

## **ANNUAL REVIEW OF THE SYSTEM OF INTERNAL AUDIT REPORT OF THE HEAD OF INTERNAL AUDIT**

### **Current Arrangements for Internal Audit**

1. A dedicated Internal Audit Service forms part of the system of Internal Audit for the Authority. The Service is part of the Internal Audit, Risk and Corporate Fraud Division of Durham County Council. Service delivery is by way of a Service Level Agreement that is in place through to 31 March 2022. The Service is led by the Chief Internal Auditor and Corporate Fraud Manager with day to day provision being overseen by an Audit Manager. The Service works closely with those Officers and staff of the Authority tasked with governance, assurance and risk management.
2. The Audit Manager reports directly to the Deputy Chief Executive but also has direct access to the Chief Fire Officer and Audit and Finance Committee.
3. At the start of 2020/21 the team comprised of 18 approved posts (16.35FTE) plus the Chief Internal Auditor and Corporate Fraud Manager.
4. The vision for the Internal Audit Service is described in the Annual Internal Audit Plan, the Service Terms of Reference (TOR) within the Internal Audit Charter and defines the principles of how it operates in delivering the Service to the Authority. The TOR provides appropriate arrangements to ensure the Service is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The Charter and TOR were last presented to the then Audit and Risk Committee on 25 February 2021.
5. Arrangements for investigation work are defined in the policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and the Audit Manager works closely with the Deputy Chief Executive. A summary of work undertaken is provided for the Audit and Finance Committee in the Annual Fraud and Corruption Report.

### **Effectiveness of the Internal Audit Service**

6. To examine the effectiveness of the Internal Audit Service for the past year, this annual review considered several key elements and assessed their contribution to enabling the Service to fulfil its responsibilities. These were:
  - The structure and resourcing level, including qualifications and experience of the audit team.
  - The extent of conformance with the PSIAS in producing quality work.
  - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis.
  - The overall performance of the Internal Audit team.

## Resourcing, Structure, Training and Experience

### Resourcing

7. During 2020/21, Chief Internal Auditor and Corporate Fraud Manager left the Council to further develop his career and an Audit Manager was appointed to undertake the role on an interim basis. In addition, our Audit Apprentice left to take up a new role in the private sector. It is intended that both vacancies will be filled within 2021/22.
8. Audit work was actively managed within the resource available and progress toward delivery of the agreed Annual Internal Audit plan was reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of nominated officers and staff; and control over the allocation of resources for in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to the Deputy Chief Executive and the Audit and Risk Committee.
9. Delivery of the audit plan was impacted at year-end as a result of the coronavirus pandemic which resulted in five reviews that were ready to begin / underway being temporarily put on hold. Agreement was, however, reached with the Service that four reviews that were already well progressed would be completed in a timescale that would enable them to be included within the overall Internal Audit opinion to be delivered.

### Structure

10. The structure of the Internal Audit Service is intended to remain the same going forward into 2021/22 thereby allowing the opportunity for auditors to continue to develop a depth of knowledge and client relationships. This, wherever possible, offers continuity to clients who can then regularly deal with the same auditors over a period of time. We consider this approach continues to be successful in building a better understanding of the business needs and objectives of the Authority. However this does need to be balanced against a need for staff rotation for development purposes and to maintain objectivity.

### Training and Experience

11. Training and development within the Service is progressed through the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA), the Association of Accounting Technicians (AAT) and Continuing Professional Development (CPD).
12. During the year, one auditor further progressed their IIA studies and all other employees hold at least one audit qualification. For CPD all employees have access to and attended events selected from internal and external training events. Formal internal CPD sessions are held for all employees with individuals keeping records of their CPD based on their professional requirements.

13. The following information about qualifications and experience of employees available for audit work demonstrates the experience and qualification mix.

**Experience 2020/21**

Auditing Experience	No	%	Public Sector Auditing	%
Up to 1 Year	0	0	0	0
1 to 5 Years	0	0	0	0
5 to 10 Years	0	0	0	0
Over 10 Years	17	100	17	100
<b>Total Employees</b>	<b>17</b>	<b>100</b>	<b>17</b>	<b>100</b>

**Qualifications**

Accountants (CCAB)	5
Institute of Internal Auditors	1
Institute of Internal Auditors – Training	1
Certified Information System Auditor	1
Association of Accounting Technicians	9
<b>Total</b>	<b>17</b>

14. The level of experience of audit employees was increased in year with skills level available remaining high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.

**Conformance with UK Public Sector Internal Audit Standards (PSIAS)**

15. Internal Audit completed a self-assessment against the key elements of the PSIAS (2017) using the Local Government Application Note. For 2020/21 this demonstrated that the Section was **conforming** to the Code's requirements.
16. All employees comply with ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. All employees provided an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.
17. Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits had agreed and clear scope; activity was reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback was received from post audit questionnaires.
18. Liaison with the External Auditor in year was productive and the two services continue to share information and to use this to inform risk assessments and to direct audit activity.

## Ensuring the Effective Prioritisation of Internal Audit Work

19. Prioritisation of the work of the Service is achieved by the development and delivery of an annual risk based audit plan. This describes the assurance plans for the Service and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate.
20. The plan is based on a mix of different types of audit and work to ensure that assurance over the systems of governance, risk management and internal control is obtained from a number of different directions and sources.
21. The Service's methodology for establishing audit priorities is aligned with governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs.
22. It is considered that the 2020/21 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit and Risk Committee. It was based on reasonable estimates of available resources and when also taking into account work that was completed further to the onset of the coronavirus pandemic, as outlined in paragraph 9, the plan is considered to have been delivered.
23. The Internal Audit Plan for 2021/22 was presented to the Audit and Risk Committee at its meeting on 25 February 2021 and the Service Leadership Team at its meeting on 12 March 2021.

### Performance Measures

24. Performance Management of the Service and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Service is the completion of the Internal Audit Plan within the year.
25. Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Service Leadership Team and Audit and Risk Committee as part of the Internal Audit Charter.
26. The key performance measures for the Service over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2021
Planned audits completed	% of planned assurance work from original plan complete to draft report stage	90% (Quarterly)	93% (14 out of 15 reviews completed)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90% (Quarterly)	100% (11 reports issued) 6 days
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95% (Quarterly)	100% (11 reports issued) 3 days

KPI	Measure of Assessment	Target	Actual as at 31 March 2021
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (20 accepted out of 20 made)
Post Audit Customer Surveys	% of customers scoring at least 3 out of 5	100% (Quarterly)	100% (9 out of 10 returned) Overall average score 4.50
Customers providing feedback	% of customers returning satisfaction returns	70% (Quarterly)	90% (9 returned from 10 surveys issued in 2020/21)

27. The main performance indicator shows how many planned assurance reviews have been completed against a target of 90% within the audit year. With one review in progress, the service has delivered 93% of the Internal Audit plan. Work undertaken in year is considered to be sufficient to enable an overall opinion to be provided when taken in conjunction with work undertaken previously from the Strategic Plan.
28. For customer satisfaction there has been positive feedback on a number of specific jobs and this is reflected in the results from customer satisfaction questionnaires. The Service carried out a programme of follow up in respect of questionnaires with the aim of maximising the number returned.
29. The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response.
30. No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.

### Implementation of Recommendations

31. The process for monitoring implementation of recommendations continued to build on improvements from previous years and there are good levels of engagement across the Authority. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.
32. The Service maintained regular contact with the Deputy Chief Executive throughout the year and provided key reports and information to the Audit and Risk Committee, which with regular updates from the Service has the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is considered to be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2020/21.

## **Audit Committee**

33. The system of Internal Audit includes the role of the Audit and Risk Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit and Risk Committee were unchanged in 2020/21.

## **Summary and key priorities**

34. The Service continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Authority's priorities and to help identify and address any risks to the delivery of objectives. The Service delivered a comprehensive plan for the year and it is considered that the Service has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support.

## **Recommendation**

35. Members are asked to consider the findings and conclusions of the 2020/21 review of the effectiveness of the system of Internal Audit contained within this report.

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