




Institute of Internal Auditors
UK AND IRELAND



IIA Diploma in Internal Audit Practice

P7 Internal Audit Practice Case Study Sample assessment materials



This document is in two parts.

The initial material, starting on page 3, is the sample case study information, which would be released to candidates approximately four weeks in advance of the P7 Internal Audit Practice Case Study examination.

The questions themselves commence on page 13 and would be supplied to candidates at the beginning of the P7 Internal Audit Practice Case Study examination along with a clean copy of the case study document. No materials are to be taken into the examination beyond writing equipment.

Background

Manford City Council*, a city council in the UK, has recently received a disappointing Comprehensive Performance Assessment indicating poor and declining effectiveness. As a result the Council has employed a consultancy agency, PS Management Consultants, to review the organisation and make recommendations for action to address the issues identified.

The Council has received the report and is keen to progress with implementing the recommendations, subject to a few reservations. You have been asked to join a steering group that has been established to oversee the implementation of change and to provide advice and guidance in your capacity as an internal auditor.

You are provided with a copy of the report produced by PS Management Consultants (attached).

**Note: Manford and Manford City Council are fictitious and have been created for the purpose of this case study. Any similarities with actual cities or city councils are unintended.*

Report by PS Management Consultants on Manford City Council

March 2009

1.0 Terms of reference

- 1.1 Manford City Council (“the Council”) approached PS Management Consultants (“PSMC”) in October 2008 and requested that they conduct a study of the Council’s structure and operations to identify possible causes of poor performance and to make recommendations aimed at addressing perceived deficiencies and weaknesses.

2.0 Procedure

- 2.1 PSMC studied copies of recent Comprehensive Performance Assessment (CPA) reports from the Audit Commission and other Performance Summary Reports of annual assessments produced by Ofsted, CSCI (Commission for Social Care Inspection), and the BFI (Benefit Fraud Inspectorate).
- 2.2 PSMC also conducted interviews and surveys with members of staff and reviewed documentation provided, including the annual report for 2007/8.
- 2.3 The research for and preparation of this report took place during November 2008 to February 2009.

3.0 Findings

3.1 Background information

- 3.1.1 Manford City Council provides a service for nearly 5 million people distributed across 21 wards. The city continues to experience rapid population growth and has a large diverse population. There are significant levels of deprivation in some wards (the Index of Multiple Deprivation (IMD) ranking placed Manford among the top ten most deprived areas in the UK) with rising crime rates and unemployment rates higher than the national average and rising.
- 3.1.2 The key personnel are:
- Chief Executive – Gayle Harcourt
 - Leader of the Council – Sir John Nesmith
 - Deputy Leader of the Council – Councillor Francine Chambers
 - Deputy Leader of the Council – Councillor Vikram Patel
- 3.1.3 The council comprises 76 members.
- 3.1.4 The key areas of service delivery are:
- Adult Services
 - Arts and Leisure
 - Children’s Services
 - Community Services
 - Employment and Skills

- Environment
- Finance and Human Resources

- 3.1.5 The stated aims of the Council are:
- to foster economic growth and individual prosperity
 - to empower people through education and training
 - to provide comprehensive services
 - to establish pride in the community
- 3.1.6 Among its various committees the Council has an Audit Committee.

3.2 **Comprehensive Performance Assessment (CPA)**

- 3.2.1 In its most recent CPA made in 2008, the Council was awarded a single star rating by the Audit Commission (maximum four star), compared with a two star rating in 2007 (see Appendix A for comparison with all other councils in the UK). This assessment is based on the quality of services provided, the use made of resources, the progress made on targeted improvements and the ability of the councillors. In particular, the report criticised the Council for its:
- financial reporting, which was found to be incomplete, inaccurate and frequently submitted late
 - financial management, which highlighted inadequate planning and monitoring
 - falling financial standing, due chiefly to declining reserves
 - ineffective internal control where the Commission found no strong evidence of risk ownership, identification, management, control, monitoring or review
 - unsatisfactory value for money with services often more expensive than national averages and of poor or declining quality
 - declining services for local people (especially in waste recycling, housing and children's services)
 - limited partnerships and collaborative working arrangements

3.3 **Staff perceptions survey**

- 3.3.1 PSMC conducted a survey amongst staff of Manford City Council (see Appendix B). There was a high response rate (88%). The main findings were:
- staff were most satisfied with access to training and development with 19% of respondents either dissatisfied or very dissatisfied
 - staff were also more satisfied with the level of integration and coordination between departments and teams (25% either dissatisfied or very dissatisfied)
 - staff were least satisfied with the management capability of managers (9% either very satisfied or satisfied) and the quality of individual feedback and guidance (10% very satisfied or satisfied)

- 3.3.2 A number of detailed interviews were also conducted with staff from different teams and different levels across the Council. Several comments were made that were repeated by many different individuals:
- many staff reported that they felt they had been given no sense of clear purpose or direction
 - communication from top down is felt to be infrequent, while from bottom up is virtually impossible
 - there is a lot of confusion and uncertainty within the organisation over roles and responsibilities, and there are overlaps and gaps between the work undertaken by individuals and teams
 - the amount of feedback and the effectiveness of appraisals vary considerably depending upon individual managers, with some staff reporting that they feel supported while many others that they lack necessary guidance
 - personal stress levels are perceived to be high and staff morale is low
 - some areas of operation (such as dealing with complaints from the public, processing applications for housing and passing invoices for payment) are badly managed, leading to delays and loss of information

3.4 **Financial performance**

- 3.4.1 The Annual Report for 2007/8 was made available to PSMC and included some basic accounting information (see Appendix C).
- 3.4.2 A detailed assessment was made of the finance function. This was undertaken through a combination of observations, interviews and a review of available documentation. This revealed the following weaknesses:
- there are no clear procedures for processing and checking invoices, or for the authorisation of payments and orders
 - difficulties have arisen in offering credit terms when customers have subsequently proved incapable of paying
 - similar problems have been found in the procurement process where a suppliers' ability to deliver is not routinely scrutinised ahead of ordering goods and services

3.5 **Information systems**

- 3.5.1 The study showed that there are several stand alone systems (in finance, human resources, housing, council tax and education) of different formats and variable reliability.
- 3.5.2 Each department operates different software on different platforms. In some cases the software is no longer supported by the supplier. In other cases new software has been installed that is incompatible with existing systems.
- 3.5.3 In many cases staff have only received cursory training.

3.6 **Other findings**

- 3.6.1 Overall there appears to be a very limited corporate governance structure or strategy, with no formal process of risk identification, ownership, control, management and review, and no clear remit for the audit committee. As a result, the audit committee dedicated only a small part of its time and attention on internal control. The consultants could find no formal statement of the Council's code of conduct or values.
- 3.6.2 No organisational chart was available for viewing.
- 3.6.3 Staff turnover has been increasing for the last three years and is as high as 40% among administrative staff in some departments.

4.0 **Conclusions**

- 4.1 The effectiveness of the organisation is poor compared with other councils and is in decline.
- 4.2 There are significant problems with the organisational structure, including a lack of clarity about individual and group roles, resulting in confusion and uncertainty over degrees of vertical and horizontal integration and specialisation.
- 4.3 There is ineffective internal communication upwards, downwards and sideways leading to a lack of managerial control and inefficient practices in basic operations.
- 4.4 There is no formal performance management system in place, leading to high degrees of variability in feedback, support, appraisal and management control.
- 4.5 In some cases there is low esteem and morale, leading to poor personal performance.
- 4.6 There are several stand alone information systems of variable reliability, resulting in inefficiencies, duplication of tasks and possible corruption of data.
- 4.7 There are serious problems relating to information systems impacting on data processing, storage, access, security and integrity:
- Individual systems have developed organically out of necessity without any overall management or control
 - Data processing is often slow, incomplete and inaccurate
 - Many staff involved in information handling require training and development
 - Compliance with data protection legislation may be incomplete and requires urgent review
- 4.8 There are particular concerns in finance where there are no clear procedures for authorisation, processing and checking, no clear

separation of duties and consequent risks associated with credit, procurement and potential fraud.

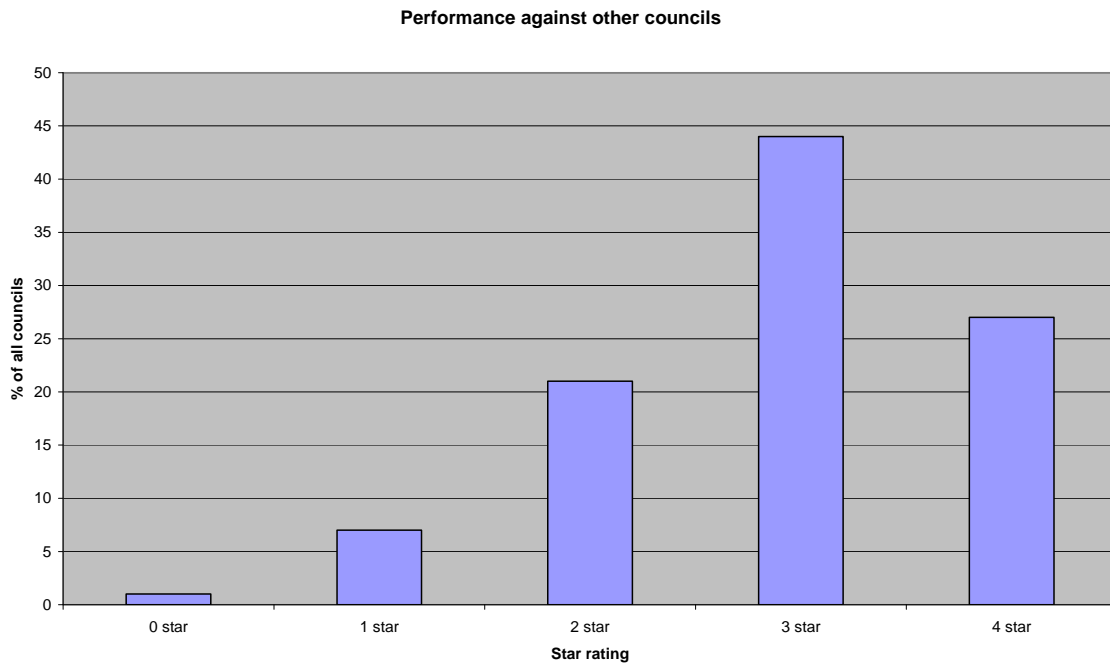
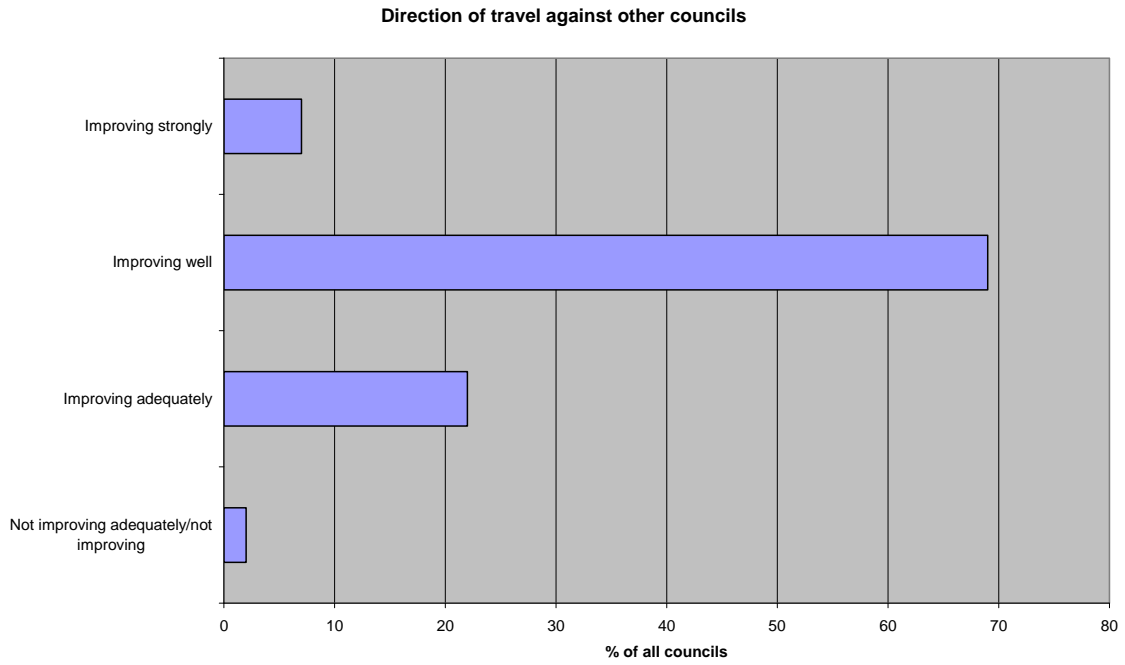
- 4.9 There are serious weaknesses in the corporate governance structure.

5.0 Recommendations

- 5.1 PSMC recommends that the Council undertakes the following in order to address the issues identified above:
- 5.1.1 to undertake an organisational review and restructure with revised job descriptions, in order to clarify roles and responsibilities and simplify lines of communication and command
 - 5.1.2 to introduce and implement a comprehensive performance management system for all managers and staff
 - 5.1.3 to undertake an urgent and thorough review of information systems throughout the organisation with a view to identifying where there are ineffective controls, and to recommend and implement appropriate measures for managing information risks
 - 5.1.4 to identify and introduce a new MIS system capable of operating between departments and delivering fast, effective solutions for HR, finance, housing, education and council tax processing
 - 5.1.5 to produce a comprehensive set of policies and procedures for all financial processes to improve its transparency and effectiveness
 - 5.1.6 to review the structures for corporate governance and introduce procedures for effective risk management and control
 - 5.1.7 to establish a formal code of conduct and implement throughout the Council
 - 5.1.8 to create, agree and communicate an appropriate audit charter
 - 5.1.9 to create a steering group to help oversee the implementation of these recommendations whose membership should include representation from across the organisation including at least one internal auditor

Appendix A

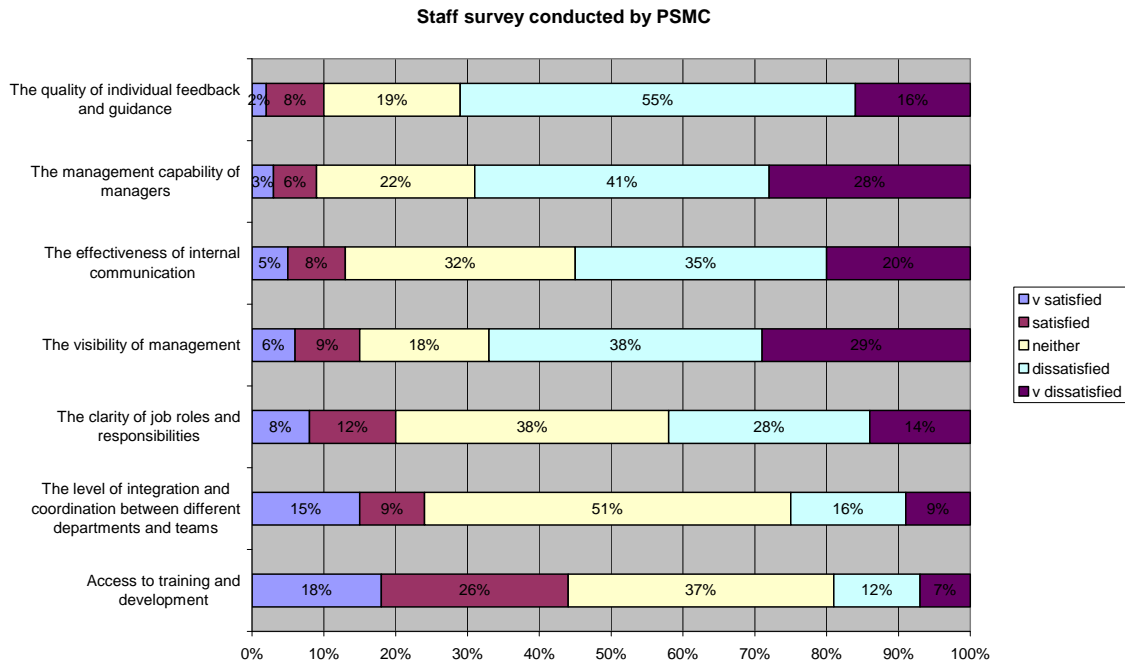
Performance of UK councils 2007/8



Source: Audit Commission

Appendix B

Staff perception survey results



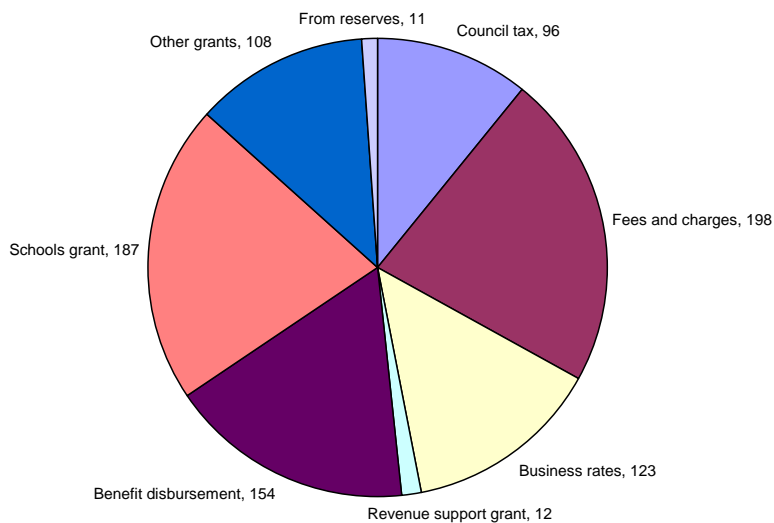
	Very satisfied	Satisfied	Neither	Dissatisfied	Very dissatisfied
Access to training and development	18%	26%	37%	12%	7%
The level of integration and coordination between different departments and teams	15%	9%	51%	16%	9%
The clarity of job roles and responsibilities	8%	12%	38%	28%	14%
The visibility of management	6%	9%	18%	38%	29%
The effectiveness of internal communication	5%	8%	32%	35%	20%
The management capability of managers	3%	6%	22%	41%	28%
The quality of individual feedback and guidance	2%	8%	19%	55%	16%

Appendix C

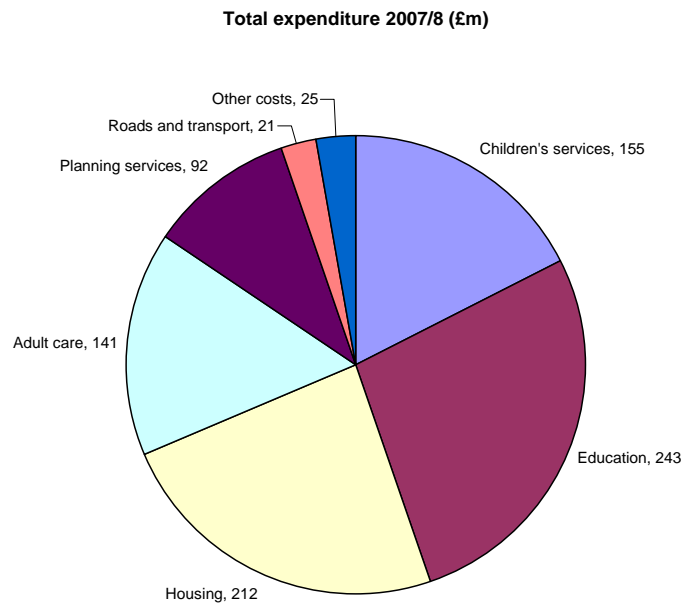
Financial performance Manford City Council 2007/8

Revenue Income 2007/8 (£m)	
Council tax	96
Fees and charges	198
Business rates	123
Revenue support grant	12
Benefit disbursement	154
Schools grant	187
Other grants	108
From reserves	11
	£889

Total income 2007/8 (£m)



Revenue Expenditure 2007/8 (£m)	
Children's services	155
Education	243
Housing	212
Adult care	141
Planning services	92
Roads and transport	21
Other costs	25
	£889



Capital expenditure 2007/8 (£m)	
Council dwellings	29
Land and buildings - other	60
Vehicles, plant and equipment	1
Roads and highways	7
Deferred charges	31
	£128

Source: Manford City Council Annual Report 2007/8

Questions

1. One of the recommendations of the consultancy report for Manford City Council is to undertake an organisational review, leading to a possible restructuring with major changes to job roles and responsibilities. Linked to this there is to be a special focus on the finance function to bring the necessary clarity and transparency for effective, efficient and appropriate operations.

As part of the steering group for considering and implementing the report’s recommendations, you have been asked to comment on change management and to provide particular guidance for addressing issues in the finance team.

You are required to produce an informal report in which you:

- | | |
|--|----------------|
| a. describe and assess the likely impact of such changes on the finance function within Manford City Council | 6 marks |
| b. recommend measures for managing the implementation of change that address potential difficulties and increase the chances of long-term success | 7 marks |
| c. describe five risks associated with the operation of the Council’s finance function | 5 marks |
| d. propose a cost effective range of suitable controls for the appropriate management of those risks | 7 marks |

Total 25 marks

2. The absence of a consistent and comprehensive process for performance management at Manford City Council has resulted in high degrees of variability of performance of individuals and processes across the organisation. The steering group has decided that the introduction of performance management systems is a high priority. The group is keen that internal audit takes the lead in the introduction and monitoring of performance management and you are asked to make a presentation at one of the meetings of the steering group about this.

You are required to produce a discussion document that can be circulated at the meeting of the steering group in which you:

- | | |
|--|----------------|
| a. describe processes for managing performance in organisations, including the use of external quality marks and explain how they might be used to improve performance | 6 marks |
| b. assess the appropriateness of different performance management systems for a large public sector organisation like Manford City Council | 6 marks |

- c. **describe** the process that internal audit at Manford City Council could follow to determine the effectiveness of performance management once it has been introduced and **explain** how internal audit could add to the effectiveness of performance management across the organisation **8 marks**
- d. **identify** five ways in which performance management information may be used by internal audit in its planning and delivery of internal audit services at Manford City Council **5 marks**

Total 25 marks

3. The consultancy report for Manford City Council calls for a major IT transformation programme in order to address the problems of stand alone systems, corruption and loss of data and processing inefficiencies. The steering group agrees and believes that under such circumstances the Council should seek to maximise the benefits of introducing IT by including systems that internal audit can use as well. The senior management team, however, needs to be convinced that IT can provide an effective solution to the problems identified in the report.

You are required to produce a memo for the Chief Executive and Leader of the Council in which you:

- a. **describe** and **apply** the potential value of information systems to Manford City Council in operations, management and service delivery **5 marks**
- b. **identify** five risks associated with introducing a new MIS system for the HR, finance, housing, education and council tax processing departments at the Council and **describe** appropriate mitigation for these risks **10 marks**
- c. **describe** the use of computer-assisted auditing tools and techniques (CAATTs) and **assess** five priority areas within the Council where CAATTs could be employed by internal audit to add the most value, giving the reasons for your selections **10 marks**

Total 25 marks

4. In PS Management Consultant’s report on Manford City Council, there is particular criticism of corporate governance and risk management. Other members of the steering group created to oversee the implementation of PS Management Consultant’s recommendations are unfamiliar with these terms and the role played by internal audit in these areas. They look to you for information and advice.

You are required to produce a presentation for the members of the steering group with a maximum of ten slides plus additional notes in which you:

- a. **define** the focus and purpose of internal audit and the risk-based services it may provide and **evaluate** their impact on organisational effectiveness in Manford City Council. **6 marks**

- b. describe** the key components of public sector corporate governance in the UK or Ireland and **analyse** the desirable characteristics of good corporate governance for a city council like Manford **12 marks**
- c. assess** the role and impact of external bodies and agencies in setting and implementing corporate governance within Manford City Council **7 marks**

Total 25 marks



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