



Assurance Review: Quality of Auditing

February 2011



WELCOME

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Risk & Compliance Team

Contents & Distribution



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Introduction & Background



Introduction

The purpose of this report is to document the findings, conclusions and recommendations in respect of an annual review that sought to independently assure the quality of branch auditing within Post Office.

Background

The Network Support Team is responsible for the delivery of the Annual Audit Plan, which covers financial and compliance audits of Post Office® branches and cash centres.

The reporting line of personnel performing auditing activities moved to the Network at the beginning of 2009/10, as part of a move towards developing a pool of multi-skilled resource that was able to perform audit, training and other intervention activities.

The Business, clients (e.g. NS&I & DVLA) and other stakeholders (e.g. Bank of Ireland and POFTS) rely on the outputs of auditing activities either as part of their own monitoring or as a means of assurance. Given concerns raised by external stakeholders about the independence of Post Office's auditing activity (i.e. the teams performing audits of the branches in the Network report within the same directorate as the management structure of those branches), an annual assurance activity is performed by the Post Office Risk & Compliance Team in order to provide a level of independent assurance that branch auditing activities are being undertaken in accordance with laid down procedures and, more broadly, that audits are being conducted to expected internal auditing standards.

The key risk exposure to Post Office Limited includes stakeholders (internal and external) not being assured by audit findings and branch staff being incorrectly advised of correct procedures.

Headline Findings



The key positive findings from this review are:

- The quantity of audit activity performed to date is in excess of that planned (as of Period 9)
- There is a generally good standard of audit papers/files retained for financial audit activity
- Quality Assurance Reviews (QARs) have been introduced since the last assurance review
- Field Support Team conduct audits in a professional manner
- Some good examples of scenario based compliance questioning techniques in operation
- An Audit Process Manual exists for all auditing process, with evidence of most chapters being maintained
- There has been progress since the last review, with attention given to the majority of previous issues identified

The key findings from this review that require further review or attention relate to the following issues-

- Branches selected randomly for audits are not done on the basis of random sampling methods
- Team members seem to lack awareness of how the Branch Profile works, and therefore, why they are auditing a branch
- Inconsistent use of version controlling for the Audit Process Manual, with the annual review of one chapter overdue
- Incomplete documentation retained for compliance reviews, including file housekeeping
- Accuracy of inputs to SharePoint (21% of all SharePoint surveys contain errors)
- Frequency/Quantity of quality assurance reviews (QARs)
- No QAR levelling performed in the last 12 months
- Length of time branches are kept closed during financial audits, impacting on Post Office customers
- Verification of financial discrepancies with subpostmaster or officer in charge
- Positioning of the Compliance Audit and inconsistent use of formal compliance audit questioning techniques
- Communication of audit findings (close of meeting)

Detailed Findings – Audit Plan, Scheduling & Planning



Audit Plan

- The Network Audit Plan was presented to Post Office's Risk & Compliance Committee (R&CC) in April 2010, by Lynn Hobbs. Lynn had committed to presenting a review of the plan to the committee in August (given the impact of rolling out Horizon Online on auditing activities) but this was never done. However, achievement against the plan is reported to the R&CC on a monthly basis and, therefore, the committee has the opportunity to discuss at each meeting.
- A review of audit activity delivered by the end of Period 9 (shown at Appendix A) revealed that, overall, audit activity is in excess of that planned to date and is on target for delivery by the end of the year. The only exceptions to this are in respect of cash centre audits (only 1 of 11 had been completed by the end of December) and T&D audit activity at crown offices, where 71 activities had been completed (against 125 planned). The shortfall in T&D audits is considered to be outside of the control of Network Support, primarily as a result of delays in the migration of financial specialists and the associated revised T&D scheme. Overall, given the use of resource to support Horizon Online roll out during the year, it is a tremendous achievement to be on track to deliver in excess of that planned.

Scheduling & Planning

- Scheduling of audit activity is undertaken centrally (by Lee Heil). It appeared, from discussion with Lee that there is a lack of understanding and purpose of random audits or true random sampling principles and, as such, random audit selections have been done from a biased sample (e.g. taking into account geographic considerations), sample rather than using true random sampling methods.
- Discussions with field support team member at audit reinforced a lack of understanding of random audits and, more importantly, the rationale for audit selection. Although most team members at audit attended were aware of branch profile, there was a lack of awareness of how the profile worked or, for the audits being performed, what aspect of the profile had prompted the audit. Greater awareness would improve preparation for audit assignments.

Detailed Findings – Audit Process



The Audit Process Manual (Volume 4) was examined to confirm that it is fit for purpose. There was evidence that many of the chapters were subject to annual reviews and, where appropriate, interim reviews, to reflect any operational changes that impact on the audit process. The findings of each chapter are detailed as follows –

Chapter 1: Audit Plan & Scheduling: Current Version: 8.0

Last Annual Review: January 2010: **Next Scheduled Review:** January 2011

Author: Alan Stuart

Comments: Annual reviews completed. Correct version control used.

Chapter 2a: Working Papers

A full set of working papers provided evidence of a recent review (dated February 2011)

Chapter 3: Performing a Branch Audit: Current Version: 5.4

Last Annual Review: April 2010: **Next Scheduled Review:** March 2011

Author: Dave Ogleby; Peter Jackson; Linda McLaughlin

Comments: Annual reviews completed. Correct version control used.

Chapter 4: Transfers & Conversions: Current Version: 9.4

Last Annual Review: April 2010: **Next Scheduled Review:** April 2011

Author: Rita Kendellen

Comments: Annual reviews completed. Correct version control used

Detailed Findings – Audit Process



Chapter 5: Closures: Current Version: 10.6

Last Annual Review: Unclear: **Next Scheduled Review:** May 2011

Author: Peter Jackson

Comments: Unclear if annual reviews are completed as these are not clearly documented and incorrect version control used.

Chapter 6: Robbery & Burglary: Current Version: 8.0

Last Annual Review: Unclear: **Next Scheduled Review:** June 2011

Author: David Patrick

Comments: Unclear if annual reviews are completed as these are not clearly documented and incorrect version control used.

Chapter 7: Performing a Cash Centre Audit: Current Version: 2.1

Last Annual Review: July 2009: **Next Scheduled Review:** July 2010

Author: Bob Collins; Chris Fayers

Comments: No evidence of annual review due in July 2010 having been completed.

Chapter 9: Retention of Audit Papers: Current Version: 5.2

Last Annual Review: Unclear: **Next Scheduled Review:** September 2011

Author: Frank Martin

Comments: Unclear if annual reviews are completed as these are not clearly documented and incorrect version control used.

Detailed Findings – Audit Process



Chapter 11: Quality Assurance: **Current Version:** 8.1

Last Annual Review: Unclear: **Next Scheduled Review:** November 2011

Author: Paul Humber

Comments: Unclear if annual reviews are completed as these are not clearly documented and incorrect version control used.

Chapter 12: Continuity Planning: **Current Version:** 6.0

Last Reviewed: January 2011: **Next Scheduled Review:** December 2011

Author: Julia Mann

Comments: Annual reviews completed. Correct version control used.

Although it was clear that most chapters were well maintained, the version numbers of the chapters were found to be inconsistent making it in some instances difficult to determine if annual reviews had been completed. An example is Chapter 5 Closures, where the first recorded version in August 2009 was 9.0 which is the assumed annual review date. A number of interim amendments were made between September 2009 – March 2010, the version numbers of which were correctly documented (the last of which being V9.6). Numerous changes were subsequently made in May 2010 under V10.1 and it is assumed that this was the annual review although not identified as such.

Another example is Chapter 6 Robbery & Burglary Audits which starts as V7 in July 2009. Between this date and January 2011, ten amendments were made with the current version being V8. Assuming June is the annual review date, no annual review was undertaken in June 2010 and version numbers have continued to increase 7.1; 7.2; 7.3 etc without being renumbered 8.0 following the annual review.

Detailed Findings – Standard of Audit Documentation



A sample of twenty P32 Financial and Compliance audits, which had been carried out in November and December 2010, were randomly selected for review. All associated paperwork was requested from the lead auditors for examination. Of these requests, only three had not been received at the time of writing this report due to –

- Lead auditor on leave until 18th February 2011 (with papers discovered to be with the line manager, who is now on leave)
- Working papers destroyed early in error
- One not yet received after posting on the 2nd February 2011

Of the twenty requests, a further five had had the paperwork destroyed as the request was made after the 60 day retention period, so the QAR could only be carried out on the electronic files provided.

Completion of P32 financial audits was found to be generally of a good standard with planning, on site and post audit activity fully documented. Most failures (summarised below) were around reporting and the printing and retention of relevant documents within the file.

P32 Financial Audits – Summarised Findings

- Copies of reports were not in the file (38%)
- P32 incorrectly named (5%)
- Reports not in zip file on Lotus Notes Library (10%)
- Reports - Grammatical errors (15%), formatting (15%) and errors relating to registered staff at the branch (10%)
- No record that Cash Management had been contacted for code 100 audits (25%)

Detailed Findings – Standard of Audit Documentation



A greater number of errors were found in the compliance audits (summarised below). Some of these can be attributed to careless/human error whereas some would suggest lack of clear understanding of what is required. With the current working papers there is no provision for sample sizes or conclusions and it is therefore impossible to determine if minimum auditing samples of 1 or 50% (whichever is the greatest) is adhered to. Some compliance working papers were found to contain minimal input (just questions with control gaps endorsed with '1') with little or no supporting narrative. Some instances were found where the compliance questions were input direct to the laptop.

CATs – Summarised Findings

- CAT reporting tool not in zip file on Lotus Notes Library (10%)
- Copy of Appendix A&B (Action Plan) and Compliance Certificate not in file (50%)
- Full electronic documentation not in zip file on Lotus Notes library (15%)
- Cell G17 (Previous audit findings) in planning tab not completed yes/no (82%)
- Previous control gaps not recorded/left blank with no explanation (30%)
- Only control gaps identified on working papers therefore unable to confirm if all questions asked (44%)
- Control gaps incorrectly reported (12%)
- Compliance Certificate incorrectly formatted (12%)

Detailed Findings – Quality Assurance Process



Significant progress has been made regarding the completion of QARs since the previous Quality of Auditing Review completed in 2009 where it was found that QAR activity was not undertaken.

The minimum number of QARs that are due to be completed, as defined in Chapter 11 of the Audit Process Manual, is six reviews per direct report, per appraisal year. Based on the current staffing levels of 120 Field Advisors, there is an expectation of a minimum of 720 QARs being completed in 2010-11. The figures below highlight the number of QARs performed, against that expected as of Period 9 (allowing for the fact that audit activity did not take place for around three months during the roll out of Horizon Online).

P32 Financial Audit QARs Due to be Completed P1- P9: 360 Actual: 203

Compliance QARs Due to be Completed P1- P9: 360 Actual: 184

Observation Audits Due to be Completed P1- P9: 120 Actual: 57

Clearly the figures above are based on minimum requirements and do not take into account that QARs are due to be completed on each direct report monthly and would only moved to bi monthly if the score met the minimum standard of 95%. Field Support Managers should also attend an audit led by their Field Support Team Leaders at least once in a twelve-month period. Evidence could only be found of one observational audit which was completed in November 2010 on Chris Gilding and a P32/CAT QAR completed on Rita Kendellen in April 2010.

Team Leader	P32's Due for Completion (Minimum 6 Months)	Actual	Difference	CAT's Due for Completion (Minimum)	Actual	Difference	Observation Due for Completion (Minimum)	Actual	Difference
Frank Martin	33	23	-10	33	20	-13	11	7	-4
Rita Kendellen	27	24	-3	27	22	-5	9	8	-1
Bob Collins	30	12	-18	30	6	-24	10	11	1
Chris J Gilding	30	22	-8	30	21	-9	10	4	-6
Chris Fayers	30	23	-7	30	15	-15	10	5	-5
Julia Mann	33	23	-10	33	22	-11	11	4	-7
Jane X Bailey #	30	11	-19	30	11	-19	10	7	-3
David Patrick	30	14	-16	30	14	-16	10	5	-5
Linda McLaughlin	33	12	-21	33	13	-20	11	1	-10
Dave Ogleby	30	16	-14	30	16	-14	10	1	-9
Wendy Makoney #	30	5	-25	30	5	-24	10	0	-10
Peter B Jackson	24	18	-6	24	18	-6	8	4	-4
Totals	360	203	-157	360	184	-176	120	57	-63

LOR Business

Detailed Findings – Quality Assurance Process



During the period April – December 2010 a total of 204 Quality Assurance Reviews (QARs) were completed on P32s, 185 on Compliance Audit Tests (CATs) and 58 audit observations. Results are detailed in the table below which are split into the three audit team areas.

	South	Average Score	Central	Average Score	North	Average Score	Total	Average Score
P32	82	95.21%	71	96.09%	51	95.26%	204	94.71%
CAT	70	93.67%	62	94.69%	53	93.90%	185	94.64%
Observation	31	97.01%	21	99.36%	6	100%	58	97.11%

A sample of ten P32 financial and compliance audits (one per field team leader) was selected which had been subject to the QAR process during periods 1 - 9 in 2010/11. Two had not been received at the time of writing this report. The aim was to test the quality of the completed QARs to ensure that there was a consistency of marking and that all errors were detailed. The following paragraphs summarise the findings:-

P32 Financial Audits

The standard of completion was consistent across the field team leaders. There was a degree of consistency of marking across the range of questions with themes identified mainly around standards of reports. It was noted however that, when completing QARs, field team leaders request all paperwork and electronic files from the field support advisors. Whilst there is no major issue with this process, it was found, when completing the sample of QARs, that a number of P32 files were not on the P32 library on Lotus Notes, indicating that the field support advisor may have overlooked transferring them on completion of the audit.

Compliance Audits

It is apparent that there were inconsistencies with scoring across the range of QARs examined. The following common themes were identified which were incorrectly marked –

Detailed Findings – Quality Assurance Process



- Planning

- Previous audit control gaps not recorded or left blank with no explanation
- Cell G17 not completed yes/no to confirm if compliance was tested at previous audit.

- Working Papers

- No provision for test population/sample sizes/periods on working papers, **therefore** - test population/sample sizes/periods not annotated on Working Papers
- No provision for conclusions and recommendations on the working papers, **therefore** - Conclusions and recommendations not fully explained on the working papers
- Incomplete paperwork retained in files (Compliance working papers/Appendix A&B/Compliance Certificate)
- Compliance questions input to laptops direct on audit

From the sample of QARs undertaken, as part of this review, it is evident that there is a degree of inconsistency of marking across the field team leaders. No evidence was found that the levelling activity, as detailed in Chapter 11 of the Audit Process Manual, is currently being undertaken to ensure a consistent approach across the teams.

SharePoint Surveys

Error rates for SharePoint surveys for Core CATs, Government Services and Procedural Security were examined for the periods 1 – 9 in 2010/11, to determine the level of accuracy of inputting. Results are detailed in the following slide which shows the average number of errors per survey type. The level of errors per survey completed is currently averaging around 21%. Input errors can impact on the accuracy of data provided to stakeholders and clients, and also results in considerable time consuming data cleansing activity taking place each period to correct errors.

Detailed Findings – Quality Assurance Process



% Error Rate Per Survey

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Average Error Rate
Government Services Errors										
Number of Questions in Survey	14	14	14		14	14	14	14	14	
Number of Surveys	73	123	120		11	62	141	178	52	
Number of Errors	6	18	13		2	5	1	24	14	
% Error Rate	8.22	14.63	10.83		18.18	8.06	0.71	13.48	26.92	12.63
Core CATs										
Number of Questions in Survey	60	60	60		60	60	60	60	60	
Number of Surveys	105	194	217		19	109	295	369	111	
Number of Errors	93	34	49		8	34	104	86	36	
% Error Rate	88.57	17.53	22.58		42.11	31.19	35.25	23.96	32.43	36.70
Procedural Security										
Number of Questions in Survey	20	20	20		20	20	20	20	20	
Number of Surveys	103	192	218		18	104	295	357	108	
Number of Errors	11	16	16		1	8	36	45	12	
% Error Rate	10.68	8.33	8.26		5.56	7.69	12.88	12.61	11.11	9.64
Summary										
Number of Questions in Surveys	94	94	94		94	94	94	94	94	
Number of Surveys	281	509	555		48	275	731	894	271	
Number of Errors	110	68	80		11	47	143	155	62	
% Error Rate	39.15	13.36	14.41		22.92	17.09	19.56	17.34	22.88	20.84

Detailed Findings – Observed Audit Practices



Four audits were attending during the course of the review, to observe the audit process being deployed. The four audits selected included a crown office, an MSPO, a large SPSO and a small SPSO. The key findings are detailed below, against the main themes of an audit.

Planning/Preparation

In pre-audit phone calls (with the lead auditors), preparation guidance focused primarily on meeting point/meeting time information. There was limited information provided on the reason for the audit or on the history of the branch (e.g. key issues revealed at the last audit). When on-site, it became apparent that, while most field support advisors were aware of the branch profile, they did not have a great understanding of how the branch profile worked or what aspect of the branch profile had triggered a reason to audit the branch (and so tailor their own preparations). At the audit of the crown office, the AEI test was allocated to a field support advisor who had never performing the test before and was not aware that he would be doing this until the day. Not having undertaken the test before meant that that he minimal opportunity to familiarise himself with the testing approach.

Financial Audit

At all the audits attended, there appeared to be a lack of urgency in getting the branch open or any concern expressed at the impact that a closed branch had on customers. At one audit (where the branch was due to open at 8.45am and did not open until 10.35am), the field support advisor was counting foreign currency (which could have been counted and agreed after the branch had opened) before sterling currency had been agreed.

There were two instances at different audits where a minor discrepancy was revealed by the audit but the subpostmaster/officer in charge was not invited or encouraged to agree this discrepancy. In one case, where the discrepancy was challenged, the error was found to be an error by the field support advisor and, therefore, there was no discrepancy.

Detailed Findings – Observed Audit Practices



Compliance Audit

At two of the audits attended, the compliance audit testing was introduced in a fairly apologetic manner (e.g. by stating, "I'm afraid that we now have to ask a number of compliance questions"), rather than taking the opportunity to emphasise the importance of compliance for the Business and for customers.

There was some evidence of some team members adopting some good use of scenario based compliance questioning but there appeared to be a limited use of the breadth of available compliance audit techniques on display, including corroborative testing. Compliance questions are designed for the field support advisor to answer yet the tendency was to read out the question (word for word) to the person being tested. This sometimes created leading questions being asked and there were examples of providing unnecessary prompts (e.g. by stating, "I'll give you a clue, Marvin Gaye heard it through this").

At one of the audits, not all the core questions were asked and the results of those that were, were input directly to the laptop without including any comments and the subpostmaster did not have the opportunity to agree the findings.

At the crown office attended, it was noted that only the branch manager was tested against the core compliance questions i.e. with no attempt to confirm that 'text book' process answers given by the branch manager reflected practical deployment in the branch and no counter clerks were tested, either to give a wider view of compliance in the branch or corroborate answers given by the branch manager.

Communication

Informal rather than formal opening meetings were held at all audits attended. They did not always set out the plan for the audit (e.g. how long the audit would be expected to take, that the financial audit would not involve counting all the stock or that a compliance review would be performed (and how). Closing meetings were used well to highlight and summarise findings although it was not evident that comments (including mitigating remarks) made by the auditee were captured to be included in the report. In one case, the findings were discussed with a counter clerk rather than the subpostmaster (even though he was on site) and, in other case, the findings were discussed with a relief subpostmaster. It was mentioned to the relief that the report would be issued in the next couple of days (before the subpostmaster had returned from his holiday) and there was no mention of plans to contact the subpostmaster before issuing the report. Indeed, the field support advisor did not take the opportunity to speak to the subpostmaster who had called the branch on the day of the audit.

Conduct

It was considered that field support team members conducted themselves professionally while on site and displayed a pleasant manner throughout the audit.

Recommendations – Next Steps



Issue	Action	Action Owner	Timescale
1. Audit Preparation - Team awareness of Branch Profile	Shaun & Alan asked to deliver a session at TL WTLS	Regional Managers (RNMs)	By end of Q2 (2011/12)
2. Incorrect use of random auditing sampling methods	Conference call to discuss Pure Random sampling between Martin, Sue & Lee.	Sue Richardson	March 2011
3. Audit Process Manual – Version Control	Version issue now addressed	Sue Richardson/Sandra Lewis	Current & on-going
4. Completion standard of compliance audit reporting	Re-communicate the standards in regard to the completion of both electronic and hard copy reports and files.	RNMs	By end of Q1 (2011/12)
5. Deployment of QAR process	Introduce 2 levelling sessions in 2011/12 to ensure consistency is embedded across the team – to be led by The Project & Standards Manager	RNMs ,TL & Project & Standards Manager	31 st March 2011
6. Financial Auditing (Impact of customers)	Review & refresh Chapter 3 to provide clarity & consistency, maintaining an awareness of customer impact on audit	RNM's & Team Leaders	By end of Q1 (2011/12)
7. Compliance Auditing (Questioning Techniques)	Reposition how the FSA obtains the answers to the question being asked in an audit	RNM's & Team Leaders	By end of Q1 (2011/12)

Appendix A - Network Support Audit Activity Period 9



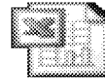
	2018/19 plan	Planned P9	Actual P9	YTD Planned	YTD Actual	Variance
All Agency transfers/BAU Closures	766	26	55	450	593	143
All Agency unplanned closures	185	16	2	134	25	-109
Robbery & Burglary incidents	758	17	6	112	49	-63
Cash & Stock checks all branches	3788	91	95	1170	1262	92
Compliance testing - Agency branches	1580	95	129	996	1453	457
Crown Compliance testing	158	0	2	94	120	26
Random cash & stock checks	206	5	12	130	163	33
Follow-up cash, stock and compliance checks	308	10	25	135	112	-23
Cash Centre, CVIT & Swindon	11	0	1	7	1	-6
Crown T&D Audits	235	0	4	125	71	-54
Total	4681	260	331	3353	3649	496
HNG Migration Cash Checks	10175	0	0	10175	10070	-105
HNG Migration Compliance Tests	10175	0	0	10175	10691	516
Compliance Mystery Shopping NPSI Managers	600	50	28	450	353	-97

- Although sufficient Follow-up audits were scheduled to catch-up and meet the period 9 and YTD plan -- adverse weather led to cancellations.
- Cash centre audits now planned to meet Annual target -- delay due to change in cash centre IT systems adverse weather P/D3
- An audit has now taken place at Swindon stock centre (part of the cash centre plan numbers)
- Crown T&D testing continues but progress against target remains slow due to on-going de-accreditation issues
- There were 10 suspensions in Period 9 (compared to 15 in the same period last year).
- YTD almost 11% of audits have resulted in suspension of which 67 had a discrepancy of over £10k. Total net discrepancies YTD £2,790,519

Appendix B – Supporting Documents



**QAR Sample
Results**



Audit Sample QARs