

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE MEETING**

**27 February 2019**

**Report of the Assistant Director of Finance (Audit)**

**AUDIT STRATEGY**

**1. Purpose of Report**

To inform Members of the Audit Strategy which is a specific requirement of the Public Sector Internal Audit Standards (PSIAS).

**2. Information & Analysis**

Members will recall that the Audit Charter was reviewed, updated and presented to the Audit Committee at its meeting on 26 September 2018. The PSIAS requires that the Audit Plan *'must incorporate or be linked to a high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter'*.

The Audit Strategy, which is attached at Appendix 1, provides that high-level statement and sets out:-

- deliverables;
- reporting arrangements;
- resource considerations;
- profile of the Unit

Arrangements for communicating the results of, and facilitating Audit work are summarised along with managing performance and identification of those risks which may impact on the Strategy.

**3. Legal Considerations**

The Audit Services Unit discharges the Authority's statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015 and significant aspects of the Director of Finance's statutory duties under Section 151, Local Government Act 1972.

**4. Other Considerations**

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

**5. Background Papers**

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

**6. Officer's Recommendation**

That the Audit Committee notes the content of the Audit Strategy.

**Carl Hardman**  
**Assistant Director of Finance (Audit)**

# **DERBYSHIRE COUNTY COUNCIL**

## **AUDIT SERVICES**

### **INTERNAL AUDIT STRATEGY**



**CARL HARDMAN**  
Assistant Director of Finance (Audit)



## **Purpose**

The purpose of the Audit Strategy is to enable Audit Services to effectively prioritise its resources and focus on enhancing and protecting the Council's value by providing risk based and objective assurance, advice and insight.

The Audit Strategy sets out how Audit Services will be developed and delivered in accordance with the Audit Charter.

## **Context**

The Internal Audit Charter sets out the purpose, authority and responsibilities of the Audit Services. This enables the Unit to operate independently ensuring that work is aligned to Council priorities and uphold and promotes the Council's values. As the demands on the Council are increasing while financial resources are decreasing Audit staff will help to manage these challenges by working proactively with Members, Strategic Directors/Directors and Senior Management sharing knowledge and expertise to help improve outcomes.

The Strategy applies to the Council and other partnerships or commercial arrangements where the Council has an interest.

## **Statutory Responsibilities**

The requirements for an internal audit service in local government are detailed in the Accounts and Audit Regulations 2015, which states that a relevant body must 'undertake an adequate and effective internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control'. The standards for proper practices in relation to internal audit are prescribed by the Public Sector Internal Audit Standards.

## **Background**

The Public Sector Internal Audit Standards (PSIAS) define Internal Audit as:

*'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'*

The Chief Audit Executive (Assistant Director of Finance (Audit) must deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement (AGS). This opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The PSIASs require that Audit Services must:

- evaluate the design, implementation and effectiveness of the organisation's objectives, programmes and activities;

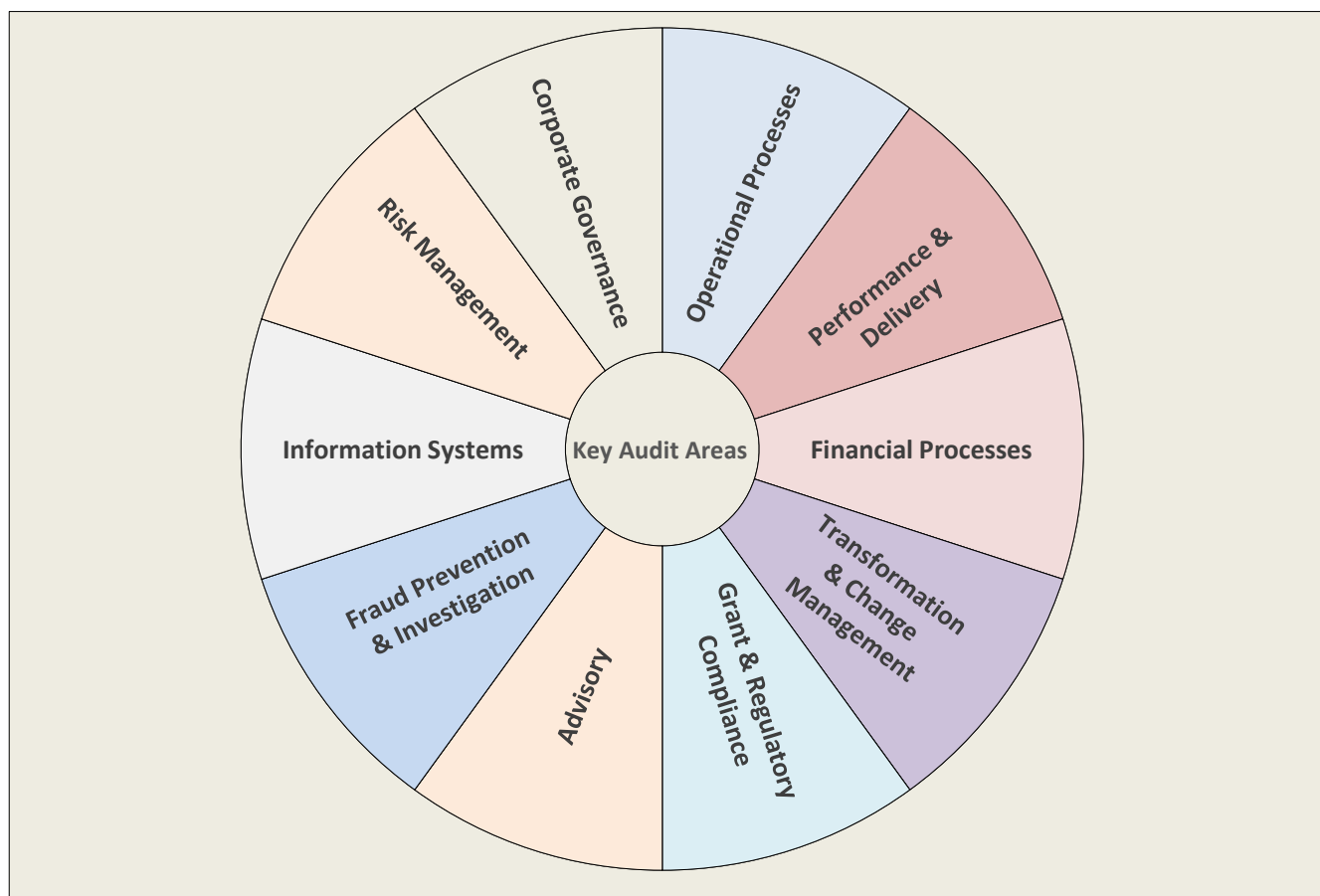
- evaluate the effectiveness and contribute to the improvement of risk management processes;
- assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

## **Strategic Approach**

### **Deliverables**

Audit Services will:

- be 'fit for purpose' for the future with appropriate capacity and capability to provide services that will provide assurance and improve the effectiveness of risk management, control and governance processes;
- deliver a robust risk based annual internal audit plan which is aligned with the Council's strategic priorities and the highest risks to help maintain public confidence and trust in the Council. The key audit areas are:



- provide the Assistant Director of Finance (Audit)'s Audit Opinion on the Council's framework of governance, risk management and control on an annual basis to the Audit Committee. This will be timed to support the Council's Annual Governance Statement;
- work with Strategic Directors/Directors and Senior Management to put in place management assurance arrangements which enable them to proactively review, assess and design optimal control frameworks to manage operational and transactional controls;

- adopt Audit policies, processes, procedures and systems that are enabling and dynamic to meet the assurance needs of the Council;
- ensure effective liaison and communication with key Audit stakeholders;
- implement a Quality Assurance and Improvement Programme providing assurance to stakeholders that Audit Services complies with the relevant Council policies, professional standards, operates efficiently and effectively and abides by the Institute of Internal Audit (IIA) Code of Ethics;
- use appropriate techniques to improve our Audit processes;
- follow up and reporting the implementation of agreed recommendations and Management actions.

## **Reporting**

Audit Services will:

- provide Audit Memoranda and Reports detailing the scope, findings and prioritised recommendations from Audit work, including an Audit Opinion and Management responses, where appropriate;
- provide impactful reporting on Audit findings and the agreed Management actions to the Audit Committee, Corporate Management Team and Senior Management consistent with agreed reporting protocols;
- provide an Annual Audit Report and Opinion to the Audit Committee and Corporate Management Team based on the agreed programme of Audit work and to support the preparation of the Annual Governance Statement;
- request feedback on all Audit work and undertake an annual survey with Strategic Directors/Directors on our performance and report the results and any action taken to the Audit Committee and Corporate Management Team;
- Report on our performance and expected deliverables to Audit Committee and Corporate Management Team as part of performance management arrangements.

## **Resourcing**

Audit Services will:

- collectively possess the knowledge, skills, experience and other competencies that are required to deliver the Audit Plan;
- develop, nurture and sustain talent by supporting our staff's continuing professional development and professional qualification training;
- develop succession plans through mentoring, knowledge transfer and appropriate training.
- effectively collaborate with External Auditors and other review bodies working with the Council;
- continue to participate in professional groups including the Local Authority Chief Auditors Network, Midland Counties Heads of Internal Audit Group, Nottinghamshire and Derbyshire Audit Group and other professional initiatives to develop and share best practice.

## **Profile**

Audit Services will:

- act in the best interests of the Council, setting an example for others;
- ensure our work adds value by contributing to the priorities of the Council and focussing on areas of highest risk.
- be responsive to the needs of Members and Senior Management ensuring that outcomes from our work are shared promptly using the most appropriate channel;
- conform to the IIA Code of Ethics – Integrity, Objectivity, Confidentiality and Competency;
- have flexibility to reprioritise and undertake work considered to be high risk at short notice where resources permit;
- effectively engage with key stakeholders and request regular feedback on our performance and engagement;
- be proactive in suggesting meaningful improvements to governance, control and risk management arrangements.

## **Communicating Results**

When the draft Audit Memorandum has been prepared it is the responsibility of the Lead Auditor to discuss the findings and recommendations with an appropriate Senior Manager, agree actions, responsible officers and a defined timeframe for delivery. It is the responsibility of Management to engage with Audit Services, provide timely responses to draft Audit Memoranda and ensure that all agreed actions arising from an Audit Memorandum or Report are implemented in accordance with the agreed timetable. Audit Services will seek evidence on the progress of actions relating to key findings from the appropriate Senior Manager against this timetable and report this to the Audit Committee and Corporate Management Team. Where information is not provided within agreed timeframes Audit Memoranda will be issued without that information and such instances identified in performance reports to the Audit Committee.

## **Facilitating Audit Work**

To enable Audit Services to deliver the Audit Plan we will seek to foster collaborative working arrangements. The engagement with the Senior Managers is crucial at all stages of the Audit cycle particularly concerning:

- annual planning;
- discussing scope and terms of reference;
- cooperation and availability of key staff throughout the Audit fieldwork;
- collaboration regarding the reporting of and agreeing the necessary Senior Management actions;
- implementing the agreed actions in accordance with the agreed time scales;
- providing feedback on Audit performance following completion of audits, and
- prioritising engagement with Audit to enable timely completion of Audit work.

## **Managing Performance**

The performance of Audit Services is regularly monitored by the Assistant Director of Finance (Audit) and reported to the Audit Committee and the Director of Finance & ICT in accordance with agreed Key Performance Indicators.

## **Audit Services' Risks**

Audit Services have identified the following risks which may impact on this Strategy:

- Recruitment and retention of key staff to deliver the service in an increasingly complex environment;
- Closure of establishments and withdrawal of services;
- The impact of the schools' Academy programme;
- Continued pressures of investigative audit work given continuing level of fraud activity and the impact on control systems of the Authority's austerity measures and continued cuts;
- Significant activity relating to the procurement of IT systems which, in itself creates increasing pressure on the Unit's specialist resources;
- Increased expectations of the Unit including continuing development of communication with CMT, Strategic Directors and Directors, continuing development of themed and operational reviews and new and complex service provision;
- Impact of the General Data Protection Regulation;
- Continuing to provide the high level of service currently being expected and achieved with resources, whilst striving to meet increased demands.