

External Review May 2021 - Action Plan Progress Update December 2021

The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation Grading	
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisation's objectives in relation to risk management, governance and control
Review	The internal audit service should review its approach in this area to better reflect the application of the PSIAS
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

No	Issue Identified	Recommendations	Action	Progress
1	Internal Audit Charter Whilst the Charter requires that the HoIA's Annual Opinion is correctly expressed in relation to Risk Management, Governance and Internal Control – there are references in the Charter and other documentation which simply relate to 'internal control' or the 'control environment'.	When the Internal Audit Charter and other documentation is next revised update the requirement for the HoIA to provide an Annual Opinion in the consistent form of Risk Management, Governance and Internal Control.	The Audit Charter was revised in September 21 and updated to use the term Risk Management, Governance and Control.	Complete
2	2020/21 engagement completion Current year provision has been impacted by Covid and the team holding a number of vacancies.	Where these events impact upon completion of the internal audit plan and therefore the content of the Head of Internal Audit Annual opinion, a reflection on the advice	The CIPFA advice re the Head of Internal Audit Annual Opinion had already been taken to each Audit Committee.	Complete

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	<p>At the time of the review, internal audit plan outcomes for 2020/21 were not available other than in the case of Derbyshire Dales DC, where reference has been made to the internal auditor being required to undertake other duties in relation to COVID-19 business grants processes, queries and government returns.</p>	<p>provided by CIPFA could be beneficially referred to explain the context and advice provided by the professional body.</p>	<p>The advice has since been reiterated in DDDC annual report as the scope of the opinion was limited and partial assurance given. This did not impact on the consortium members</p>	
3	<p>Audit Planning The HoIA maintains a spreadsheet-based approach to the conduct of an audit needs assessment which supports the development of the annual plan. This recognises the teams' judgement of factors relating to Materiality, Control Environment, Sensitivity, Management Concern and time since last audit. None of these factors relates directly to the organisations risk appetite as expressed in each clients' risk management system.</p>	<p>Whilst it is recognised that client risk registers contain varying levels of detail regarding controls and assurances and certainly may not be comprehensive in terms of covering all risks. Conformance with the PSIAS would be enhanced by formally recognising the risk appetite of each client in internal audit planning, particularly where the concept of 'Control Risk' (the assessed difference between Inherent and Residual risk) is identified.</p>	<p>To be implemented for the 2022/23 internal audit plan. To look at how the spreadsheet can be updated to increase the emphasis on each client's risk appetite as per their risk registers – i.e., bring in a risk weighted column</p>	<p>In progress</p>

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4	<p>Management Objectives The Internal Audit service currently specifies the Audit Objective as part of the Scoping Document for engagements although there is inconsistency. PSIAS 2201 provides advice regarding planning considerations for engagements and states that: “In planning the engagement, internal auditors must consider - The objectives of the activity being reviewed and the means by which the activity controls its performance and the significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level”.</p>	<p>The Internal Audit Service should consider focusing each audit on agreed Management Objectives for the area for review as this would help structure the engagement on significant risks and align the review with the associated controls that are designed to mitigate this risk. In this respect, this may allow greater focus to be provided on ‘what matters most’ and attention being given to selected controls testing currently contained within established ‘controls check-lists’.</p>	<p>Management Objectives are discussed during the scoping meeting for each audit and it is ensured that these are incorporated into testing. Testing is often broader than just focusing on these objectives which is deemed appropriate as most areas are not reviewed on an annual basis.</p>	Complete
5	<p>Grading of recommendations Issues on which the audit opinion is based currently reflect High, Medium or Low ratings for which internal audit has defined what it considers as events which merit concern at these levels. The definitions are not currently contained within the internal audit manual or are included in internal audit reports to support gradings. This is inconsistent with terminology used by each Council in their Risk Management Policies where definitions</p>	<p>a) It would be beneficial to align future grading of recommendations with those impact definitions used within the risk management process relating to each clients’ risk appetite. Existing clients appear to use either a 4x4 or 5x5 risk matrix and therefore inclusion within internal audit reports as to how consistent alignment is achieved would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of</p>	<p>Internal audit definitions of High, Medium and Low recommendations will be aligned to each Council’s risk management strategy. These definitions will be adopted from the 2022/23 financial year and appended to each internal audit report for transparency.</p> <p>Staff training on the use of these revised definitions and the potential impact on</p>	In progress

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	<p>of impact are contained to varying levels of detail.</p> <p>The PSIAS uses consistent terminology relating to the identification and reporting on 'significant' risk. And it may therefore be beneficial for internal audit to align its understanding of significance with that of each client.</p>	<p>findings at the exit meeting and in determining an opinion within assurance reports through use of a consistent understanding and application of risk.</p> <p>A simple matrix may be:</p> <p>b) Include appropriate explanation of alignment of gradings within the internal audit manual and provide appropriate training to staff regarding how this should be implemented.</p>	<p>assurance levels will be delivered at a team meeting in February 2022</p> <p>The audit manual will be reviewed and updated in the summer of 2022 to incorporate all the changes made as a result of the external review</p>	
6	<p>Quality Assurance Improvement Programme (QAIP)</p> <p>The HoIA currently undertakes an annual self-assessment process and reports a summary of matters arising to Audit Committees in the Annual Report.</p> <p>The current process considers matters such as issues arising from PDR's, client surveys, ideas from team members and training requirements in addition to matters arising from external quality assessments.</p> <p>At present, each element is maintained separately.</p>	<p>It would be beneficial to consider drawing together the various elements of review in a formal QAIP policy and presenting this to Audit Committees, as such in the Annual Report as required in the PSIAS.</p> <p>An example policy has been provided.</p>	<p>A Quality Assurance Improvement Programme has been written and this will be appended to the annual report for 2021/22.</p>	<p>In progress</p>

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7	<p>Risk-based internal audit The emphasis of the PSIAS concerns significance. Earlier observations referred to the benefit which may be obtained by increasing alignment with each Councils risk management processes. In this respect current practice:</p> <ul style="list-style-type: none"> a) Includes low risk audits in annual audit plans b) Utilises 'Control Checklists' as the basis for audits, and c) Has a tendency to produce reports that are 'controls based' rather than focusing on risks to achievement of identified management objectives. 	<p>Ensure that in all aspects of the internal audit methodology there is transparent consideration of the significant risks that may impact upon successful delivery of management objectives. At an Engagement level this should include identification and focus on particular risks, to the exclusion of others, where risk management policies or discussions identify issues of a potentially catastrophic nature such as safeguarding, health and safety, legislative compliance, failure to deliver statutory services or reputational damage.</p>	<p>Agree need to spend most focus on higher risks but not necessarily at the exclusion of others. I believe lower risk audits should continue to be included in the audit plan - these are at much less frequency than high risk audits</p> <p>Risks are discussed at scoping meetings and reference is made to strategic and operational risk registers. Test schedules are updated to reflect the risks identified during scoping meetings.</p> <p>From 2022/23 audit reports will be updated to detail the risks considered.</p> <p>From 2022/23 test schedules will be updated as audits become due to detail the risks identified at scoping and to link these to the identified control objective and corresponding audit tests.</p>	<p>In progress</p>

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8	<p>Code of Ethics Internal Audit reports currently state that the audit has been conducted in accordance with the Public Sector Internal Audit Standards.</p>	<p>Increasingly best practice also states that the audit has been conducted in accordance with the Institute of Internal Auditors Code of Ethics</p>	<p>This will be included in the 2021/22 annual reports</p>	<p>In progress</p>
9	<p>Working papers The file review exercise identified different practices in relation to how the audit working papers were constructed with some focusing on risks and other more reflective of controls.</p>	<p>Establishing the 'Golden Thread' between Management Objectives, significant risks and key controls should be the basis of each audit as this would allow the development of a consistent approach to the conduct of audit engagements and ensure a focus on significance.</p>	<p>As above – from 2022/23 there will be a stronger thread in terms of objectives and risk from the scoping document to the test schedules and end reports</p>	<p>In progress</p>
10	<p>IA Opinions Internal Audit currently uses four levels of opinion – Substantial, Reasonable, Limited and Inadequate – definitions of expectations is provided clarifying the differences between the levels, although this uses general terminology regarding risk rather than relating specifically to the risk appetite of each client. The PSIAS as stated previously emphasises the requirement to focus on what is 'significant' to the achievement of Management Objectives.</p>	<p>The HoIA should consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified and the recommendations made. Where a risk/recommendation of a 'Critical, Catastrophic or Severe' nature is identified this would indicate that at best a 'Limited Assurance' opinion should be used.</p>	<p>From 2022/23 internal audit assurance definitions will be linked to risk management strategy definitions. The assurance given relates to the priority of recommendations – the revised definitions of these directly relates to the risk management strategy.</p>	<p>In progress</p>

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11	<p>Head of Internal Audit Annual Report The Annual Report provides an evidenced approach regarding the basis upon which the opinion regarding risk management, governance and control has been reached and compares favourably with other practice in the sector.</p> <p>This includes increasing recognition of significant risk and those wider sources of assurance that are available to the HoIA in reaching this opinion.</p> <p>Whilst risk management systems do not consistently include a comprehensive analysis of the sources of assurance as a second line of defence, the internal audit team has made good progress in identifying routine sources of assurance that are available as well as compiling a Fraud Risk Assessments for each client.</p>	<p>The Head of Internal Audit should continue to develop the formality of the Annual Report process building the links between this report and the Annual Governance Statement.</p> <p>Inclusion of references to significant risks currently faced by each client will be of benefit to all stakeholders.</p> <p>Further consideration should be given to inclusion other sources of assurances that are available such as that relating to independent assurance regarding PSN, where these are relevant to providing evidence regarding the significant risks faced by each client.</p>	<p>CBC 2020/21 Annual Report includes links to Significant issues in the annual governance statement. A timing difference makes it harder in respect of the other Council's as the internal audit annual report is completed prior to the AGS.</p> <p>. Other sources of assurance used have been included in the 2020/21 Annual Reports</p> <p>To be further considered for the 2021/22 Annual Reports</p>	In progress
12	<p>Exit meeting template Discussions with management regarding the findings identified within engagements are discussed with management and based upon a first draft of the report.</p> <p>A summary of the discussion is then recorded in a narrative note, which is then used to produce the final report.</p>	<p>It is recognised that the HoIA prefers to use the draft report as the basis for conducting the exit meeting however it may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management reactions as the audit progresses, as this will both formalise the approach to</p>	<p>Disagreed</p> <p>Draft audit reports to continue to be used to conduct an exit meeting – there should not be any surprises in the draft report as findings will have been discussed with managers as an audit progresses and the working papers will also have</p>	Complete

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	Draft reports can contain misunderstandings or factual inaccuracies which may detract from the value of a report and which may be better clarified before time is incurred constructing a report and recommendations.	arriving at the draft report stage, as well as support timely feedback and verify any misunderstandings or factual inaccuracies. This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report to correct misunderstandings.	been subject to a quality review so findings will be supported by the testing undertaken. There is no indication that this is a problem, usually only minor word changes to the draft report following exit meetings	
13	Client surveys Progress has been made in obtaining feedback from auditees following each audit.	The level of response is similar to that seen in other organisations and therefore Internal Audit may find it useful to utilise an application such as Microsoft Forms or Survey Monkey for collecting feedback, as this can prove to be an efficient means which helps achieve an early response.	CBC does not permit the use of survey monkey etc. This was discussed a few years ago and the cost was prohibitive given the small number of surveys involved. In 2020/21 57% of surveys were returned which is considered to be a good response rate	Complete
14	Working Paper review record Current practice is to evidence supervision of an engagement using a working paper review template which reflects good practice. Other evidence of review is contained on pre-engagement documentation and at report stage.	It may be beneficial to extend the use of the existing template to include evidence of the review of pre-audit involvement of the nominated supervisor as well as approval of the review and release of draft and final reports.	An audit progress log has been introduced for each audit assignment tracking an audit from start to finish at all stages	Complete

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15	<p>HOI Performance Development Review</p> <p>The current process is managed as required by the policy at CBC with the review being completed by the Service Director Finance, the Chief Executive reviews and comments as managers manager.</p> <p>The Standards suggest that it is good practice for feedback to also be received from the Chair of the Audit Committee</p>	<p>As the IA Consortium provides a service to four other organisations it would be constructive to also invite feedback on an annual basis from the Chief Executive and Chairs of Audit Committee from these clients.</p>	<p>The Service Director - Finance to invite feedback from the other council's Chief Executives and Chairs of Audit Committee for the next round of PDR's in May 22</p>	<p>In progress</p>