

Snapshot of internal audit assurance work - 2021

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Audit insights programme



- Identify and share learning opportunities and good practice examples
- Annual feedback from bodies of areas of interest

Presentation Focus

- What areas of assurance did internal audit look at during 2021?
- How did internal audit approach their assurance work?



Assessment model

- Comparison of a sample of 15 organisations from across public sector (government departments, large, medium and small State Bodies)
- Information which was provided as part of annual financial audit
- Information published in Statements on Internal Control

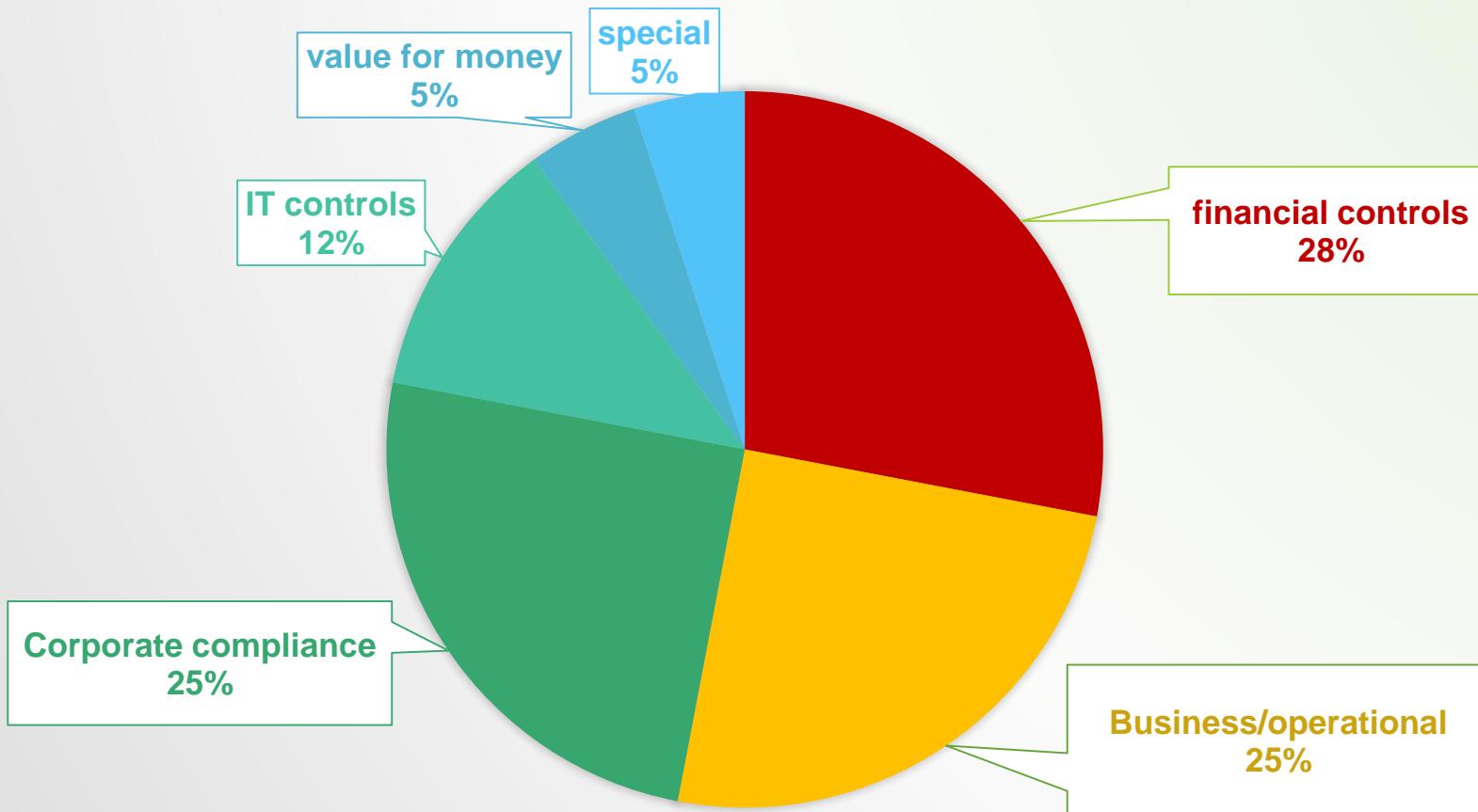
Areas of focus by internal audit in 2021

We looked

- at the major risk areas which internal audit focused on
- for trends in terms of types of risks examined
- at the outcomes and overall results of assurance work



Assurance focus 2021 - categories



Assurance focus 2021 – risk topics

Financial controls

Payroll/pensions
Annual review of controls incl. Covid impact
Debtor management
Grant and scheme spend

Business/operational

Business continuity plans/disaster recovery
Project management incl. PPP
Risk management
Governance

Corporate compliance

Procurement
GDPR
Tax compliance
Ethics
Protected disclosures procedures

Follow-up

Around 13% of topics
were follow-up on
previous audits

IT controls

Varied in line with significance of IT to business e.g.
cyber security, vendors

Value for money

Around half of bodies identified this as a category

Topics selected were specific to the body

Special

Around half of plans sets out specific special assignments or
provided resources as contingency

Assignments usually focused on fraud (in accordance with nature
of mandate and risks)



Assurance outcomes – statements on internal controls

- All bodies described role and assurance contribution by internal audit to the system of control and the annual review process
- Only one body disclosed internal audit's overall opinion in the SIC
- A number of bodies disclosed significant deficiencies e.g. non-compliance with procurement rules, non-compliance with tax rules; cyber security impact; suspicious payments
- One third of bodies disclosed other results and outcomes from assurance work e.g. how significant risks were managed such as health emergency



Assurance focus 2021 – OCAG observations

- Topics being examined were aligned with the nature and risks of the business
- Wide variety of themes in 2021 but particular focus on impact of health emergency and business continuity
- Procurement compliance – should more information on key procedures be disclosed?
- Is there scope for more value for money examinations by internal audit? Are bodies using other mechanisms to examine value for money?

How do internal audit processes compare?

- Structure and configuration of internal audit functions
- Comparison of internal audit planning and approaches
- How were internal audit impacts measured/monitored?

Comparison key

- = applied in over 67% of bodies
- = applied in 33% to 67% of bodies
- = applied in under 33% of bodies

Internal audit work - configuration

- Size and scale of internal audit resource varied with organisation's mandate and risk universe
- 47% of sampled bodies used both internal and external resources on the IA function; 33% used external resources only and 20% used internal resources only
- Time devoted to IA administration (plan preparation, ARC engagement, CPD, etc) varied considerably due to size and split (internal v external function) – between 6% to 20%



Internal audit assurance work

IA plan preparation and approval	Application in bodies examined
Key good practice indicator	
Plans based on review of risk universe, risk register(s), relevant reports, external audit findings	●
Wide consultation (board, ARC, AO/CEO, senior managers, external audit)	●
Plans submitted on a timely basis	●
Approved by Audit and Risk Committee	●
Total resources specified	●
Planned resources specified for each topic / assignment	●

Internal audit assurance work

....contd

IA plan and strategy	Application in bodies examined
Key good practice indicator	
Overall approach was clearly set out	●
Plan focused on areas of highest risk	●
Scope of individual assignments clearly set out	●
Anti-fraud approach or fraud assignments set out	●
Rolling audit plans	●
Alternative assignments submitted	●



Internal audit assurance work

....contd

Measuring IA impact	Application in bodies examined
Key good practice indicator	
Was a system in operation to track the implementation of recommendations?	
Were regular reports given to the ARC on progress in implementing recommendations?	
Were performance metrics identified e.g. % of recommendations (by rating) implemented within a prescribed time period?	

Other survey findings

- In general, IA planned approach was clear, however 40% of plans had little or no reference to risk universe and/or risk registers
- Where a tracker system was in operation, over half had key elements in place i.e. finding date and rating, action, person responsible, target action date, and status update
- Length of time to address IA recommendations varied – % of open items >1 year ranged from 19% to 70%; longest open item was 8 years

Internal audit process – OCAG observations

- Blended approach to resourcing IA in nearly half of cases
- Lack of benchmark data on IA administrative resourcing
- More clarity on approach to fraud risks would assist ARCs
- Not always clear that plans were aligned with highest risks
- Specifying resources by assignments enables oversight of sufficiency of resources on assignments and measurement of IA performance
- Around half of plans did not specify alternative assignments – may help IA and ARC in prioritising programme of work
- Scope to improve reporting on the implementation of IA recommendations
- How to set metrics for measuring IA impact?



Panel observations and discussion



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Snapshot of internal audit assurance work-2021

Views on the results

Dr. Geraldine Smith

- ▶ Welcome - Key Insights - Key Assurance pillar
- ▶ The IA and ARC nexus
- ▶ Views on the Results ?
- ▶ International Professional Practices Framework (IPPF)
 - ▶ Core Principles and International Standards (Attribute standards and the Performance Standards for Internal Audit (Statements of basic requirement for the practice of IA))
 - ▶ DPER Standards for Public Sector Internal Audit.
 - ▶ Mission + Definition of Internal Audit → 3rd LOD function → Reliance
 - ▶ ‘Quis custodiet ipsos custodies’ → Reliance + Integrity of Assurance.

- ▶ Standard 1300 - Quality Assurance and Improvement Programme
- ▶ IIA - Benchmarking Internal Audit in 2022
- ▶ IIA - Insights from 2022 EQA Process
- ▶ IIA - Risk In Focus: Top 6 Risks
- ▶ Challenges Ahead - UK Restoring Trust in Audit and Corporate Governance Reforms - Implications for IA and ARCs
- ▶ Key messages and actions for ACs and HOIAs arising from the results of this snapshot
- ▶ A journey

Reality v Desire

Real	Desire
Sample coverage	Comprehensive coverage
Mostly financial	All risks
Plays to expertise	Expert in all relevant things

Good Practice Risks



- Consultation <> capture
- Planned <> inflexible
- Databases need to reflect real action, not box ticking
- Hierarchy of priorities → basics first
- 3rd line of defence is a weak line – should focus not on defence but on fortifications
- Don't read too much into audit assurance
- A bad audit should have consequences
- Beware the unknown unknowns – get somebody who knows

Solutions?

- Strong internal controls
- Rigid control of “the cheque book”
 - Authorisations to commit
 - Authorisations to procure
 - Authorisations to make payments
- Robust – and separate – 2nd line of defence
 - Risk managers
 - Compliance managers
 - Critical incident, complaint, limit breach, outage/downtime reporting
 - Accountant/Finance Officers
 - Accounting Officer
- Consequence for neglecting procedures
- Strong Cultural norms