



Comptroller and Auditor General
Special Report

Department of Health and Children

Internal Audit in Health Boards

Report for presentation to Dáil Éireann pursuant to Section 11 of
the Comptroller and Auditor General (Amendment) Act, 1993 (No. 8 of 1993)

Report Number 2

August 2000



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Special Report of the Comptroller and Auditor General

Internal Audit in Health Boards

I have, in accordance with the provisions of Section 11 of the Comptroller and Auditor General (Amendment) Act, 1993, prepared a special report which sets out the results of an examination which I carried out on Internal Audit in Health Boards.

I hereby submit my report on the above examination for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Purcell', written in a cursive style.

John Purcell
Comptroller and Auditor General

31 August 2000

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Part 1: Introduction

1 Introduction

1.1 In 1999 over £2.5 billion was spent by the eight Health Boards¹ which administered public health services on a regional basis throughout the country. The income of Boards was approximately £200m. With the establishment of the Eastern Regional Health Authority (ERHA) in 2000 which will have the additional task of administering funding of voluntary hospitals in the Eastern Region the level of funding passing through the Boards and the new Authority will increase substantially. This, combined with the introduction of devolution within Boards makes the review of health expenditure by internal audit a crucial element in the overall system of internal control in the sector.

Governance in Health Boards

1.2 The system of governance in Health Boards derives from the legislation which regulates the Boards. This legislation provides for a division of responsibilities between the Board and the executive

- only certain functions are reserved to the Boards
- the remainder are executive functions.

Boards are responsible for the adoption of accounts while the Chief Executive Officer (CEO) is the accountable person when the accounts are being considered by the Committee of Public Accounts of Dáil Éireann.

1.3 The nature of Health Board governance impacts on the organisation of internal audit including, in particular, its reporting channel. Functions reserved to the Board are defined in legislation which precludes the Board from interfering in the executive function of the CEO which covers the major part of administration.² As a consequence, the lines of reporting of the internal audit service and the positioning of Audit Committees within the structure needs careful consideration so that the balance of functions assigned by statute to the various organs is not disturbed.

Nature of Internal Audit

1.4 Internal audit is a review function which reassures management that services are being properly administered and that there is a functioning system of internal financial control in operation. Its remit also includes making recommendations to improve control procedures and systems. By introducing a structured lookback system it provides a key review of the system set up by management and when functioning properly assures

1 Includes the former Eastern Health Board. This Board was replaced by the ERHA under the Health (Eastern Regional Health Authority) Act, 1999. My review was conducted in 1999. All references, unless otherwise stated, are to the position prior to the ERHA's establishment.

2 The functions reserved to the Board include the adoption, amendment and supervision of service plans and the adoption of annual accounts and reports.

management that its system of internal control is securing adherence to policy, safeguarding its assets, producing accurate and reliable accounting data and achieving operational efficiency.

As a by-product internal audit in the health service functions as a form of internal consultancy which

- spreads good practice and
- fosters uniformity of treatment in the case of decentralised operations.

Internal and External Audit

1.5 External audit reports on management. Part of the duty of an external auditor is to assure himself that the system of internal control within an organisation is sufficient and is being adequately applied.

Internal audit is a review function which reports to management. While the role of internal audit is determined by management and its objectives may differ from those of external audit, there is an inevitable commonality of interest between both types of audit. Consequently, it is evident that in organisations where internal audit operates effectively the assurance required by external audit can be more readily provided.

1.6 Internal auditors in the Health Boards have enjoyed a good working relationship with their previous external auditors, the Local Government Audit Service and since 1994 with my Office. As external auditor to the Health Boards, I seek to place reliance on the work which is carried out by their internal auditors. The degree of reliance is determined after making an assessment of the internal audit function in terms of its effectiveness and relevance. The greater the reliance which can be placed on internal audit, the greater the economies afforded to the external auditor. A well functioning internal audit can provide assurance that systems are working and provide the external auditor with certain confirmations.

Organisation of Internal Audit in the Health Boards

1.7 My review established that each of the eight Health Boards, including the former Eastern Health Board, had an internal audit unit. The scope of the unit within each Board varied depending on the remit given to it. In addition, the practices and policies adopted varied from one Health Board to another.

Development of Internal Audit in the Health Boards

1.8 The last overall review which examined the role of internal audit, on a sectoral basis, in Health Boards was undertaken by a firm of management consultants in 1995. Primarily, that review was of the resourcing of the finance function in the Health Boards. Insofar as it reviewed the function, its conclusion was that internal audit in Health Boards at that time was underdeveloped and generally regarded as a backwater operation. The consultants made a number of recommendations including

- expanding the role of the function
- adoption of best professional auditing practice
- the further development of audit programmes to provide for a wider audit scope
- the implementation of proper procedures for planning, controlling, recording and follow-up of audit work
- proper organisation of the internal audit unit, staffing skills, and reporting functions.

1.9 The function has developed in each Board since 1995.

- Although hampered by underresourcing in some units, significant progress has been made in broadening the activities of the function in a number of Boards to cover areas other than the traditional financial and regularity audit. The scope extends in certain instances to operational audits, systems-based audits, value for money type studies, and fraud investigations. However, many Boards lack specialist personnel in these areas.
- Auditing practice in many of the units has developed in line with professional norms.
- Standard audit programmes have been introduced for many major areas of audit.
- The implementation of proper procedures in relation to planning, controlling, recording and the follow-up of audit work is being addressed on an on-going basis.
- The organisation of the internal audit unit, staffing skills and reporting functions have been reviewed in the light of the remit given to each unit.

I noted, however, that lack of resources is a problem in a number of units which militates against the proper organisation of the unit.

Department of Health and Children Guidance

1.10 Specific standards or guidelines for internal audit units in the Health Boards have not been issued to date. Standards are useful in that they specify good practice and indicate criteria by which the operation of internal audit should be measured and evaluated. They can also act as a catalyst to develop and improve internal auditing and make it a more effective management tool. The following matters should be covered in the standards

- Role of Internal Audit
- Scope of Internal Audit
- Independence
- Professional Proficiency
- Planning and Scheduling
- Performing the Audit
- Reporting
- Relationships.

Further guidance would also be particularly useful on matters of resourcing and operations including

- staff levels and competencies
- training of staff
- computer assisted audit procedures
- audit operational guidance in the form of a manual
- standard programmes to guide specific audit assignments.

It is suggested that the Department consider how best the promulgation of standards and guidance may be effected on a sectoral basis after consultation with the internal auditors, CEOs and other interests in the sector.

The standards already promulgated by the Department of Finance covering government departments provide a good working model for work in this area.

Internal Audit Review Group

1.11 In May 2000, a review group established on the initiative of the CEOs of the Health Boards began to

- examine how the function of internal audit can be enhanced within the health services and
- develop an outline structure, role, strategy and standards for consideration by CEOs.

The group has been requested to make recommendations on

- the role and function of internal audit within the Health Boards
- reporting relationships
- the development of audit charters, standards and strategy
- staffing of the internal audit units
- use of external expertise.

It is envisaged that the group will report to the CEOs before the end of 2000.

Review Methodology

1.12 The review was conducted in 1999 in conjunction with the audit of the financial statements of the Health Boards for the year ended 31 December 1998.

A synthesis of the review findings was discussed with internal audit staff and agreed with Chief Executive Officers of the Boards and with the Department.

Part 2 sets out the results of my review together with the criteria used to assess the status of internal audit for the range of issues addressed.

Part 2: Examination Findings

2 Examination Findings

I examined the status of internal audit in the Health Boards under the headings beneath. The review criteria are specified at the beginning of each section.

Role and Objectives of the Internal Audit Units

The role of the internal audit unit should be clearly specified.

2.1 The potential range of functions which an internal audit unit within a Health Board might carry out include the review and appraisal of the following

- the correctness of transactions and balances recorded in the Board's books, including cash and store checks and reconciliations
- the adequacy, reliability and integrity of the information being provided for decision-making and for accountability, and the extent to which this information is being used
- the design and operation of all systems and procedures, including systems development which are intended to control the organisation's operations
- assessment of risk and making recommendations to reduce such risk
- the degree of compliance with legislation, management plans, procedures and policies
- the acquisition and disposal of assets and the safeguarding of assets and interests from losses, including those arising from fraud, malpractice and irregularity
- arrangements for the economic and efficient use of resources and for avoiding waste.

In addition, the unit may be called on to carry out special investigations, examine the draft annual financial statements and conduct operational audits.

2.2 While the range of potential activities that might be engaged in by internal audit units is virtually limitless the actual functions which can be carried out effectively need to balance resource constraints on one hand and risk on the other. Since not all potential activities yield assurance of the same order it makes good sense to prioritise and distinguish between core and other functions and attempt to focus existing capacity on the activities which give the maximum assurance.

In order to do this, potential areas of risk must be identified and prioritised in some fashion. In the event that the unit does not itself have the requisite skills necessary to provide the desired audit coverage, the procurement of outside services should be considered. Key areas of risk or financial responsibility in a Health Board environment may include such matters as

- transaction processing systems
- asset management
- contracting and inventory control
- grant administration
- personnel and payroll
- appointment of management and technical consultants
- remuneration/absences.

In addition, certain risks associated with the Boards' operations can give rise to financial exposures.

2.3 A review of internal audit capacity and financial exposure should be conducted periodically and culminate in the development of a charter which sets out the role of internal audit and is approved by the CEO and accepted by the Board. This charter should provide for

- access to all operational areas within the Board
- access to such records, assets and personnel as are necessary for the proper fulfilment of its responsibilities³
- the internal audit function providing an unrestricted range of coverage of the organisation's operations.³

2.4 The effectiveness of an internal audit unit depends on the clarity of the definition of its role and the expectations of its key stakeholders including the CEO and the Board. The internal auditor should lead the debate and actively seek approval of the charter. The charter should establish

- what internal audit is and its relationship with internal control

³ Provision will, however, need to be made to safeguard the confidentiality of medical and socially sensitive information on patients and other persons.

- the role of internal audit and what services it will provide. The scope of its activities should be defined
- the independence of the function
- the co-operation the unit should have with other departments and external audit to get the job done effectively
- the responsibility for follow-up on reported audit findings.

2.5 My review of the internal audit function established that five of the Boards⁴ had drafted a charter or terms of reference which defined the role, function, responsibilities and objectives of the unit. The level at which such documents were approved varied. These documents were not formally approved in four of the Health Boards. The charter for the Mid-Western was formally approved at CEO level in 1998. Subsequent to my review the Western Health Board drafted an internal audit mandate which was brought before the Board's Finance and Monitoring Committee in September 1999.

2.6 My review noted that the charter drawn up by the former Eastern Health Board provided a good framework which set out the nature, mission, authority, responsibility, reporting relationship and independence of the internal audit unit. It also set out the standards which the function subscribes to. This approach could be assessed by other Boards for possible adoption in the definition of the remit of their own units.

Authority, Independence and Access

The authority, independence and access rights accorded to a unit must guarantee its capacity to operate freely and objectively.

2.7 My review of the charters drafted at the time of my survey indicated that in general they provide that the internal audit unit has the authority to access all records, assets, personnel and premises of the Board and to obtain all the explanations it deems necessary.

In each of the Health Boards, where authority has not been formally conferred on the unit to access records and to receive from staff all information and explanations it needs to perform its tasks, I was assured that in practice the unit has access to all relevant records and receives full co-operation from staff in carrying out its tasks.

It would, however, be preferable if co-operation was made a requirement in a charter binding the whole organisation.

⁴ A charter or terms of reference had not been drafted in the Southern, Western and South Eastern Boards.

2.8 In the majority of the Boards, it was noted that the internal audit unit does not have other operational responsibilities. However, in the Western Health Board the unit has traditionally had responsibility in relation to a number of non-audit areas. A 1989 management review recommended that many of these areas should be taken from the unit and performed by the Finance Department but this had not occurred.⁵ I also noted that the internal audit unit in the former Eastern Health Board is responsible for compiling claims on behalf of the Board for submission to FÁS in respect of the Community Employment Scheme.

2.9 A possible impairment in the area of independence is the carrying out of systems design type work. In some of the units, the internal audit remit includes an involvement in the drawing up of accounting procedures and regulations and participation in projects and multidisciplinary committees. There can also be an involvement in projects for the design of new systems, so that any views or concerns of the unit can be addressed in the system design. Where this occurs it is important that it is also reflected in the unit's charter.

2.10 Independence can best be achieved when the unit has a reporting structure which ensures that it reports at a level with sufficient authority to promote its independence, to give broad audit coverage and to ensure appropriate action on audit recommendations. In two Boards the internal audit unit reported to a level below that of CEO. My audit also established that six of the Boards did not have functioning Audit Committees.⁶ However, the matter of establishing Audit Committees was under active discussion both within and between Boards.

2.11 In most private sector organisations the independence of the internal audit function is underpinned by an Audit Committee to which it reports. The main role of an Audit Committee is financial control oversight. To achieve this it draws on input from both internal and external audit. A key function is to review the plans and reports of internal audit and quality assure that service. The merit of such committees is that they introduce an element of independence from management.

2.12 In the circumstances of Health Boards an Audit Committee could give additional assurance to Boards in the exercise of the enhanced accountability role accorded to Boards in the Health (Amendment) (Number 3) Act, 1996. The establishment of such a committee needs to take account of the functions of the executive and the reserved functions of the Board conferred by the Health Acts. A potential solution in the context of Health Boards, is the establishment of an Audit Committee with external accounting and specific health care expertise reporting to the CEO but whose reports are tabled for consideration by a Finance Committee which comprises Board representation.⁷

5 The number of non-audit areas in which the unit is involved has diminished since the review. Its involvement in the few remaining non-audit areas is being reviewed in accordance with the audit mandate.

6 The Mid-Western has an Audit Committee since August 1999. The North Eastern has an Audit Steering Committee. The Western has since established an Audit Committee.

7 A potential difficulty is that some Boards do not have a Finance Committee or its equivalent. This applies in the Southern, North Western and South Eastern Health Boards.

2.13 My audit noted that the need for an Audit Committee is generally accepted but it has to be activated in a way which

- harnesses external accounting expertise
- includes the expertise of health professionals
- meshes with the statutory allocation of functions.

Planning

The plan of audit activities and the scope of each audit assignment should be documented and approved.

2.14 In order to ensure that the risks and exposures of the Board are fully addressed audit planning is best done in the context of

- a strategic medium term plan
- an annual operational plan.

2.15 The strategic plan should cover a period of three to five years, during which all major systems and areas of activity will be audited. The annual plan should translate the strategic plan into a schedule of audit assignments to be carried out during a particular year. A mid-term review of the strategic plan is also desirable.

2.16 In seven of the units, my audit established that no medium term or strategic plans had been drawn up. In the North Western, the long term planning strategy of the unit extends over a six year period. I was informed, however, that notwithstanding the absence of a formal medium term plan, the units either sought to achieve audit coverage on the basis of conducting audits of all major locations or by covering all major spending and income of the Boards.

2.17 In general, no formal assessment of risk to identify the major financial exposures of the Board is undertaken by any of the units in deciding which areas should be audited. Limited consideration is given to categories of risk in some of the Boards but in an informal and non-structured manner. Previous years' plans and findings, experience and knowledge of existing areas form part of the evaluation made by internal auditors in devising the annual plan. The system in the North Western, provides an example of good practice in that cognisance is taken of size, structure, complexity, system changes, asset base, management competence and turnover in determining the priority to be given to the audit of areas of operation.

2.18 It is recommended that each of the units prepares a strategic plan covering a period of three to five years. The plan should aim to audit all major systems and areas of activity over this period. To ensure the effectiveness of the strategic plan an overall risk assessment should be undertaken. This assessment should identify all areas subject to audit, and specify

- the relative values of each financial resource administered
- the volume of transactions processed
- any known or suspected systems weaknesses
- the length of time that has elapsed since the area was previously subjected to audit
- its importance from the functionality or public interest viewpoint.

A simple risk index or ranking could be applied to each of the criteria to signify low or high risk areas which could aid the internal auditor in prioritising areas for audit over the ensuing period.

2.19 My audit established that all eight internal audit units prepared annual plans outlining the proposed work agenda for the year ahead. These plans were approved by the Director of Finance or by the CEO.

2.20 It is recommended that the strategic and annual plans of the internal audit units should be endorsed by the Audit Committee, approved by the CEO and placed by him together with any recommendations of the Audit Committee before a Finance Committee for information and discussion. The Audit Committee should also review the execution of such plans on a half-yearly basis and report its views in a similar way.

Audit Approach

Work should be related to the objectives of the audit.

2.21 Five of the units have drawn up their own standard audit programmes for many of the major areas of audit, while two other units use Internal Control Questionnaires. The remaining unit (Southern Board) has not drawn up its own programmes but uses those drawn up by the National Health Service in the United Kingdom. These programmes set out the audit tests to be performed during the course of audit.

2.22 In some units, it was noted that the tests set out in the programmes were not linked to audit objectives.⁸ There is scope for a more structured approach which commences with audit objectives and proceeds to test the validity of transactions or the integrity of systems by means of a set of audit tests designed to achieve such objectives.

⁸ This was noted particularly in the Eastern, Southern, North Western and Midland units.

Audit Coverage

The audit activity should be on a planned cyclical basis and address all areas of financial exposure.

2.23 The audit coverage achieved by each of the units varies in accordance with the level of expertise within the audit team. In some of the units, little work was carried out on reviewing and evaluating the adequacy of controls built into the Boards' computer systems due to a lack of expertise within the units. This was noted particularly in the Southern, Western, and South Eastern units. This is a major gap in the assurance available to the Board. In the case of the Midland Health Board the processing of financial transactions was done on an agency basis by an external supplier of these services until October 1999. Accordingly, computer processing controls were not examined by the internal audit unit.

2.24 As part of the annual and strategic planning exercises consideration should be given by Boards to

- mechanisms for identifying their key financial exposures
- procuring the audit expertise to review such exposures whether in-house or by contracting.

Standards and Guidelines

Standards and guidance should be available to audit staff.

2.25 An audit manual for staff is helpful in providing guidance and standards for the conduct of work. Only two units have an audit manual drawn up - the Eastern and the Western. The UK NHS Internal Audit Manual has been used by the Mid-Western since 1998. The internal auditor in the North Eastern is currently preparing an audit manual.

2.26 It would be worthwhile considering a joint approach to the production of a standard manual for all Boards.

Resourcing of Units

Internal audit should be appropriately resourced having regard to its objectives and standards.

2.27 The audit resources available to internal audit units include both staff and contracted-in expertise. In-house staff provide the core of a unit's resources since they in effect give it the capacity to function through their knowledge of the business. The matching of resources to the annual plan involves consideration of both the internal capacity of the unit and the need to supplement such capacity with outside expertise. As a consequence there is merit in making a defined administrative budget available for internal audit services so that the unit can be positioned to deliver assurance on the areas identified in the annual plan in circumstances where

- the expertise is not available in-house
- the unit is temporarily understaffed.

2.28 Underresourcing of units has been a concern of many Heads of internal audit. For instance, in the Western Health Board, the internal auditor made reference to underresourcing when submitting his 1998 plan⁹ to the CEO stating that resources did not facilitate the effective discharge of the audit function, particularly in relation to audits of computer systems, capital projects and value for money reviews. Similarly, the internal auditor in the South Eastern made reference to underresourcing in the unit when submitting his 1999 plan to the CEO stating that there was a need to carry out systems audits to ensure that the Board's systems are sound. He also stated that there was a need to develop expertise in using computer assisted audit techniques.

2.29 The approach of buying-in of services may be beneficial where insufficient capacity exists to carry out the full range of audit activities identified as necessary in a Health Board. As previously mentioned, the level of audit coverage that can be delivered by the internal audit unit itself must be identified in addition to the potential risks that the Board is being exposed to. Services which can not be provided internally should be bought in, as appropriate.

2.30 In general, staff in the units with the exception of the Head of the unit, are not recruited specifically for internal audit work but are assigned from a pool of staff recruited to perform a variety of clerical and administrative duties. Staff have not necessarily shown a preference or an aptitude for the work and are not required or expected to acquire accounting and auditing qualifications. Some units have also experienced a high level of turnover.

2.31 The authorised staffing complement of the internal audit unit varies from one Board to another. Table 2.1 illustrates the authorised staffing complement per unit and the actual number in each unit at 31 December 1998. At the end of 1998, only four of the internal audit units had their full complement of staff.

⁹ This underresourcing was addressed from May 1999 onwards, culminating in two additional staff and a revised staffing structure which provides for a career path in the unit.

Health Board	Authorised Staffing Level	Actual Staffing Level at 31 December 1998
Eastern	10	8
Southern	7 ^a	3
Western	4 ^b	4
North Eastern	6	4.5
North Western	5	5
South Eastern	3	2
Midland	3	3
Mid-Western	3	3
All Boards	41	32.5

a Includes posts of Hospital Checkers, which are not actually part of internal audit.

b A review group recommended a staff complement of five in 1989. In a submission to the CEO in December 1994 the internal auditor recommended a staff level of 6.

2.32 Turnover of staff is a problem which many of the units have experienced. Due to the fact that staff are not generally recruited specifically to the post, promotional opportunities when they arise within the Boards, are open to individuals working in the internal audit units. In spite of this, audit experience in many of the units is still quite high and a number of individuals also have extensive experience of finance departments within their Boards.

2.33 It is recommended that consideration should be given to the creation of a promotional path within internal audit. The attaining of an auditing or accountancy qualification should be supported.

2.34 As a general guide an internal audit unit should either possess or should obtain the knowledge, skills and disciplines needed to carry out its responsibilities. The Department has taken one particular initiative designed to ensure that the necessary skills exist in directing the units. In May 1995, it approved the upgrading of the post of internal auditor in all Health Boards. A condition of the upgrading was that future appointees to the post should have a professional accountancy qualification. While this requirement was effective immediately for any external appointees to the post, a five year transitional period to May 2000 was allowed for staff serving in each Board's finance department. At the time of my review four of the Heads of the units within the Boards were qualified accountants. Two other Heads were members of the Institute of Internal Auditors.

2.35 With respect to the remaining staff members within the units, there is no requirement or expectation that they acquire accounting and auditing qualifications. However, my review established that at 31 December 1998, 44% of all staff had degrees, certificates or accountancy qualifications, while a further 20% were pursuing relevant courses or were members of the Institute of Internal Auditors.

Table 2.2 Qualifications of Internal Audit Staff^a

Qualifications and Courses	%
Degree/Accounting Qualifications	20
Certificates	24
Other Courses Completed	12
Membership of Institute of Internal Auditors	8

a Excludes the Head of Internal Audit unit

2.36 In addition, from time to time, introductory courses in internal audit and computers, run by the IPA, are attended by internal audit staff. Training provided within the Boards varies.

- In the Eastern, a training programme was in place and all new staff were sent on an internal audit introduction course. It was also the Board's policy that all internal audit staff have training in computer assisted audit techniques. In 1998, the unit spent 96 days on training.
- In the Southern, some training in the use of audit interrogation software is provided. Induction training, on being assigned to the unit, as well as general training in computer assisted audit techniques also takes place. Staff are sent on external training courses about every two years.
- In the Western, induction courses in internal audit and computers have been held but training was not provided in the area of computer assisted audit techniques and capital project audits.
- In the North Eastern, all staff have received training on the computerised accounting software package used by the Board. Other training has been acquired on an individual basis in relation to the use of audit interrogation software, supplementary welfare allowances, internal audit techniques and fraud.
- In the North Western, there is no specific training programme in place but attendance at appropriate courses is encouraged. Informal training, especially on new systems is provided by management services personnel on an on-going basis. In 1998, 16 days were spent on training.

- In the South Eastern, no training has been provided in relation to computer assisted audit techniques or in the use of audit interrogation software or the auditing of capital projects.
- In the Midland, there is a training programme in place. Some training is provided in the use of computers but not in computer assisted audit techniques or audit interrogation software. In 1997 and 1998, 11 and 5 days respectively were spent on training.
- In the Mid-Western, there is also a training programme in place providing training in computer auditing programmes and technical and general training in internal audit and Health Board programmes.

Reporting Framework

The reporting framework in each of the units should be clearly defined.

2.37 In order to operate effectively an internal audit unit needs to

- report to and have access on a day-to-day basis to the CEO and
- have the support of an Audit Committee with wide expertise which endorses its plans and reviews its reports.

2.38 In six of the eight Boards, the internal auditor reports directly, or is accountable to the CEO. In the former Eastern Health Board, the internal auditor reported directly to the Director of Finance. However the draft internal audit unit charter states that the internal auditor has access to the CEO and any other members of the management team should the need arise. In the Midland Health Board, the internal auditor normally reports to the Director of Finance but reports directly to the CEO when specifically required to do so.

2.39 It is recommended that all internal audit units should have access to and report to the CEO and that an Audit Committee should be set up in each Board, with clear terms of reference.

Reporting Output

A signed written report should be issued after the audit examination is completed and the internal auditor should discuss the conclusions and recommendations with the appropriate levels of management before issuing the final written report. Reports should present the purpose, scope, results of the audit, management's comments, and where appropriate contain an expression of the auditor's opinion. The reports should also issue as soon as possible after the audit fieldwork has been completed.

2.40 In all the internal audit units, the audit findings are discussed with line management prior to finalisation of the report. The format of the reports varied from unit to unit but in general the background, audit findings, conclusions and recommendations were evident in all reports. Table 2.3 indicates the number of reports issued by each unit in 1998. The number of reports issued is not comparable but is rather a consequence of each internal audit unit's mode of organisation. In addition, other work is performed which does not culminate in formal reports. In general, the elapsed time between the finalisation of the audit and the issue of an audit report was approximately one month. This is a satisfactory performance.

Table 2.3 Number of Reports Issued - 1998

Health Board	Number Issued
Eastern	32 ^a
Southern	61
Western	44
North Eastern	21 ^b
North Western	23
South Eastern	26
Midland	20
Mid-Western	29

a Thirty two formal audit reports issued. Reports on other issues were also completed in 61 cases.

b In addition, work is completed on cash checks and write-offs.

2.41 The range of activities covered by each unit varied in line with decisions taken by each internal auditor on the work programme to be pursued for the 1998 year of account. Table 2.4 summarises the types of activities undertaken.

Table 2.4 Activities Undertaken by Internal Audit Units - 1998	
Health Board	Activities Undertaken ^a
Eastern	Stock takes and year end accruals reviews (11), Systems reviews (7), Fraud and Irregularity (8), Special reports (2) and IT reviews (4)
Southern	Wide cross section of Board locations, Payroll, Purchasing, Cash checks, SWA and Year end stock takes
Western	Issued reports for each of the Board's cost centres in 1998. Reports included Payroll, Non-Pay Expenditure, Income, Stocks and Inventories, Patients' Property, Transport, Staff Leave, Community Care, Grant Aided Bodies Operations and Systems Reviews
North Eastern	Wide cross section of Board locations and review of SAP ^b , Income, Payroll, Sick pay, Travel, Cash checks and Write-offs
North Western	Sick Leave (3), Hospitals (3), Capital Projects (2), Pharmacies (2), Computer Systems (2), Income, Training centres, Transport services, Specific departments of operation, Health Promotion, Year end stock takes, Consultant Contracts and SWA ISTS system
South Eastern	Wide cross section of Board locations and Income, Payroll and Stores
Midland	Range of areas including Stock takes, Systems reviews, SWA and Community Care
Mid-Western	Payroll, Spending controls, Community drugs, Bank charges, Freedom of Information implementation, Income, Drugs review group, Review of Euro implementation and Stocktaking.

a The numbers, where given, indicate the number of reports issued on the subject.

b This is the Board's financial package.

2.42 The approach adopted by each unit in the finalisation of a report varies. Differences may also exist in the version of reports that issue to interested people within a Health Board. For example, the line manager may receive an interim report which allows for the correction of inconsistencies in the report while the final report may go to the Divisional Manager.

2.43 It is recommended that a copy of each report issued should be forwarded to the CEO and the Audit Committee. In addition, a quarterly summary of audit findings should be prepared. This summary together with the recommendations of the Audit Committee should be tabled by the CEO for information and discussion by the Finance Committee.

2.44 There is also merit in producing an annual report of internal audit activities. The unit in the Mid-Western prepares such an annual report which is circulated to senior management of the Board. The 1998 report provided a broad overview of its activities and specific details relating to value for money audits, improvements effected in internal controls, changes in audit working practices, communications, fraud and implementation of the audit plan. An approach similar to this might be considered by the other units.

Actioning Reports

It is the responsibility of management, and the CEO in particular, to take action when internal audit reports are issued. However, the unit should follow up on reports to ensure that either recommended corrective action is taken or that the failure to act and the consequent risk is brought to attention.

2.45 In many of the units, although monitoring of the implementation of audit recommendations is carried out by the unit, there is no formal system in place for recording responses to audit recommendations, the proposed action and the implementation of the recommendations.

- In the South Eastern, monitoring of the implementation of the audit recommendations is carried out by the CEO. However, follow-up checks by the unit on whether recommendations have been implemented takes place at the next audit.
- In the Western, the primary responsibility for monitoring of the implementation of audit recommendations is with members of the Senior Management Team. Internal audit reviews action taken during subsequent audits.
- In the Southern, prior to 1998, responses were not requested from management on the actions to be taken in relation to audit recommendations. Such responses are now formally sought but there is no formal system in place to monitor the extent to which audit recommendations have been implemented.
- In the Eastern, spot checks are undertaken at a later stage to ascertain if recommendations have been implemented and if not, a follow up audit report is compiled. However, no formal recording of responses is maintained.
- In the Midland, responses are received through the Director of Finance indicating proposed actions to be taken. The unit checks on later visits whether or not the agreed recommendations have been implemented.

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- In the North Western, there is no formal requirement for managers to reply to recommendations by the unit. However, the CEO may request reports from managers on actions proposed.
 - In the North Eastern, there were no formal procedures in place for monitoring the implementation of recommendations, but this is currently being addressed in the unit's charter.
 - In the Mid-Western, the annual plan makes provision for the follow-up of all the previous year's recommendations to assess the level of implementation of the commitments given by the various local managers.

2.46 Management is responsible for deciding the appropriate action to be taken in response to reported audit findings. However, the internal auditor is responsible for assessing such management action for the timely resolution of the matters reported as audit findings. Hence, it is necessary that each unit has appropriate procedures in place for the recording of responses to audit recommendations, the action proposed and the actual implementation of the recommendations. In order to achieve this it is suggested that the unit sets up a monitoring system which records

- the date the report issued to line management
- the date a response was received
- details of the action proposed
- the date of follow-up audit/check to confirm implementation of recommendations
- results arising from follow-up audit/check and comments thereon
- the date of follow-up report (where considered necessary).

2.47 The status of responses to audit findings should also be communicated to the CEO/Audit Committee on a regular basis.

Reviews of the Function

In order to be assured that high quality relevant work is being undertaken periodic reviews are desirable.

- *Reviews should be undertaken by management or the Audit Committee in order to form an assessment of the value of the unit's activities.*
- *Independent external reviews of internal audit should be performed to appraise the quality of the unit's operations.*

2.48 An Audit Committee would provide a suitable internal organ for the review of the effectiveness of internal audit. However, in most cases such committees are only now being contemplated.

Certain reviews have been sponsored by management in the past.

- In the Southern, a review of the finance function in 1990, included a review of the internal audit function. It found that there was a need to clarify the role and objectives of the function. This has not been done. Senior management of the Board seem to have had very limited involvement in the operation of the internal audit function since its inception. In addition, since the role and objectives of the function have not yet been determined it is not possible to adequately review performance and the contribution being made by the unit to the Board's operations.
- In the Western, a review of the internal audit function was carried out by management of the Board in 1989 which defined the role of the function. It also recommended that the role of internal audit be expanded and suggested that internal audit might be more appropriately described as management review. There has been no assessment of the extent to which the objectives set in the 1989 review have been achieved. Further suggestions on the modification of the unit were submitted by the internal auditor to the CEO in December 1994, but these had not been acted upon at the time of my review.¹⁰
- In the South Eastern, a review of the internal audit function was carried out by the Institute of Public Administration in 1996. The resulting report defined the role of internal audit and outlined the potential areas of audit coverage. It stated that internal audit should have an involvement in the planning, design, development, implementation and operation of computer based systems. A further review was carried out by senior management in 1999. However, the findings of the 1996 review and the 1999 proposals had not yet been implemented at the time of my review.

¹⁰ The CEO has assured me that these have been addressed in developments to enhance the Board's audit function.

- A number of improvements in the operation of the internal audit unit in the North Eastern in recent times, including the appointment of an accountant with extensive audit experience, suggests a high level of commitment and involvement by senior management in the function.
- Similarly, in the Mid-Western, the recent preparation of a charter and operational strategy for the unit as well as the appointment of an accountant to head the unit in 1998 suggests a high level of input by senior management in recent years into the operation of the unit.

2.49 It was also noted that in some of the Boards (Eastern, Southern, Western), reviews were not carried out in relation to the extent to which audits planned had actually been carried out. In the South Eastern and North Western, ongoing reviews are carried out by the internal auditor, while in the Mid-Western, the internal auditor reviews annually the implementation of the annual plan and the extent to which planned audits have been carried out. In the Midland, the internal auditor reports to the Director of Finance on the implementation of the agreed programme of work.

2.50 In light of the varying degrees of review of the internal audit function in each of the Boards, it is suggested that more formalised procedures be put in place to evaluate the effectiveness of each unit's performance and the quality of its output in order to provide reasonable assurance that the work performed conforms with best practice, the unit's charter and any applicable standards.

The approach to such reviews might include

- a periodic Audit Committee review of the role and function of the unit and an evaluation of the extent to which the objectives set for the unit have been achieved, and the recommendations made by it implemented
- external reviews to provide independent assurance of quality to management, the Board and the external auditors. The nature of any external review to be undertaken should be determined between the internal auditor and the Audit Committee.

Reporting on Governance

As part of its accountability the Board should confirm compliance with best practice in the area of corporate governance on an annual basis.

2.51 The Department of Finance issued State Bodies Guidelines in 1992 which require the Chairman of each State Body, at the same time the annual report and accounts of the body are submitted, to furnish separately to the appropriate Minister a report on certain governance issues including the arrangements for internal audit. The guidelines also require the bodies to ensure that a functioning Audit Committee is in place.

In view of the specific governance regime in Health Boards it would seem appropriate if such reporting was done by the CEO to both the Board and, following the annual adoption of the financial statements, to the Minister.

Part 3: Views of Department and Health Boards

3 Views of Department and Health Boards

Views of the Department of Health and Children

3.1 The Secretary General welcomed the report which he noted sets out the current status of internal audit and charts possible further development of the internal audit function in the Boards. In that context, the work being done by the Internal Audit Review Group will add a further dimension to progress in this area. He stated that the Department has already entered into discussions with the Boards and will actively promote continuing development and best standards in the area of internal audit.

3.2 Noting the differences in the approach adopted by the Boards on aspects of internal audit he envisaged that any further development of internal audit must provide for

- a general standardisation of approach towards the function
- the establishment of Audit Committees with clear terms of reference
- reporting by the head of the unit directly to the CEO at a minimum
- on-going and clearly structured training programmes
- audit procedure manuals to be in place
- best use made, where appropriate, of computer auditing software
- staffing matters to be addressed by the Boards as a matter of priority.

He indicated that other areas will also be considered including annual plans for the internal audit units. He anticipated that implementation of a programme to improve the internal audit function in the Health Boards will be undertaken in the near future.

3.3 He stressed that the Department is fully committed to the improvement of the function of internal audit in Health Boards and to working closely with CEOs of the Health Boards and with my Office in this regard. He sees the review group set up by the CEOs as an important step in taking forward the issues identified in my review of the internal audit function in the Boards.

Views of Health Boards

3.4 The views of the CEOs in each of the Health Boards were sought in relation to the findings of my review. In general, the CEOs accepted the findings and the following points were made by them.

Eastern Regional Health Authority

3.5 The Authority (ERHA) has taken over the overall administration of the health service in the former Eastern Health Board (EHB) area. In its response to my review findings, the Authority noted that internal audit plays a key role in evaluating internal controls, risk management and governance processes. It also noted that my review was undertaken prior to its creation and represents a commentary on the audit process which existed in the EHB and refers to the legislative environment at that time. The Health (Eastern Regional Health Authority) Act, 1999 has substantially altered arrangements for planning, commissioning, monitoring, evaluating and funding of healthcare in the Eastern region. This will raise new issues regarding risk assessment, control environment and governance processes. The ERHA will plan to put in place processes to address all areas of risk from financial to clinical.

3.6 The Authority sees the development of effective internal audit as key to delivering upon the accountability requirement of the ERHA and to gain adequate assurance that effective controls are in place within the Authority itself and within the three new Area Health Boards which have been established within the region. To this end it will seek to develop the existing internal audit function.

3.7 The ERHA places a high priority on internal audit and on the recruitment and retention of high calibre, capable personnel for the internal audit section. To support this objective the ERHA will take the following steps to enhance the internal audit function

- undertake a regional risk assessment in light of the ERHA's responsibilities
- put in place a risk based audit programme for the region
- develop a linkage with the internal audit process in agencies funded by the ERHA
- support the development of internal audit within agencies in the region as well as in the Authority
- support existing staff with an active training and development programme
- develop a career path within internal audit
- review existing payscales and benchmark externally in consultation with the Department of Health and Children
- recruit to fill existing vacant posts.

3.8 The CEO informed me that the ERHA has established an Internal Audit Committee.

Southern Health Board

3.9 The CEO of the Southern Health Board stated that the Board has an active internal audit function which produces a high volume of audit reports each year. The practice within the Board is that any recommendations made in the reports should be implemented immediately, where practicable.

3.10 The Board is in the process of filling the currently vacant post of internal auditor. He accepts that the internal audit unit requires additional resources and intends that discussions will take place with the new appointee on the future role and development of internal audit. These discussions will encompass recommendations made in this report, the report on Resourcing the Finance Function in Health Boards which was carried out by consultants in 1995 and current best practice.

Western Health Board

3.11 The CEO noted that progress has been made in recent years in developing the Board's internal audit function as a valuable service to all levels of management. The provision of additional audit resources, taken in conjunction with the introduction of a new internal audit mandate, an Internal Audit Committee and strategic planning will ensure further development of the unit. This will continue to be based on prevailing best practice and will take account of recommendations in my report and those emanating from the National Internal Audit Review Group and the Department of Health and Children.

3.12 There have been a number of changes with regard to internal audit over the years. Historically, there has been a very strong focus on financial controls in Health Boards. As the internal audit function has been changing and developing, there is an emerging need for new skills in the area as well as additional manpower resources. In the past it has been difficult to obtain such support staff in preference to front line clinical staff.

3.13 There have been a number of developments in internal audit in recent times and in particular

- An Audit Committee has been established with defined terms of reference.
- The staffing complement of the unit has been increased from four to six.
- Consideration is being given to an additional post to provide for the audit of information systems.
- The audit staffing structure has been improved to provide a career path in the unit and to mitigate the high level of staff turnover. This structure will also facilitate the introduction of an on-going training programme, which is currently being addressed.

- Training in computer audit assisted techniques has since been provided and training in the audit of capital projects will be included in the training programme being developed.
- A programme of IT developments has been in place since the mid-nineties which included the upgrading of hardware and the purchase of new software. The assistance of external IT consulting expertise was also engaged.
- On-going reviews are now carried out by the internal auditor in relation to the extent to which planned audits are undertaken.

3.14 One of the principal features of the Board's system of internal financial control is the review of its operation by the internal audit function. The internal auditor reports directly to the CEO and attends at the Internal Audit Committee. The Board and its Finance and Monitoring Committee have set out the audit policy. The Audit Committee is independently chaired. The Chairperson will report to the CEO and annually to the Finance and Monitoring Committee. As it matures, it is planned that wider aspects of internal control such as health and safety systems and clinical governance will be incorporated to evolve the role into a risk management forum.

3.15 The internal audit mandate addresses issues of the nature, purpose, authority, audit responsibilities of internal audit vis-a-vis management, reporting relationships and independence. The mandate was brought before the Finance and Monitoring Committee in September 1999. The internal auditor is authorised in accordance with this mandate to direct a broad and risk-based comprehensive programme of auditing. Plans are also in hand to introduce three year strategic plans, in addition to the annual plan.

3.16 With regard to audit planning and approach, the term of office of the Audit Committee is for three years. Its remit includes assisting with the development of internal audit strategic plans and annual work programmes. The Committee will monitor progress being made and this will commence from 2001. The Chairman of the Audit Committee is required to prepare an annual report for the Board's Finance and Monitoring Committee and to be in attendance to present it.

3.17 In addition, a number of the developments envisaged by the Department are in place in the Board. Further progress will be addressed following review of the recommendations arising from the Internal Audit Review Group.

South Eastern Health Board

3.18 With regard to the status and development of internal audit within the Board in recent years, the CEO informed me that a programme of development of the function has been embarked on. This commenced with the appointment of a qualified accountant to head the unit who is very experienced in Health Services Financial and Management Accounting systems. The recommendation by consultants, on internal audit's computer capacity, has been acted on with the creation of an additional post for a computer trained person to strengthen the skill base of the function. This person has now been appointed and is receiving training in internal audit techniques. It is expected that this additional expertise will be an important extension of the unit's capability. A parallel review of security procedures in the Information Technology department has been completed and the department organised accordingly.

3.19 A further appointment is also proposed to develop the unit's capacity in relation to audit of compliance with approved procedures and policies. This will bring the strength of the unit from three to five posts and provide skills in areas which were undeveloped. The development of an efficiency unit, designed to examine significant cost issues is also being pursued.

3.20 The views of the review group will be a further source for consideration. It is expected that it will deal with how Audit Committees can be developed to suit circumstances.

3.21 The internal audit function's status is good. It has routine access to the CEO and receives full co-operation from staff. Measures taken and proposed will result in a stronger unit and an enhanced contribution to the Board's affairs. Also the proposals arising from the review carried out by senior management in 1999 are presently being implemented.

North Western Health Board

3.22 With regard to Audit Committees, the CEO is keen to see the concept developed and implemented. The matter of specifics of membership is to be considered further when the report commissioned by the CEOs is to hand.

3.23 The internal audit function has developed considerably in more recent years in the following respects

- There is a direct reporting relationship to the CEO.
- The role has been significantly expanded from its traditional auditing to a more comprehensive audit scope to include key risk areas, such as - asset management, contracting and inventory control, operational and value for money audits and investigations of fraud and misappropriations.

- A comprehensive strategic planning process is in place to ensure maximum usage of resources and appropriate coverage of high risk areas. The long term planning strategy presently extends over a six year period and detailed annual plans are also prepared.
- Detailed audit programmes have been developed over the last five years in line with the standards of the Institute of Internal Auditors. These are being upgraded on an annual basis to take account of major system changes within the Board.
- The staffing of the unit has been increased to five and the grading structure has been strengthened within the last five years. Its two most senior staff hold specific internal audit qualifications and are members of the Institute of Internal Auditors.
- Staff training in computer audit, operational audit and contract audit are recognised as being essential and the Board is committed to ensuring that adequate resources are available to pursue appropriate ongoing professional training.
- Audit staff are proactively involved in all major technology developments within the Board over the last number of years.

In overall terms, it was his view that the internal audit unit operated at a high level, provided a broad level of coverage and had developed good working relationships with external auditors.

3.24 The CEO responds positively to the recommendations in the report including

- the concept of formal adoption of the internal audit charter
- the production of an audit manual (perhaps in co-operation with other Boards)
- the introduction of a more formalised structure relating to the procedure for follow-up on the implementation of audit recommendations, which is currently being developed to lend more discipline and structure to present practices
- the implementation of ongoing professional training in all aspects of internal audit (as part of the Board's overall management development programme)
- updating audit programmes to include objectives of the audit being undertaken.

He accepts that there is scope for increased co-operation with other Boards and the Department in relation to the improvement and development of internal audit, the review of internal audit staffing, particularly in view of the significant capital moneys being made available to the Board, and the increasing range of services, for instance, child care.

North Eastern Health Board

3.25 In general, the CEO agreed with the proposals in my review for further development of internal audit in Health Boards. He noted, however, that a number of these proposals would require further consideration, in regard to how they might best be implemented, given the particular statutory and management frameworks which exist in Health Boards. In particular he identified the following issues

- the role and function of internal audit in Health Boards
- governance and the role which internal audit plays
- reporting relationships
- audit committees
- the development and implementation of auditing standards
- risk identification and management
- audit charter
- staffing issues - numbers, qualifications, career path, training etc.
- strategic and activity planning
- audit manual
- use of external services
- process for implementation and follow up of audit recommendations
- quality assurance reviews
- value for money audit.

He noted that the Internal Audit Review Group established by the CEOs will be looking at these and other issues. The CEO wishes to reserve his position on these proposals until such time as the review group has completed its work.

3.26 With regard to the status and development of internal audit in the North Eastern Health Board in recent years he made the following points

- The importance of an internal audit function was recognised at an early stage in the Board and an internal auditor was appointed in 1975.
- The internal auditor is head of an independent managerial function reporting directly to the CEO.

- There has been a continuous improvement in the function taking account of the resources available to it.
- Internal audit is seen as an integral part of the organisation and is growing in importance. Its role is to advise the CEO and management on the quality of and degree of adherence to the Board's systems of control.
- The status of internal audit derives from the fact that the internal auditor reports to the CEO and has direct access to all records, assets, personnel and premises and is authorised to obtain such information and explanations as is considered necessary to fulfil his/her responsibilities, and the function has no responsibility for provision of the Board's services.
- A draft internal audit charter is under discussion with management. This document defines the mission, scope and relationships of internal audit and is based on best practice. This discussion will be informed by the recommendations of the Internal Audit Review group.
- The internal audit unit within the Board is developing. The majority of staff are in the unit less than two years. The formalisation of practices in the unit is ongoing and will be completed as soon as possible.
- A new internal auditor was appointed in September 1998. She is a qualified accountant with broad experience of audit. She carries out her work in a manner consistent with regulations and good practice guidance and has access to relevant auditing information and attends relevant seminars and courses. She also has experience of using computer assisted auditing techniques and is a member of the Irish IDEA user group.
- The staff of the unit have worked in a number of areas within the health services.
- The full time equivalent of staff numbers has increased by two in recent years.
- In the past two years there has been a major enhancement in computer equipment and software in the internal audit unit.

3.27 The CEO informed me that special investigations are also carried out by internal audit at the request of the CEO and management. This enhances the status of the post and ensures that all suspected or reported cases of fraud, misappropriation of assets or loss of income are brought to the attention of the internal auditor. Internal audit's role in investigations conveys the importance of having effective controls and processes to a broad range of specialists (e.g. medical, nursing and dental) who would not normally come into contact with the internal audit unit.

3.28 The annual programme of work is prepared by the internal auditor and is agreed with the CEO. The broad objectives of the unit are set out in the annual programme. The resources available in the unit are determined and allocated by location and type of income and expenditure so that there is an audit presence in all the Board's locations each year and over a three to five year timespan all areas of income and expenditure are audited. Regular checks are carried out of cash and stock. Also a review of expenditure throughout all services is carried out.

3.29 A strategic plan is in the process of being developed for the unit. All auditable units in the organisation have been identified and the risks associated with each area will be assessed and priorities identified for the next five years.

3.30 Audit programmes have been further developed and new programmes have also been prepared such that audit programmes now exist for the main areas of the Board. A written report is prepared after each audit. The system for formalising the follow-up of audits is being looked at. With regard to reviews of the internal audit function, the internal auditor reviews the work carried out by audit staff to quality assure the work. Senior management have an ongoing opportunity to comment on each audit.

Mid-Western Health Board

3.31 The CEO informed me there has been a continuous internal audit service in the Board for many years, which has assisted management and its value has been reflected in a trend for increasing demands for internal audits from management. Internal audit reviews all aspects of the Board's operations, including internal control systems, efficiency, value for money, quality and outcome aspects. With regard to the status and development of internal audit within the Board in recent years there has been a continuous improvement as a result of the resources that have been allocated. The status of the unit has been assured by the recruitment of a qualified accountant, direct reporting to the CEO, the existence of a formally approved Charter and a quarterly Audit Committee.

3.32 The following actions have been taken or are proposed to enhance the function

- A qualified accountant was appointed in 1998 as head of the unit.
- In 1998 a charter and operational strategy of internal audit was approved. The document defines the mission, scope and relationships of internal audit, based on best practice. It was updated in January 2000 to reflect continuing developments in internal audit.
- The Board has a functioning Audit Committee since August 1999. It meets quarterly, has agreed terms of reference and has a degree of external membership. The Audit Committee acts as a support to internal audit and as a platform for high level issues to be discussed with management, to aid accountability.

- A yearly plan and a comprehensive strategic plan covering five years has been drafted and considered by the Audit Committee and local management. The strategic plan was first approved by the CEO in 1998 and a comprehensive plan drafted since August 1999. The plan addresses resources, timescale and audit approach. Risk assessment is based on a simple risk index. The key to success of this strategy is sharing it with management to formalise the process.
- Auditing of information technology has progressed through use of audit manuals, investment in hardware and software, and in training in computer assisted auditing.
- All audit recommendations are formally followed up by internal audit. Results are reported to management and the Audit Committee.
- An ongoing investment has been made in quality assurance, including recent training in quality auditing.
- A staffing proposal is being prepared which will reflect the role and strategy of the unit and provide capacity to reduce the rotational plan from five to three years.

It is hoped that the Internal Audit Review Group will build on developments and bring further continuing improvements in quality.

3.33 The CEO noted that there has been considerable development since my review of the function. The drawing up of the strategic plan in 1999, which is currently being disseminated, covers five years. It includes a risk assessment and rotational plan. The plan involved review by management, and the service plan process for 1999 involved a presentation by the internal auditor to the corporate team. In addition, the Audit Committee provides an automatic review system of internal audit.

3.34 Planning has been addressed by the Board by the production of a service plan for internal audit each year, the drawing up of an annual plan and strategic plan, the formal assessment of risk since 1999, a summary of all audit reports being given to members of the Audit Committee, the preparation of an annual summary report, and the direct reporting by the internal auditor to the CEO.

3.35 The CEO felt that the proposed issue of an annual statement regarding compliance with corporate governance requires detailed consideration, including review by the Internal Audit Review Group. The issues are complex, and influenced by factors such as

- the wider governance arena, including the ongoing need for the strengthening of finance skills, including financial skills for non-financial managers

- the fact that international best guidance is rapidly evolving in the private sector following the 1999 Turnbull report and the subsequent position of the Auditing Practices Board
- the need for a wider discussion involving the Department, legislation in Health Boards and the service plan system.

He also considered that the concept of reporting by the Audit Committee to a Finance Committee would require due consideration to ensure that its actual and perceived independence is not compromised. In this context, he noted that the Board's Audit Committee has external membership with accounting and healthcare expertise which was invaluable to the long-term success of the Audit Committee.

3.36 The suggestion that the Department play a role in ensuring that standards for internal audit in Health Boards are set was supported by the CEO, subject to whatever emerged from the deliberations of the Internal Audit Review Group.

3.37 The CEO acknowledged the significant improvement in the internal audit function in recent years despite the limited resources assigned to the unit.

Midland Health Board

3.38 The CEO believes that my review provides an opportunity for an independent assessment of the role, objectives, structure etc. of the current audit function within Boards. This review will enable the Internal Audit Review Group to assess the gap that exists between current performance and modern best practice thinking for the internal audit function in Health Boards.

3.39 The CEO informed me that staffing and protracted industrial relations difficulties had severely limited the performance of the internal audit unit in the Board. The situation has now been satisfactorily resolved. An internal auditor, who is professionally qualified and has many years experience in internal audit practice, has been appointed and will take up duty in Autumn 2000.

3.40 Without pre-empting the findings of the review group, the intention is to strengthen the staffing and skill level in the audit area. Recent recruitment to the unit include staff who have IPA qualifications in auditing and who are familiar with computer assisted audit techniques.

He noted, in particular, that

- the introduction of a new financial management package has given the Board an opportunity to use the specific in-built auditing options within its functionality
- it is also the intention to enhance the function through the setting up of a charter which supports its independence, with direct reporting to the CEO
- a formal relationship with the Board's Finance Sub-Committee is also to be considered, but further thought is to be given to the whole relationship of internal audit to management
- the scope of internal audit responsibility will be broadened to cover both the traditional process and transaction auditing as well as Corporate Governance in the broadest sense, Value for Money, Risk and Process Management
- it is also intended to use an evaluation system similar to that which operates in the UK National Health Service in regularly assessing the performance of internal audit within the Board across a broad range of headings to ensure that internal audit is continually focussed and committed to delivering a quality service.

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