Agenda Item No.6

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE MEETING

24 March 2020

Report of the Director of Finance & ICT and Assistant Director of Finance (Audit)

EXTERNAL REVIEW OF AUDIT SERVICES

1.   Purpose of Report

To inform Members of the review of advisory actions contained in the report produced following assessment of the Audit Services Unit's compliance with the Public Sector Internal Audit Standards (PSIAS).

2.   Information & Analysis

The PSIAS are based on the mandatory elements of the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors (IIA), and intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.   The Standards recognise that a professional, independent and objective internal audit service is one of the key elements of good governance.

The objectives of the PSIAS are to:-
- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying our internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations;
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The Chartered Institute of Public Finance and Accountancy's (Cipfa) consultancy service (C.Co) was selected to undertake the external assessment.   This assessment was carried out on the basis of a self-assessment with independent external validation.

Following the assessment Audit Services are judged as compliant with the PSIAS overall and in each of the four areas of focus assessed. At the meeting of the Audit Committee held on 10 December 2019 Mr Ian Kirby, C.Co Programme Director, presented the report arising from the review to Members.

The report includes several advisory opportunities to enhance the internal audit service which are detailed at Appendix 1 along with the response from Audit Services and any actions arising from that response.

3.   Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

4.   Background Papers

A file held by the Assistant Director of Finance (Audit).

5.   Officers' Recommendation

That the Committee note the opportunities to enhance the internal audit service identified by the external assessment, the response from Audit Services and any actions arising from that response.

Peter Handford   **Carl Hardman**
Director of Finance & ICT   **Assistant Director of Finance (Audit)**

Cipfa C.Co Advisory Opportunity	Audit Services Response	Current Position
It is our view that Internal Audit Service's approach to risk-based audit planning and its ability to respond to the organisation's emerging risks is reviewed alongside the development of the organisation's developing risk maturity.	The Audit Plan is informed by both Corporate and Departmental risks. As acknowledged by Cipfa C.Co a move towards a fully risk based Plan would mean that some parts of the Council would never be audited, representing a risk in itself. The Assistant Director of Finance (Audit) is required to give an annual internal audit opinion which must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion must be supported by a breadth of Audit work. The Assistant Director of Finance (Audit) meets regularly with Corporate Management Team, Executive Directors and Directors which enables new and emerging risks to be considered, prioritised and inform Audit planning.	Continue to ensure that Audit work focuses on the Council's key risks as its risk maturity develops.
It is our view that Internal Audit Plan development and delivery would benefit from a formal assurance mapping exercise and subsequent evaluation of which, if any, other forms of assurance the Service would place reliance on to reduce their own coverage in particular service areas.	The principle of assurance mapping is accepted where other forms of assurance are robust and reliable.	Assurance mapping has been considered as part of revisions to the Unit's approach to school audits and will be developed in other areas where appropriate.
In reviewing the approach to the development and delivery of the Audit Plan, the Chief Audit Executive should review the level of contingency within it.	During recent years the Unit has experienced particular difficulties in recruiting staff which has impacted on the delivery of the Audit Plan. Until recently the provision of a 5% contingency has been appropriate.	The Unit currently has a vacant Senior Auditor post and seeks to deliver as many productive days as possible to cover the Council's key areas of governance, risk management and control. However, due to known staffing constraints and the increased training requirements of new staff the level of contingency will be increased in the short term.
It is suggested that the current practice of including low value recommendations within final audit reports is reviewed.	The Unit has a clear priority rating for the ranking of Audit recommendations which is included in our outputs. The priority ratings may escalate if deficiencies in control are not addressed. It is important that Members and Senior Management are aware of the nature and extent of Audit findings.	No changes to current procedures proposed.
The Service should undertake a review of its process/approach for following up audit recommendations.	Recommendations are normally followed up at the next Audit in that area. The Unit piloted an approach of following up recommendations for Departmental Projects as part of Departmental reviews but this proved to be resource intensive. Management have a responsibility to implement Audit recommendations and the recently introduced recommendation tracking system seeks Management assurances on the progress of recommendations. Where there are particularly significant recommendations these will be specifically followed up.	No changes to current procedures proposed.
Consider the development of an appropriate terms of reference, utilising the current project brief, as a means of enhancing the audit process overall.	Audit notify Executive Directors and Directors of forthcoming reviews by email in accordance with the protocol agreed with Corporate Management Team. These emails also contain an outline of the scope of the Audit and offer the opportunity for Senior Management to contribute to that. Audit work should not be restricted by Senior Management consent.	Review opportunity to further develop dialogue with Senior Management using the Project Brief.

Cipfa C.Co Advisory Opportunity	Audit Services Response	Current Position
The Service should clearly define its approach and ability to deliver internal consultancy and undertake an awareness campaign utilising internal communications or an e-brochure to raise the positive profile of the Service and alert the rest of the organisation to where and how the Service can support.	Audit Services is involved in a wide variety of advisory work across the whole of the Council's operations which is valued by Members and Senior Management.	Review and assess the opportunities to publicise advisory/consultancy work which can be undertaken by Audit Services.
In reviewing its key performance indicators, it is suggested that the following indicators should be retained or developed as part of this review: • **Elapsed time** – this is start and finish time of the audit assignment overall and reflects the value of an audit being completed within an appropriate timescale. • **Implementation of recommendations** – although the implementation of recommendations is not the responsibility of Internal Audit, this measure is more reflective of the impact of Internal Audit on the control environment, the quality of its recommendations and highlights where managers have failed to implement. It also links into our suggestion of the review of the 'follow up' of recommendations. • **Plan delivery** – a measure of progress that enables regular discussion about factors such as resourcing that impact on the delivery of Plan. • **Delivery within planned days** – a measure that highlights the ability to plan and deliver the time allocation for audits appropriately • **Draft to Final Report turnaround** – again not all in the gift of Internal Audit but a useful measure to highlight where any 'sign-off' blocks exist and that the Final report is the key audit 'product'.	Audit Services currently produce key performance indicators which are reported to the Corporate Finance & ICT Management Team.	At the time of the external review the Assistant Director of Finance (Audit) was considering the further development of key performance indicators which are detailed at Appendix 2.
Review and revise the Internal Audit declaration of interest form in advance of the next round of completion.	Declaration of interest forms are currently completed on an annual basis or when declarations change.	The current declaration of interest form will be revised to include: • the nature of a declared relationship (spouse, mother, daughter etc) although this is often included; • mitigating actions taken by Senior Audit Management; • a more explicit statement relating to knowledge of and conformance with the Code of Ethics set out in the Public Sector Internal Audit Standards and any relevant professional body.
In order to inform the annual appraisal of the Chief Audit Executive a formal process should be established to obtain appropriate feedback from the Audit Committee Chair.	The Director of Finance & ICT undertakes the MyPlan process for the Assistant Director of Finance (Audit) setting objectives and reviewing progress.	

AUDIT SERVICES KEY PERFORMANCE INDICATORS

Indicator	Target	Frequency	Reported To	Comments
Audit Plan – Achievement of planned Audit days	95%	3 times per year	Corporate Finance & ICT Management Team	Included in Annual Audit Report
Staff Productivity – Achievement of target Audit days	95%	3 times per year	Corporate Finance & ICT Management Team	Included in Annual Audit Report
Audit Assurance – To provide an assurance to the Authority on the adequacy and effectiveness of risk management, control and governance processes		3 times per year	Corporate Finance & ICT Management Team	Included in Annual Audit Report
Client Satisfaction – Percentage of questionnaire responses rating the Audit Product as good or very good		3 times per year	Corporate Finance & ICT Management Team	Included in Annual Audit Report
Annual Survey of Key Stakeholders		Annual	Audit Committee	Included in Annual Audit Report
Delivery of Audit Opinion to Management and Audit Committee in time to inform AGS		Annual	Audit Committee	Included in Annual Audit Report
Completion of Audit staff MyPlan reviews and training identified		Main review and follow up each year	Audit Management Team	
Undertake a risk based Annual Audit Plan formulation exercise		Annual	Audit Committee	Included in Annual Audit Report
Undertake quality assurance reviews of Audits		1 for each Principal Auditor per year	Audit Management Team	Included in Annual Audit Report
Limited Audit Opinions reviewed by Assistant Director of Finance (Audit)	Within 10 days of completion of Draft Memorandum	As required	Audit Management Team	Included in Annual Audit Report
Percentage of Draft Audit Memoranda issued within 15 working days of fieldwork completion	95%	Ongoing	Audit Management Team	Included in Annual Audit Report
Percentage of Final Audit Memoranda issued within 28 days of issue of Draft Audit Memorandum	95%	Ongoing	Audit Management Team	Included in Annual Audit Report

AUDIT SERVICES KEY PERFORMANCE INDICATORS   **Appendix 2**

Indicator	Target	Frequency	Reported To	Comments
Percentage of Recommendations made which are implemented at the time of follow up Audit	90%	Ongoing	Audit Management Team	Included in Annual Audit Report