

Joint Audit and Governance Committee



Report of Internal Audit Manager

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To: Joint Audit and Governance Committee

DATE: 11 January 2021

Internal Audit Revised Sampling Approach

Recommendation

That members note the content of the report

Purpose of Report

1. The purpose of this report is to provide a summary of the proposed changes to internal audit sampling methodology and practices.
2. The contact officer for this report is Richard Green, Interim Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430

Strategic Objectives

3. Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

Background

4. At the September JAGC meeting, the Housing Benefits & Council Tax Reduction Scheme (HB & CTRS) 2019/20 audit report was presented to the audit committee.
5. Members noted that a high percentage error rate (37 per cent) in the joint overpayments testing (Recommendation 3), and therefore raised the following concerns to the internal audit manager:
 - I. Limited information had been documented in the audit report and recommendation wording in relation to the sampling approach (i.e. random versus judgemental selection);
 - II. Limited information had been included in the recommendation on the total financial value of the errors identified; and
 - III. Additional sampling had not been performed despite a high error rate percentage in the sample results.
6. Actions have been taken by the internal audit manager to address member concerns raised in relation to the HB & CTRS 2019/20 overpayments testing. Further testing was undertaken using a random sample approach and no further issues were identified. The report has since been updated to reflect this work and is presented to the audit committee as part of the Q3 internal audit activity report in January 2021.
7. Following the concerns raised, the internal audit manager in discussion with the interim head of finance acknowledged that a review of current internal audit sampling methodology against recommended best practice would be beneficial.

Work Performed

8. A review of internal audit sampling best practice was undertaken, and the following was noted:
 - The International Standard of Auditing (UK) defines sampling as ‘The application of audit procedures to less than 100 per cent of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
 - Audit sampling is important as it assists internal auditors to gather sufficient and appropriate (Standard 2310) audit evidence to make a professional judgement, express their opinion and a reasonable basis to draw conclusions (Standard 2320) without the need to check 100 per cent of transactions/data when undertaking audit testing as part of their fieldwork.
 - There is no set guidance on what audit sampling method should be undertaken by an internal auditor (i.e. statistical versus non-statistical or judgmental). However, it is vital for the internal auditor to ensure that the sampled items represent the total population, whilst balancing the sampling selection method used to minimise human judgments and avoid bias from the internal auditor.

- An analysis of actual errors detected in the sample should be performed to determine whether additional testing is required.
- Whatever sampling method is used, what is ultimately determined as an 'acceptable error rate' will depend upon the internal auditor's judgment of the significance of the errors and, to some extent, the risk appetite of the organisation under review.

Conclusion

9. Audit sampling is a vital tool in the testing of systems and processes and the results give credibility to the work of internal auditors. Both statistical and non-statistical sampling allows audit conclusions regarding an entire population to be drawn from the analysis of a fraction of it.
10. The internal auditor should use the testing technique that is suitable for the specific audit under review and for the sample objectives to be achieved.
11. Based on the above work performed, it is concluded that the internal audit sampling methodology should be reviewed and updated. The following revisions have been made to internal audit procedures:
 - I. When selecting a sample, the internal auditor should use a mixture of both statistical and non-statistical (judgmental) sampling (i.e. high value, looks odd, aged item etc.), which is deemed most appropriate for the audit topic and audit objective under review.
 - II. The internal auditor should document the sampling method within the audit working papers. When non-statistical (judgmental) sampling is used, the internal auditor should include the basis/judgment for selection (i.e. significantly aged). Where statistical sampling is used, the internal auditor should use a random sampling tool and document the sample results obtained from the sampling tool within the audit working papers.
 - III. Where it is deemed by the internal auditor that a significant error rate has been identified, the internal auditor should consider performing additional statistical sampling.
 - IV. The internal auditor must document the following information in an audit recommendation:
 - Sampling method;
 - Number and value of errors identified; and
 - Additional testing results. If a high error rate is identified in the initial sample, but additional sampling has not been performed, the internal auditor should document the basis for this decision.

Financial Implications

12. There are no direct financial implications arising from this report.

Legal Implications

13. There are no direct legal implications arising from this report.

Risks

14. None identified but identification of risk is an integral part of internal audit work and the internal audit sampling approach contributes to the assessment of risk in all audits.

Other Implications

15. None

Conclusion

16. Internal audit procedures have been updated to reflect the revised sampling approach documented in this report.