of the significant difference in its size and staff complement when compared to other authorities. The head of internal audit in Dublin Corporation is fixed at the senior grade of Assistant Principal Officer.

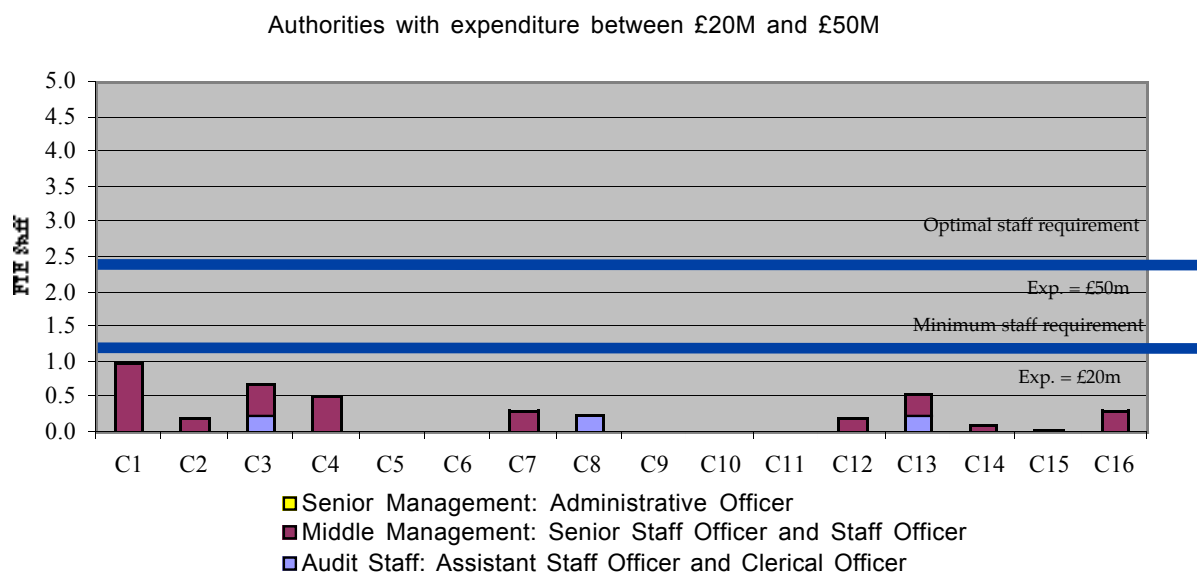
Chart 2:



<i>Designated letter</i>	<i>Local Authority</i>	<i>Designated letter</i>	<i>Local Authority</i>
B1	Donegal County Council	B7	Meath County Council
B2	Kildare County Council	B8	Wicklow County Council
B3	Galway County Council	B9	Clare County Council
B4	Mayo County Council	B10	Limerick Corporation
B5	Kerry County Council	B11	Louth County Council
B6	Limerick County Council	B12	Kilkenny County Council

In authorities under this classification, three authorities assigned little or no staff to internal audit work. Almost all authorities assigned less than 1FTE.

Chart 3:



<i>Designated letter</i>	<i>Local Authority</i>	<i>Designated letter</i>	<i>Local Authority</i>
C1	Tipperary South Riding County Council	C9	Westmeath County Council
C2	Wexford County Council	C10	Laois County Council
C3	Waterford Corporation	C11	Waterford County Council
C4	Cavan County Council	C12	Offaly County Council
C5	Roscommon County Council	C13	Monaghan County Council
C6	Tipperary North Riding County Council	C14	Leitrim County Council
C7	Sligo County Council	C15	Carlow County Council
C8	Galway Corporation	C16	Longford County Council

Under this classification, a number of authorities did not assign staff to internal audit work.

### Key findings:

- *most authorities did not allocate the assessed minimum staff requirement to internal audit*
- *21% of authorities allocated no staff resource to internal audit*
- *of the remaining 79%, less than one third of staff's time allocated was spent on internal audit work. Most time was spent on receipt checking and other duties*
- *there was a high rotation of staff to internal audit in the period 1997 to 1999. In some cases, due to difficulty filling vacancies, internal audit work was shelved for a period of time*
- *in two of the pilot authorities visited, no internal audit work was undertaken in recent months due to staff rotation and due to checking duties, investigations and non-internal audit work being assigned priority*
- *in many cases the grade level of staff assigned to internal audit was too low to ensure its proper development.*

### 2.3 Conclusion

In most local authorities, the level of staffing resources allocated to internal audit was found to be inadequate and much of the time of staff assigned to it was spent on non internal audit work. Moreover, there was a low staffing grade structure and a considerable amount of staff rotation. The development and growth of internal audit as a professional service is inhibited by these circumstances.

### 2.4 Recommendations

1. Internal audit should be adequately staffed, taking account of expenditure levels and according to audit coverage required.
2. The role of internal audit should be expanded from the checking of routine transactions. Undertaking non-internal audit work should be discontinued.
3. The head of internal audit should be pitched at the appropriate grade level in order to attract a high calibre of candidate to develop the service, and to provide a career path in internal audit.

# 3. Delivering internal audit

## 3.1 Evaluation criteria

Audit coverage should be planned in accordance with an agreed risk assessment mechanism.

Audit coverage should be planned strategically.

Individual audit assignments should be properly planned, controlled, recorded and evaluated.

Audit conclusions should be based on sound evidence.

Internal audit reports should be supported by adequate audit evidence and should be issued directly to the Manager.

Internal audit coverage should address the risk of fraud and/or corruption.

The European Commission requirements in relation to the audit of E.U. co-financed operations should be properly understood and implemented.

Provision for appropriate training should be made for internal audit staff.

## 3.2 Audit Coverage

Audit coverage should be planned in accordance with an agreed risk assessment mechanism.

A key aim of any internal audit section is to minimise the potential for loss to the authority arising from inefficiency, negligence, error or fraud.

Deciding where to concentrate internal audit's time, depends on an assessment of the level of risk an authority is exposed to and how effectively the risk is controlled. To do this effectively, all accounting and information systems in the authority should be assessed. Potential risks for each system then need to be highlighted together with any related controls. Potential risks should be evaluated and prioritised using an agreed mechanism, e.g. low, medium, high.

The higher the score, the more frequently the area should be subject to audit. The results of a risk assessment process should form the basis of the strategic and annual audit plans.

Factors to consider when identifying and assessing areas of risk include, materiality, staff numbers and experience, IT changes, new regulations, changes in policy and the history of fraud within the authority.

Key finding:

- *88% of internal audit sections do not use risk assessment methodologies in their work.*

### 3.3 Audit Planning

Audit coverage should be planned strategically.

#### *Strategic audit plan*

The strategic audit plan, is a long-term plan which shows the intended coverage of all risk areas identified in the risk assessment process over a given period (usually three years). The higher the risk the more frequently the area should be subject to audit. The strategic audit plan should be agreed with the Manager.

Key findings:

- *82% of internal audit sections do not produce a strategic audit plan*
- *where the plan was produced, only half of the authorities compared the plan with the actual position at the end of the period.*

#### *Annual audit plan*

The annual audit plan translates the strategic plan into a schedule of audit assignments to be carried out for an individual year. Before commencement, it should be agreed with the Manager.

Key findings:

- *65% of internal audit sections do not produce a written annual audit plan*
- *where the plan was produced, only half of the authorities compared the plan with the actual position at the end of the year.*

### 3.4 Audit procedures

Individual audit assignments should be properly planned, controlled, recorded and evaluated. Audit conclusions should be based on sound evidence.

Audit procedures should include the following:

- planning the assignment and producing an audit planning memorandum (APM). An APM is a statement of what the review hopes to achieve, and how it proposes to do this
- documenting and evaluating the system. The purpose of this is to conclude on whether the system in place meets the needs for which the system was designed
- completing a risk assessment to determine the exposure to potential loss. This includes establishing and examining control objectives, in the light of the current processes in place, and forming a conclusion on whether the control objectives are appropriate and are being met
- performing a '*walkthrough test*' of the complete system, i.e. following a sample of transactions through the system from beginning to end to confirm that the system operates as documented
- if reliance is placed on key controls, performing compliance tests to confirm that the identified controls are working properly throughout a given period
- performing substantive testing, i.e. testing a large number of individual transactions for correctness. If reliance is placed on key controls, the level of substantive testing will be reduced but will still need to be performed
- reviewing the working papers to confirm that the completed audit work agrees with the audit plan objectives, and contains adequate evidence to support the conclusion reached
- a file review process should also be in place to ensure that the audits completed are of an agreed standard.

### Key findings:

- *91% of internal audit sections do not prepare an audit planning memorandum for individual audit assignments*
- *as stated in section 3.2., 88% of internal audit sections do not use risk assessment when developing audit planning memoranda*
- *in many local authorities, the scope of the internal audit work planned and carried out was limited. Local authorities have also indicated that when staff leave internal audit, due to promotion, resignation etc., the checking function is assigned priority and internal audit work is shelved until a replacement is found*
- *50% of local authorities did not review, assess or make recommendations with regard to the adequacy, efficiency or effectiveness of all existing financial, information, or IT systems*
- *65% of local authorities did not use internal audit to evaluate new or modified systems, specify the necessary internal controls, or monitor the introduction and operation of these controls*
- *67% of local authorities did not use internal audit to verify the existence, or review the safeguarding of assets.*

### 3.5 Audit reports

Internal audit reports should be supported by adequate audit evidence and should be issued directly to the Manager.

Internal audit sections, produce various types of reports including:

- process reviews
- follow-up of agreed recommendations
- follow-up of completed process reviews
- progress reports on the annual audit plan.

In general, all reports issued should include the following:

- addressee and date
- report number & audit file reference
- purpose of the review
- scope of the review
- key findings
- recommendations made
- line management views
- actions agreed with line management
- deadlines for implementation
- executive summary (if long report).



The report should support the conclusions set out in the working papers, on the adequacy of the process being reviewed.

Reports should be submitted directly to the Manager. This reinforces the independence of internal audit. In some instances, the Manager delegates authority to a senior manager to review internal audit reports. In these instances, it is important that the role and position of internal audit within the authority is not undermined or downgraded. While all senior management should be concerned and involved in risk assessment and audit arrangements, internal audit should maintain a direct line to the manager.

Reporting on implementation of agreed recommendations is one of the methods used to comment on how internal audit effects real changes in systems and processes. There should be formal detailed written procedures to follow up all internal audit reports issued and all recommendations made therein.

#### Key findings:

- *41% of authorities did not issue internal audit reports in the period 1997 to June 1999*
- *in the pilot authorities visited, very few internal audit reports were issued*
- *50% of internal audit functions do not report directly to the Manager*
- *35% of local authorities did not have procedures to follow up the recommendations contained in internal audit reports*
- *of the 65% who did, the procedures varied from informal to formal detailed written reports*
- *the pilot authorities visited had not issued any follow-up reports on agreed recommendations, and there was no cyclical follow-up of completed reviews.*

### 3.6 Fraud and corruption

Internal audit coverage should address the risk of fraud and/or corruption.

A fraud can be committed in many ways and at all levels in an authority. It usually involves misappropriation of cash or assets or some other form of loss. Corruption happens when public office is used for private gain or favour. Fraud and/or corruption can be committed by a person or group of persons within, or outside, a local authority.

An authority should be proactive in trying to prevent fraud and/or corruption. A best practice, which achieves this, is by developing and publishing an effective Fraud and Corruption Alert Plan (the Plan).

The Plan is a written document setting out the authority's strategy to prevent fraud and/or corruption and the procedures to follow in the event of fraud and/or corruption being uncovered or suspected. The strategy should identify key preventative controls needed in any system to reduce the possibility of fraud and/or corruption, e.g. segregation of duties, third party reconciliation, adherence to procedures and behavioural guidelines. Internal audit should evaluate the authority's Plan and conclude whether it provides adequate assurance that the potential for misappropriation, fraud and/or corruption is minimised.

In the course of reviews and appraisals, internal audit should complete inspections to confirm that the prevention controls, identified in the Plan, are operating as intended. Also, advice should be provided, where appropriate, as to how specific fraud and corruption risks can be addressed. Internal audit can ensure that there is pervasive awareness within the authority of the procedures identified in the Plan in relation to fraud and/or corruption.

#### Key findings:

- *many local authorities, at one time or another, have experienced and dealt with an instance of fraud and/or corruption. In some cases, these have resulted in staff suspension, dismissals and/or prosecution*
- *most authorities rely on existing controls and proceed with fraud and/or corruption investigations in line with good administrative practices, taking account of current legislation/regulation and legal advice, where appropriate. However, no authority has produced a fraud and/or corruption alert plan, which would facilitate a review and the implementation of best practices identified in such review.*

### 3.7 EU Structural and Cohesion Funds

The European Commission requirements in relation to the audit of E.U. co-financed operations should be properly understood and implemented.

Commission Regulation 2064/97 requires member states to verify the effectiveness of the management and control systems applied to EU co-financed operations.

The administrative arrangements for carrying out the systems audits include:

- a National Audit Plan agreed annually between the Commission and the Department of Finance (DoF) in respect of ERDF and the Cohesion Fund
- bilateral agreements made between the DoF and the DoE&LG
- bilateral agreements made between the DoE&LG and its agencies, including local authorities.

Under bilateral agreements made between the Secretary General of the DoE&LG and each of the County and City Managers, local authorities in receipt of EU structural and cohesion funds, are required to verify the effectiveness of the management and control systems in place in respect of specific EU co-financed operations, as set out annually in the National Audit Plan. Local authorities can use either their own internal audit function or an external audit body to carry out the work.

Internal audit can provide systems reviews to verify to the Manager, the relevant Government Departments and ultimately, the EU Commission, the adequacy, application and effectiveness of the management and control systems, with particular regard to:

- documentation of procedures and responsibilities
- adequacy of audit trails
- identification of possible weaknesses
- provision of corrective measures to eliminate weaknesses
- certification of the validity of expenditure claims for EU audits.

#### Key findings:

- *when queried as to whether there were any new financial or control structures or procedures introduced because of the EU Structural and Cohesion Funds, most authorities responded that the requirements were currently under review*
- *in the pilot authorities visited, two authorities had completed the systems verification required and one authority was examining the possibility of contracting out the process.*

### 3.8 Training

Provision for appropriate training should be made for internal audit staff.

Internal audit is a specialised function and adequate training in auditing principles and techniques is necessary for the function to operate effectively. Training is achieved in three ways:

- participation in relevant courses leading to professional qualification, diploma or certificate
- continuous professional education (CPE) for qualified staff
- training specific to an identified need e.g. computer assisted audit techniques (CAATs), contract auditing etc.

#### *Professional qualification and CPE for qualified staff*

Qualification allows internal audit staff access to up to date professional knowledge and support in his/her work through on-going CPE, as well as access to the most recent guidance applicable to their particular area of practice, e.g. public sector audit guidelines.

#### *Training specific to an identified need*

Training ensures that staff have the skills necessary to carry out audits effectively.

The following skills and training were identified during the study as necessary to ensure internal audit operates in a more efficient and effective manner.

#### *Skills:*

- risk assessment
- ability to plan and organise an audit
- systems auditing
- computer auditing
- communication and interviewing
- report writing
- investigative skills
- interpersonal skills
- financial and accountancy skills
- project management techniques

#### *Training:*

- audit principles and procedures
- computer auditing
- report writing
- systems based audits
- analytical and sampling techniques
- VFM auditing & performance indicators
- financial and accounting training
- fraud and/or corruption investigations
- local government legislation/regulations
- European Commission internal audit requirements

### Key findings:

- *only 2% of internal audit staff had professional accountancy qualifications*
- *only 5% of internal audit staff were affiliate members of the Institute of Internal Auditors*
- *52% of staff in internal audit had not received any training in the previous twenty-four months*
- *48% of staff had received training as can be seen from the following table*

<u>Area</u>	<u>Total number of days training</u>	<u>Percentage of time spent on training</u>
<i>6 day IPA course on internal audit</i>	<i>170</i>	<i>38%</i>
<i>Other courses on internal audit</i>	<i>93</i>	<i>21%</i>
<i>Other training</i>	<i><u>184</u></i>	<i><u>41%</u></i>
<i>Total:</i>	<i><u>447</u></i>	<i><u>100%</u></i>

### 3.9 Conclusion

In local authorities, it was found that there was considerable scope for improvement to the practices and procedures used by internal audit to deliver a professional service.

In general, there was an absence of effective planning and the scope of the actual work undertaken was limited. Important audit techniques, such as risk assessment were not employed and the level of systems review was low. Standard audit procedures in relation to controlling, recording and reporting were in need of development, as was the need for audit review procedures.

The absence of professionally qualified accountants/ auditors in internal sections has contributed to the under development of internal audit operations. Moreover, the inadequate level of internal audit training currently provided, means that internal audit staff do not, in many instances, have the skills necessary to carry out audits to the standard now required.

### 3.10 Recommendations

4. Risk assessment should be used by internal audit at the overall planning stage and, also, when identifying the scope of an individual process review.
5. In consultation with the Manager, a strategic plan setting out audit priorities for the medium to long term should be prepared. It should show the intended coverage identified in the risk assessment process. All material areas within the authority should be reviewed regularly.
6. In line with the strategic plan, an annual audit plan should be prepared each year and agreed with the Manager. It should set out the intended coverage by internal audit for the year.
7. The strategic and annual audit plans should be reviewed by the internal auditor on a regular basis and updated, where necessary, to include an examination of changes in risks, particularly where a system/process has been amended or replaced.
8. An audit planning memorandum should be used to plan each audit assignment. This should summarise what the audit review hopes to achieve and how it proposes to do it.
9. Internal audit should set out its findings and recommendations by means of formal written reports. These reports should be discussed and agreed with line management.
10. To maintain internal audit's independence, all reports issued should be submitted directly to the Manager.
11. To ensure that the impact of a report is not lost, formal detailed procedures for follow-up of agreed recommendations should be adopted.
12. A *Fraud and Corruption Alert Plan* should be developed by management in all local authorities.
13. Internal audit should formally assess the arrangements for preventing, detecting and investigating fraud and corruption, including the adequacy of a *Fraud and Corruption Alert Plan*.

14. Internal audit should examine, evaluate and report on the:

- accounting and other management information systems in place
- adequacy and integrity of financial and other data prepared
- establishment of and compliance with procedures and controls
- implementation of policies and achievement of stated goals
- adherence to laws and regulations
- attainment of economy, efficiency and effectiveness
- safeguarding and use of assets
- risk exposure to fraud and/or corruption.

Internal audit, inter alia, may also be called upon to:

- review performance and performance measurements
- carry out special investigations
- provide a consultative role to management
- co-operate with external audit.

15. Internal audit should examine and report on compliance with the requirements in relation to E.U. co-funded projects, as set out in:

- Commission Regulation (EC) No. 2064/97
- Department of Finance Circular 23/98 on Financial Management and Control Procedures for the ERDF
- EU Commission Management and Control Systems Audit Manual
- Circular letter 1A 1/'99.

16. Adequate training to relevant professional/ accredited diploma level should be provided to internal audit staff, so that they have the skills to carry out audits effectively.

17. To ensure that professional standards and guidelines are incorporated into the work of internal audit in local authorities, the head of an internal audit section should be required to be a qualified member of one of the recognised accountancy bodies or of the Institute of Internal Auditors.

## 4. Operating framework for internal audit

### 4.1 Evaluation criteria

The role, responsibilities and expectations of the Manager in respect of internal audit should be clearly understood.

The role of internal audit should be clearly understood.

To be effective, the role of internal audit should be separate from the management function and should be seen to be independent.

Internal audit should operate under an approved Internal Audit Charter.

The relationship with the Local Government Auditor should be clearly understood.

### 4.2 Internal audit assurance to the Manager

The role, responsibilities and expectations of the Manager in respect of internal audit should be clearly understood.

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The Manager, inter alia, through his/her management team is responsible for:

- effective policy development and implementation
- effective internal control
- prevention/detection of fraud and/or corruption
- reliable financial reporting.

This is achieved through the economic, efficient and effective use of resources and the establishment and maintenance of an effective control environment. The manager should look to internal audit to provide a wide-ranging appraisal on whether the above objectives are being achieved.

Key finding:

- *in many local authorities, internal audit sections as presently operated, are not in a position to provide the Manager with the necessary wide-ranging appraisal with regard to the establishment and maintenance of an effective control environment.*



### 4.3 Internal audit objectives

The role of internal audit should be clearly understood.

Internal audit assists the Manager by providing an advisory service, which independently appraises (and effects improvements where necessary) the internal control within a local authority.<sup>8,9</sup>

To do this effectively, there needs to be clarity in respect of internal audit's role, responsibilities, status and reporting arrangements.<sup>10</sup>

Key finding:

- *during the study it was found that there was a lack of clarity as to the objectives of internal audit and, in many authorities, internal audit was being used in a line management capacity. This was evidenced through the time internal audit staff spent either undertaking a receipt checking function or carrying out non-internal audit duties, e.g.*
  - *stock control*
  - *bank accounts reconciliation*
  - *imprest account reconciliation*
  - *assistance with the AFS<sup>11</sup> and Estimates*
  - *acting as rates inspectors*
  - *management services.*

### 4.4 Statement of independence

To be effective, the role of internal audit should be separate from the management function and should be seen to be independent.

The independence of internal audit is demonstrated through the following key means:

- organisational status
- personal objectivity

<sup>8</sup> See Section 1.2, pages 12 and 13 for definitions of internal audit and internal control

<sup>9</sup> See Section 1.3, page 13 for Scope of Internal Audit

<sup>10</sup> See Section 4.5 for details of 'Internal Audit Charter'

<sup>11</sup> Annual Financial Statements

Organisational status is demonstrated by the following:

- regular access to the Manager
- reporting directly to the Manager
- objectives agreed by the Manager
- objectives understood at all levels within the organisation
- internal audit operating and managed in accordance with professional standards<sup>12</sup>
- sufficient appropriately skilled staff
- recommendations made are agreed and actioned by management.

Personal objectivity is demonstrated by the following:

- exercising judgement
- expressing opinions
- making recommendations
- not undertaking non-audit duties
- internal audit not being used as a management control.

Key finding:

- *in many local authorities, the under-development of internal audit is likely to adversely affect its independent role.*

#### 4.5 Internal audit charter

Internal audit should operate under an approved Internal Audit Charter.

The operating framework for internal audit in a local authority can be encapsulated in one document, namely an Internal Audit Charter. The internal auditor derives his/her authority from this document. The Charter should include statements on the:

- role of internal audit
- status of internal audit
- reporting arrangements
- management responsibilities
- independence of internal audit
- scope of internal audit's work
- responsibilities of internal audit
- audit methodologies used.

<sup>12</sup> Most professional accountancy bodies provide operating audit standards for members. See Appendix 3 for details.

The Internal Audit Charter<sup>13</sup> should be approved by the Manager and should be made available to all sections of the local authority. This will bring about a clearer understanding of the role of internal audit within the authority.

**Key finding:**

- *job specifications and verbal instructions by management are the normal way of communicating the role of internal audit in local authorities. In general, formal Internal Audit Charters have not been developed.*

#### **4.6 Relationship with the Local Government Auditor**

The relationship with the Local Government Auditor should be clearly understood.

Internal audit is a professional function established by management, to review the internal control systems within the authority.

The Local Government Auditor, is appointed by the Minister for the Environment and Local Government as external auditor of the authority. One of his/her key concerns is to form an independent opinion on whether the Annual Financial Statement is free from material misstatement.

Internal audit effectiveness is a key factor in the Local Government Auditor's assessment of the control environment in an authority and the related assessment of risk.

In addition, where reliance can be placed on internal audit work, the nature and extent of external audit work can be modified. To do this effectively, the Local Government Auditor needs to have full access to, and opportunity to review, the plans, working papers and reports of internal audit to determine the extent of reliance. It is in this context that internal audit and the Local Government Auditor can liaise to ensure that maximum audit coverage is achieved and duplication of work is minimised.

<sup>13</sup> A copy of an Internal Audit Charter has been reproduced in Appendix 4, by kind permission of the Revenue Commissioners.

#### Key findings:

- *internal audit staff, in the majority of authorities, liaised with the appointed Local Government Auditor. Liaison included:*
  - *provision of internal audit reports produced*
  - *regular meetings to discuss and include in internal audit's programme of work, items raised in the auditor's management letter*
- *it is clear that the inadequate level of internal audit coverage diminishes the effects of such liaison.*

#### 4.7 Conclusion

In many authorities there was a lack of clarity as to the role of internal audit and of its relationship with management. This was often reflected by the employment of internal audit in a line management capacity. Accordingly, there is a need for the establishment of an operating framework which would bring a greater understanding of the work and *raison d'être* for internal audit. One of the best practice ways of doing this is by setting out its role, responsibility, objectives and scope in an *Internal Audit Charter*.

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#### 4.8 Recommendations

18. Every internal audit function should operate under an *Internal Audit Charter*. The Charter should include statements on the:

- role of internal audit
- status of internal audit
- reporting arrangements
- Managers' role and responsibilities
- responsibilities of internal audit
- independence of internal audit
- scope of internal audit's work
- audit methodologies used.

19. The *Internal Audit Charter* should be approved by the Manager and should be made available to all sections of the local authority, so that there is clear understanding about the role of internal audit within the authority.

20. Internal audit and the Local Government Auditor should liaise to ensure that:

- maximum coverage is achieved
- duplication of work is minimised.

# 5. Other internal audit issues

## 5.1 Evaluation criteria

Internal audit should understand the underlying concepts of Value for Money (VFM) and apply the concepts to individual reviews.

Internal audit should make optimal use of Information Technology (IT).

Internal audit should test compliance with laws, regulations and review the effectiveness of policy implementation.

Internal audit should contract out specialised work where necessary.

Performance Indicators (PIs) should be produced to evaluate the effectiveness of internal audit as a function.

Internal audit should be evaluated against good practice benchmarks.

In the interest of better governance, consideration should be given to the setting up of audit committees.

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## 5.2 Value for Money (VFM)

Internal audit should understand the underlying concepts of Value for Money (VFM) and apply the concepts to individual reviews.

In local authorities, the Manager, inter alia, is responsible for:

- developing clear objectives to focus on economy and efficiency, when managing resources/services
- initiating appropriate performance indicators to measure the efficiency and effectiveness of operations/services
- ensuring recommendations from the national VFM reports are implemented by line management.

The task of monitoring and reporting on the implementation of the recommendations from the national VFM reports uses a considerable amount of staffing resources, given the increasing volume of national studies undertaken. Where internal audit is given this task, it is important that additional resources are provided and that it does not result in a diminution in the amount of internal audit coverage of the authority's operations. In this regard, paragraph 16 of circular Fin 12/97, issued by the Minister for the Environment and Local Government, requests that each local authority designate a specific officer to act as 'Value for Money Officer'. The envisaged role and responsibilities of the designated post are outlined in sections 16.1 and 16.2 of the circular.<sup>14</sup>

Internal audit, in the course of normal audit work on local authority operations, should report on waste, extravagance and under-performance. Internal audit is also well placed to identify opportunities for local VFM studies. To do these effectively, internal audit needs to understand the basic concepts of economy, efficiency and effectiveness and understand how to undertake a VFM review. These matters should be incorporated into internal audit training programmes.

#### Key findings:

- *the majority of authorities stated that they examined and took appropriate action on the national VFM reports issued. A number of authorities had also carried out value for money studies on an additional range of topics*<sup>15</sup>
- *in 47% of authorities, internal audit was given the task of monitoring and reporting on the implementation of recommendations from the national VFM reports. This has resulted in a diminution in the amount of internal audit coverage of the respective local authorities' operations.*

### 5.3 Information Technology (IT)

Internal audit should make optimal use of Information Technology (IT).

In 1999, a new integrated financial package was purchased (Agresso) and is currently being rolled out across most local authorities. The new package will provide increased flexibility for the internal auditor for testing data and controls built into systems.

<sup>14</sup> Sections 16.1 and 16.2 are set out in Appendix 5

<sup>15</sup> See Appendix 6 for details of local studies carried out by individual authorities

Moreover, new accounting procedures will be introduced in the coming years, e.g. accrual accounting, fixed assets accounting, balance sheets etc. E-Commerce will also be used increasingly in local authorities.

In this rapidly changing environment, internal audit should develop sufficient IT expertise so as to:

- plan how to make best use of IT when carrying out systems reviews, e.g. CAATs
- consider the adequacy and implementation of IT strategic plans, policy and procedures.

Key findings:

- *there is considerable use of PC applications by internal audit staff with regard to word processing and spreadsheets and one of the county boroughs used computers for the preparation of automated workpapers*
- *the use of more advanced computer techniques was limited. Only 12% of internal audit staff used computer assisted audit techniques (CAATs) and other tools for data extraction and analysis. Training in this area needs to be provided.*

#### 5.4 Implementation of laws, regulations and policies

Internal audit should test compliance with laws, regulations and review the effectiveness of policy implementation.

Local authority operations are mainly controlled and guided by laws and regulations. It is important that testing for compliance with these is incorporated into internal audit work schedules.

Under 'Better Local Government – A Programme for Change'<sup>16</sup> the management of local authority operations, is currently being developed on the basis of strategic policy committees and directorate. Internal audit will need to examine how effectively policies, as outlined in strategy statements and business plans, are being implemented.

Key findings:

- *44% of local authorities did not use internal audit to review and report on compliance with laws and regulations. Of the 56% that did, the extent of the laws and regulations examined was limited*
- *in most authorities, reviews of policy implementation were not formally undertaken by internal audit.*

<sup>16</sup> A strategy document for the development of local government published by the then Minister for the Environment in December 1996.

## 5.5 Contracting out specialised work

Internal audit should contract out specialised work where necessary.

In some local authorities the required skills to carry out specialist work, e.g. detailed computer audit work, may not be available. One way to resolve this problem is for internal audit to contract out to private firm's specific tasks over a specified time frame.

If this option is taken, it is important to ensure that there is agreement between the local authority and the external firm regarding the following:

- specified outputs to be produced
- time budgeted
- standard of work expected
- cost of providing the service
- time deadlines
- grade of staff assigned to the tasks
- qualification of staff assigned to the tasks
- availability of working papers
- audit coverage.

Where possible, internal audit staff should be assigned to assist the external firm's staff to facilitate transfer of expertise to the local authority's own staff.

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## 5.6 Performance indicators

Performance Indicators (PIs) should be produced to evaluate the effectiveness of internal audit as a function.

A performance indicator monitors achievement of a specified task against pre-set targets internally, for inter-authority and year on year comparisons.

During the study, a number of performance indicators in respect of internal audit were developed which focus primarily on qualitative standards of operation. The indicators are included as part of the *'Internal Audit Guidance Handbook'*, published in conjunction with this report. These should be used to evaluate performance.



## 5.7 Good practice benchmarks

Internal audit should be evaluated against good practice benchmarks.

A benchmark is a standard of performance against which an operation or function can be evaluated. Benchmarks are set by comparing procedures and performance levels between organisations, or within them, to identify and achieve greater awareness of opportunities for improvement.

During the study, a number of good practice benchmarks in respect of internal audit were developed which focus primarily on qualitative standards of operation. The good practice benchmarks are included as part of the *'Internal Audit Guidance Handbook'*, published in conjunction with this report. These should be used to evaluate performance.

## 5.8 Audit Committees

In the interest of better governance, consideration should be given to the setting up of audit committees.

In recent years, because of significant control failures and the publication of reports such as *Cadbury*<sup>17</sup>, there has been increased emphasis on corporate governance and on the development of such concepts as transparency, accountability and responsibility. *Cadbury* promoted the need for audit committees as part of an effective approach to corporate governance.

The idea behind audit committees is, inter alia, that internal audit should be perceived as independent within an organisation and have a direct reporting line to a senior representative body, i.e. an audit committee.

The *'Committee on Corporate Governance's Combined Code'*, applicable to stock exchange listed companies requires that:

- an audit committee of the Board should be appointed with a membership of at least three non-executive directors
- the audit committee should have written terms of reference which clearly deal with its authority and duties

<sup>17</sup> A code of practice to assist U.K. corporations in defining and applying internal controls to limit their exposure to financial loss, from whatever cause.

- the members of the committee, the majority of whom would be independent non-executive directors, should be named in the report and accounts
- chairpersons of audit committees should be selected from the non-executive directors.

Audit committees are more widespread and better established in the private sector. However, there is growing recognition in the public sector that independent monitoring provided by audit committees gives greater assurance to stakeholders that:

- appropriate internal controls are in place
- internal audit is operating effectively
- internal audit is developing as intended.

Audit committees are playing an increasingly significant role in public sector bodies in Ireland. A number of government departments have established an audit committee. In general, these committees operate under a Charter<sup>18</sup> to ensure clarity regarding their role and objectives.

Members are drawn from the following sources:

- persons from other government departments
- persons from within the relevant department
- external representation.

At present, there are proposals in draft legislation for the setting up of audit committees for local authorities, the membership of which are to be made up solely of local authority members.

Key findings:

- *12% of authorities had executive audit committees, which provided a greater focus on weaknesses and management decisions. These committees were composed of senior management, other senior members of staff and in one case a former member of senior management. There was no external representation on these committees*
- *of the authorities who did not have an audit committee, 60% thought it would be of benefit.*

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<sup>18</sup> An example of an Audit Committee Charter is reproduced in Appendix 7 by kind permission of the Revenue Commissioners.

### 5.3 Recommendations

21. Internal audit should incorporate the appraisal of economy, efficiency and effectiveness into its audit schedules.
22. Internal audit, when assessing a local authority's IT risk, needs to consider the adequacy of the IT policy and procedures in place at the authority.
23. Internal audit needs to consider tools and techniques, such as computer aided auditing techniques, to make optimal use of IT when carrying out audits.
24. Audit coverage of laws and regulations, governing local authority operations, should be extended and incorporated into audit work schedules.
25. Internal audit should assess implementation and compliance with policy as outlined in strategy statements and business plans. This can form part of systems review or be undertaken separately.
26. The performance indicators identified in the '*Internal Audit Guidance Handbook*', should be produced and monitored from year to year. Unless otherwise specified, the indicators should be reported for the financial year.
27. All internal audit units should evaluate their performance in comparison with the good practice benchmarks identified in the '*Internal Audit Guidance Handbook*'.
28. Local authorities should consider the benefits of having an audit committee. If set up, an audit committee should have written terms of reference, which sets out clearly its authority and duties. Consideration should also be given to external representation on the committees, in the interests of better governance.

# Appendix 1

## Staff numbers and time spent across duties by authority

### PERCENTAGE OF WORK TIME SPENT ON

	<u>No. of Staff</u>	<u>Internal Audit</u>	<u>Receipt Checking</u>	<u>Motor Tax</u>	<u>VFM</u>	<u>Other</u>
<u>County Boroughs</u>						
1 Cork	6	38%	15%	0%	8%	39%
2 Dublin	11	82%	0%	0%	18%	0%
3 Galway	1	25%	73%	0%	0%	2%
4 Limerick	1	60%	5%	20%	7%	8%
5 Waterford	2	35%	12%	23%	0%	30%
Average	4.2	61%	9%	3%	12%	15%
<u>County Councils</u>						
6 Carlow	2	3%	12%	25%	0%	60%
7 Cavan	2	25%	15%	25%	0%	35%
8 Clare	2	43%	37%	2%	3%	15%
9 Cork	9	24%	43%	11%	22%	0%
10 Donegal	4	60%	13%	11%	16%	0%
11 Dun Laoghaire -Rathdown	1	0%	0%	0%	0%	100%
12 Fingal	2	48%	50%	0%	2%	0%
13 Galway	2	45%	13%	37%	5%	0%
14 Kerry	3	2%	40%	53%	0%	5%
15 Kildare	2	20%	35%	30%	5%	10%
16 Kilkenny	3	2%	17%	40%	0%	41%
17 Laois	2	0%	70%	30%	0%	0%
18 Leitrim	1	10%	35%	30%	5%	20%
19 Limerick	2	43%	25%	25%	7%	0%
20 Longford	2	15%	5%	11%	3%	66%
21 Louth	2	0%	62%	13%	25%	0%
22 Mayo	3	30%	40%	17%	3%	10%
23 Meath	1	20%	60%	20%	0%	0%
24 Monaghan	3	18%	13%	18%	0%	51%
25 Offaly	1	20%	40%	20%	0%	20%
26 Roscommon	1	0%	50%	0%	0%	50%
27 Sligo	1	30%	0%	60%	0%	10%
28 South Dublin	4	6%	33%	0%	3%	58%
29 Tipperary (North Riding)	2	0%	50%	37%	0%	13%
30 Tipperary (South Riding)	2	50%	20%	10%	0%	20%
31 Waterford	1	0%	60%	35%	0%	5%
32 Westmeath	2	0%	25%	15%	0%	60%
33 Wexford	2	10%	37%	23%	3%	27%
34 Wicklow	2	38%	32%	8%	7%	15%
Average	2.28	21%	32%	19%	6%	22%
Overall average	2.56	31%	27%	15%	8%	19%

# Appendix 2

## Time spent on internal audit and expenditure incurred in 1998 per authority

	<u>Number of Staff</u>	<u>Percentage of time spent on Internal Audit</u>	<u>FTE Staff</u>	<u>Combined Capital and Revenue Expenditure 1998 £M</u>
<u>County Boroughs</u>				
1 Cork Corporation	6	38%	2.3	135
2 Dublin Corporation	11	82%	9.0	413
3 Galway Corporation	1	25%	0.3	41
4 Limerick Corporation	1	60%	0.6	51
5 Waterford Corporation	2	35%	0.7	46
<u>County Councils</u>				
6 Carlow	2	3%	0.1	23
7 Cavan	2	25%	0.5	45
8 Clare	2	43%	0.9	57
9 Cork	9	24%	2.2	173
10 Donegal	4	60%	2.4	89
11 Dun Laoghaire -Rathdown	1	0%	-	123
12 Fingal	2	48%	1.0	132
13 Galway	2	45%	0.9	79
14 Kerry	3	2%	0.1	73
15 Kildare	2	20%	0.4	82
16 Kilkenny	3	2%	0.1	50
17 Laois	2	0%	-	37
18 Leitrim	1	10%	0.1	27
19 Limerick	2	43%	0.9	71
20 Longford	2	15%	0.3	22
21 Louth	2	0%	-	51
22 Mayo	3	30%	0.9	76
23 Meath	1	20%	0.2	71
24 Monaghan	3	18%	0.6	30
25 Offaly	1	20%	0.2	31
26 Roscommon	1	0%	-	45
27 Sligo	1	30%	0.3	41
28 South Dublin	4	6%	0.3	160
29 Tipperary (North Riding)	2	0%	-	42
30 Tipperary (South Riding)	2	50%	1.0	49
31 Waterford	1	0%	-	36
32 Westmeath	2	0%	-	41
33 Wexford	2	10%	0.2	49
34 Wicklow	2	38%	0.8	69

# Appendix 3

## Operating auditing standards:

Qualified members of the accountancy/auditing profession are required to operate in accordance with professional ethics, standards and guidelines and to apply them to their work. Auditing standards include internal auditing standards. The key principles of internal auditing standards are:

### *Principle*

### *Evidenced through:*

Independence:	<ul style="list-style-type: none"><li>• organisational status</li><li>• personal objectivity</li></ul>
Organisational status:	<ul style="list-style-type: none"><li>• defining the purpose, authority and responsibility of internal audit in a formal audit charter</li><li>• audit work plans</li><li>• staffing plan and budget</li></ul>
Personal objectivity:	<ul style="list-style-type: none"><li>• exercising judgement</li><li>• expressing opinions</li><li>• making recommendations</li><li>• not undertaking operating duties</li></ul>
Staffing & training:	<ul style="list-style-type: none"><li>• appropriate staffing in terms of numbers, grades, qualifications and experience</li><li>• adequate training to fulfil audit responsibilities</li></ul>
Relationships:	<ul style="list-style-type: none"><li>• constructive working relationships with management, the external auditor, review agencies and, where one exists, an audit committee</li></ul>
Due care:	<ul style="list-style-type: none"><li>• reasonable audit skill and judgement</li></ul>
Planning, controlling and recording:	<ul style="list-style-type: none"><li>• adequate planning of each audit</li><li>• adequate controlling of work</li><li>• adequate recording of work</li></ul>
Evaluation of internal control systems:	<ul style="list-style-type: none"><li>• identify and evaluate the organisation's internal control system as a basis for reporting on its adequacy and effectiveness</li></ul>
Evidence:	<ul style="list-style-type: none"><li>• evidence obtained should be sufficient, relevant and reliable and should support audit conclusions and recommendations</li></ul>
Reporting & follow-up:	<ul style="list-style-type: none"><li>• audit findings and conclusions communicated promptly to management</li><li>• a response to the audit findings and conclusions to be received.</li></ul>

# Appendix 4

## Office of the Revenue Commissioners

### Internal Audit Charter

#### Board Policy

It is the policy of the Board of the Revenue Commissioners to maintain and support a quality internal audit function.

#### Role

Internal audit is an independent appraisal function which operates as a service to the Board and senior management. Its role, as part of the overall governance and control environment in Revenue, is to provide audit assurance that all significant operating risks are identified, managed and controlled effectively throughout the Office. In the discharge of its role, the Board and the Audit Committee require Internal Audit to act professionally and ethically. It will adhere to the standards and guidelines issued by the Department of Finance and will have regard to best practice as enunciated, in particular, by the Institute of Internal Auditors and the Auditing Practices Board.

#### Authority

Internal Audit operates with the direct authority of the Board and under the general supervision and guidance of the Audit Committee. It is empowered to audit all systems and activities within Revenue and has unrestricted access to all records, reports, personnel, IT systems and assets, for audit purposes.

#### Responsibilities of Internal Audit

Internal Audit discharges its responsibilities by critically and objectively examining on a risk-focussed basis

- the adequacy and reliability of systems (including the relevant technology) and procedures
- compliance with management controls
- compliance with corporate objectives and strategies
- compliance with laws and regulations
- the reliability and integrity of management information
- arrangements for the acquisition, custody and disposal of assets, and for verifying their existence

and by identifying and reporting deficiencies or weaknesses in systems and controls and making appropriate recommendations.

Internal Audit is responsible for ensuring the confidentiality and safekeeping of all records and information accessed in the course of its work.

Internal Audit is managed by an officer who is known as the Director of Internal Audit. The Director of Internal Audit is responsible for the preparation of the annual Audit Plan and for agreeing it with the Audit Committee prior to its submission to the Board for formal approval. Prior to drawing up the Audit Plan s/he will consult Heads of Division in regard to audit topics and will take account of any topics put forward by them.

S/he will be responsible for the effective implementation of the Audit Plan.

S/he will maintain ongoing liaison with the officials of the Office of the Comptroller and Auditor General who have responsibility for the audit of the Office of the Revenue Commissioners.

### **Independence**

In order to preserve its objectivity and independence, Internal Audit will not assume operating responsibilities for, and will remain independent of, the activities it audits. However, it may, if deemed appropriate by the Director of Internal Audit, and/or the Audit Committee, or if requested by management, review systems under development and advise on appropriate controls without prejudicing its right to subsequently audit such systems.

### **Reporting Arrangements**

The Director of Internal Audit shall report directly to the Board on an ongoing basis and shall report quarterly, or otherwise as requested, to the Audit Committee. S/he will have direct access to the Accounting Officer. S/he will report to the Assistant Secretary, Corporate Management Division, on administrative and budgetary matters. Audit reports will also issue to appropriate line management.

### **Audit Methodology**

In carrying out its duties Internal Audit will work constructively with management and staff. During the course of an audit, management and staff will be required to co-operate fully with auditor's requirements.

Internal Audit will normally notify Heads of Division at least two weeks prior to the commencement of an audit. In the course of each audit the audit team will discuss its

findings with the Divisional management concerned. Draft audit reports will subsequently be issued to Heads of Division for response. Where Internal Audit and management fail to reach agreement on issues/recommendations considered to be of material importance by Internal Audit, the final audit report will reflect the positions of both. The Board's and the Audit Committee's attention will be drawn specifically to these issues/recommendations, so that appropriate action can be taken by the Board. Final reports, incorporating management's response, will be issued to the Heads of Division for formal 'sign-off' by them. Final 'signed-off' reports will be issued to the Board, the Audit Committee, Heads of Division concerned and the Office of the Comptroller and Auditor General.

The Director of Internal Audit may, at his/her discretion, request periodic updates from management on the implementation of audit recommendations, in order to evaluate progress thereon.

'Follow-up' audits, the purpose of which is to ascertain that appropriate action is taken by management on foot of reported audit findings and recommendations, will be carried out within a timescale to be determined by the Director of Internal Audit and the Audit Committee. The Board, the Audit Committee, and Heads of Division will be informed of any instances where audit recommendations have not been implemented as agreed or where corrective action taken by management on foot of reported audit findings/recommendations is considered inappropriate or insufficient.



### **Management Responsibilities**

Management has primary responsibility for establishing and maintaining a proper and effective control environment and for managing risk.

Management also bears primary responsibility for the prevention and detection of fraud.

Heads of Division will be expected to co-operate with the Director of Internal Audit in the annual audit planning process, by identifying, through the use of risk analysis, areas and activities which carry significant financial, operation and other business risks.

Heads of Division and their senior managers are expected to work proactively with Internal Audit; to respond promptly to draft audit reports and to 'sign-off' promptly on final reports. They, and their senior managers, will be responsible for deciding the appropriate action to be taken in response to reported audit findings, in the absence of specific recommendations by Internal Audit. They will also be responsible for addressing audit concerns and for the timely implementation of accepted audit recommendations.

XXXX

Chairman

XXXX

Director of Internal Audit

XXXX

Chairperson of the Audit Committee

Dated: XXXXX

# Appendix 5

## Circular Fin 12/97: Section 16

### Value for Money Officer

#### 16.1

Each local authority is requested to designate a specific officer to act as Value for Money Officer. Such a role need not necessarily place ultimate responsibility on the officer for the achievement of VFM in each area of an organisation. Rather, the officer would be responsible for ensuring that VFM becomes an integral part of the management process and pervades each area/section of the local authority. The VFM Officer would act as the first point of contact within the local authority in relation to VFM matters. The officer could initiate or promote internal studies or reviews of practices and procedures to encourage the attainment of the three 'Es' and to foster and secure a VFM ethos throughout the organisation.

#### 16.2

The officer could be designated with responsibility for liaising with the VFM Unit in the Department, for ensuring circulation of VFM Reports of the Unit to relevant personnel and for following up with these personnel within the local authority to ensure that measures are put in place to comply with VFM Report recommendations. Given the nature of the role envisaged for the VFM officer, it is suggested that a relatively senior officer of the authority would be conferred with this task.

# Appendix 6

## VFM local studies carried out by authority

A number of authorities had carried out value for money studies on an additional range of topics that included the following:

Local study	Number of Authorities	Local study	Number of Authorities
• Fixed Water Charges	1	• Planning	2
• Survey of discretionary charges	1	• Fuel Charge Scheme	1
• Review of Hygiene Service Contract	1	• Telephone costs (including Mobiles)	6
• Review of Offsite Storage	1	• Review of Fax Machines	1
• Fuel costs	2	• Overtime working	1
• Loans and bank charges	2	• Wheelie Bin Collection	4
• Roads Maintenance	1	• Travelling Expenses	2
• Hand Held Terminals	1	• Soils Laboratory	1
• Land Use and Disposals	1	• Invoice Payment arrangements	1

# Appendix 7

## Office of the Revenue Commissioners

### Audit Committee Charter

This document sets out the charter of the Audit Committee, as established by the Board of the Revenue Commissioners and as agreed between the Board and the Audit Committee.

#### Role of the Committee

The role of the Audit Committee will, as part of the ongoing systematic review of the control environment and governance procedures within the Office of the Revenue Commissioners, be to oversee the internal audit function and advise the Board in relation to the operation and development of that function.

#### Membership

The Committee will be appointed by the Board of the Revenue Commissioners and will consist of such members and number thereof as decided by the Board.

The chairperson and vice-chairperson of the Committee will be appointed by the Board.

Appointment to the Committee will, unless otherwise decided by the Board, be for a period of three years.

#### Duties

The duties of the Committee shall be:-

- to approve a charter for Internal Audit which clearly defines the purpose, authority, roles and responsibilities and reporting relationships

- to review the draft Annual Internal Audit Plan, prior to its submission to the Board
- to monitor implementation of the plan on a quarterly basis to ensure that the audit objectives are being achieved
- to request special reports from Internal Audit as considered appropriate
- to advise and make recommendations to the Board and senior management on any matter pertaining to the internal audit function within Revenue that the Committee considers necessary or appropriate including its organisation, resources, training, the use of technology etc.
- to assess the outcome of the audit process having regard to findings, recommendations and management responses
- to assess the implementation of agreed corrective actions by management having regard to follow up audits
- generally to foster the development of best practice in the internal audit function.

#### Annual Review

The Committee will review the report of audit activities prepared by the Director of Internal Audit within two months of each calendar year, prior to its submission to the Board.

## C&AG Annual Report

The Committee will consider a report from Internal Audit on the implications of the findings and comments of the Comptroller and Auditor General published in the annual report of the C&AG on the Appropriation Accounts and in other relevant C&AG Reports.

## Meetings

Committee meetings will be held not less than four times a calendar year.

A quorum of three will be required for each meeting and in the absence of the chairperson the vice-chairperson will chair the meetings.

The Director of Internal Audit and such other officials from Internal Audit as the Committee may require, will attend Committee meetings.

The Committee will also have the authority to request Divisional/Branch/Unit managers to attend Committee meetings as it considers necessary.

At least once a year, the Committee will invite representatives from the Office of the Comptroller and Auditor General to meet them to discuss matters of mutual interest including a co-ordinated audit approach. The Director of Internal Audit will attend these meetings.

The Committee may also meet with EU representatives involved in the FEOGA Audit and Own Resources Audit programmes.

## Working Procedures

The Committee will adopt its own working procedures.

## Access

The chairperson of the Committee or any other person acting with the authority of the chairperson will have the right of access to the Chairman/Accounting Officer of the Revenue or other members of the Board.

## Reporting

The Committee will formally report to the Board within three months following the end of each calendar year on its activities during the year and will proffer such advice and recommendations as it may deem appropriate.

## Amendment of Charter

This Charter may be amended or updated in joint consultation between the Board and the Committee. It should, in any event, be reviewed by December 2001.

XXXX

Chairman

XXXX

Chairperson of the Audit Committee

Dated: XXXXXX

# Reports issued by the Value for Money Unit

1.	Purchasing (General)	November 1993
2.	Advertising	November 1993
3.	Insurance	November 1993
4.	Parking Charges	November 1993
5.	Photocopying	March 1994
6.	The Machinery Yard	December 1994
7.	Energy Efficiency in Local Authority Buildings	December 1994
8.	Differential Rents	December 1995
9.	Property Management	December 1995
10.	Public Lighting	December 1995
11.	Stores	July 1996
12.	Water Production and Distribution	November 1997
13.	Housing Maintenance	March 1997
14.	Debt Collection	July 1997
15.	Waste Collection	August 1998
16.	Treasury Management in Local Authorities	October 1999
17.	A Review of Performance Indicators	April 1998
18.	Comparative Data on Local Authority Revenue Collection Accounts	December 1998
19.	The Machinery Yard – A VFM Guide	August 2000
20.	Internal Audit in Local Authorities	December 2000