

Staffordshire Moorlands District Council & High Peak Borough Council

2020/21 Annual Review of the Effectiveness of Internal Audit – Action Plan

| PSIAS     | Finding   | Recommendation  | Grading  | Management Response  | Target Date | Responsible Officer |
|-----------|---|---|----------|--|-------------|---------------------|
| Resources | <p><b>Annual Internal Audit Plans</b></p> <p>Internal audit plans were presented to and approved by Audit Committees post 1<sup>st</sup> April.</p>   | <p>It would be good practice to present draft plans to an earlier meeting so that work proposed for commencement on 1 April had been discussed and approved by the Audit Committee.</p>   | Consider | <p>The current timetable allows the Audit Committee to discuss and approve the audit plan early in the financial year.</p>                             | N/A         | N/A                 |
| Resources | <p><b>Internal Audit Customer Satisfaction Questionnaire</b></p> <p>The service currently issues a 21 point questionnaire to customers following completion of each assignment but only achieves a response rate of about 50%.</p> <p>Whilst the outcome of the questionnaire is generally positive it would be beneficial to consider whether the process might be amended to encourage greater interaction.</p> | <p>The HoIA should consider simplifying the questionnaire to reflect five key questions relating to:</p> <ul style="list-style-type: none"> <li>- Pre-audit engagement</li> <li>- Focus on relevant risks</li> <li>- Progression of the audit</li> <li>- Relevance and timeliness of reporting</li> <li>- Added value experience</li> </ul> | Consider | <p>The current questionnaire that is based on CIPFA best practice will be reviewed to ensure there is a balance between content and response rate.</p> | Ongoing     | Head of Audit       |

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| Competency | <p><b>Internal Audit Planning</b></p> <p>Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on an assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council.</p> <p>The analysis uses different definitions of risk impact to those approved within each Council's risk management strategy. This is heavily focused on financial aspects which has a tendency to focus on assignments related to established systems rather than other aspects of the assurance framework that may be more appropriate in terms of independent review.</p> <p>There should be a direct and identified link between the internal audit plan content discussed with senior management and the Audit Committees and the risk based reasoning for inclusion of the assignment in the</p> | <p>a. Audit Plans should be constructed through using an audit needs assessment process which achieves the objectives of the service as set out in the Internal Audit Charter. The audit planning process should be designed to reflect the assurance needs of each Council through transparent alignment with the Council wide approach to risk management.</p> | Review  | <p>The current audit needs assessment incorporates strategic risk register mapping. Consideration will be given to incrementally further aligning the process with the Councils risk management approach where prudent.</p>        | Ongoing     | Head of Audit       |
|            |  | <p>b. The internal audit planning process should further identify and document other sources of assurance that are available and upon which Councils can place reliance.</p>   | Review  | <p>Consideration will be given to incorporating other sources of assurance into the audit planning process.</p>  | Ongoing     | Head of Audit       |
|            |  | <p>c. The starting point for the development of the Controls Evaluation Summary is a preliminary discussion with management regarding the inherent and residual risks relevant to the audit</p>  | Review  | <p>There is a longer term aim to align the audit process more closely to risk management. This has to be balanced with other considerations such as local external audit requirements. Audit planning meetings already include</p> | Ongoing     | Head of Audit       |

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|            | <p>audit plan as the plan finally approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which each Council relies.</p> <p>In turn this should drive the preparation of the terms of reference for each assignment.</p> <p>The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and the Council.</p> | <p>area under review. This process could be more robust. It may aid assignment planning, if the management objectives for the area under review were also identified.</p> <p>This should result in the formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda.</p> <p>Evidence of the agreement by the HoIA and client to the Controls Evaluation Summary should be retained on file.</p> |         | <p>discussion of risk registers and management objectives and these will be documented and agreement of control evaluations evidenced. In addition key mitigating controls identified in risk registers are tested to ensure their effectiveness in reducing inherent risk.</p> |             |                     |
| Competency | <p><b>Internal Audit Manual</b></p> <p>The internal audit manual has been updated in February 2017 represents a comprehensive record of the practices to be followed by internal audit staff and reflects with the PSIAS.</p>  | <p>The internal audit manual should be updated to reflect greater alignment with the risk management policies of the client authorities particularly in relation to the various aspects relating to planning and reporting</p>   | Review  | <p>The internal audit manual will be updated to reflect any changes implemented as a result of the issues raised in this EQA.</p>   | Ongoing     | Head of Audit       |

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|          | The significant emphasis of the PSIAS reflects the use of a risk based approach to internal audit work and in this respect it is felt that greater alignment with the risk management policies and appetite of the client local authorities would be beneficial.  | (grading of recommendations and opinions) that have been identified within the EQA.   |         |   |             |                     |
| Delivery | <p><b>Assignment Planning</b></p> <p>The service currently initiates each audit through engagement with management which provides for creation of a Controls Evaluation Summary; this is then shared with management as a basis for discussion and agreement for commencement of the audit.</p> <p>The assignment is then structured around a framework of expected controls and which is only loosely related to risks which have been considered with management.</p> | <p>Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee; this should include an assessment of the inherent risks in each area (regardless of whether these are specifically recorded with the risk management system).</p> <p>The Controls Evaluation Summary should be constructed based upon the principal inherent risks identified and not expected controls. This will allow the audit to naturally reflect assurance regarding the risks identified within the 'Control Matrix'.</p> <p>The service should also seek</p> | Review  | There is a longer term aim to align the audit process more closely to risk management. This has to be balanced with other considerations such as local external audit requirements. Audit planning meetings already include discussion of risk registers and management objectives and these will be documented and agreement of control evaluations evidenced. In addition key mitigating controls identified in risk registers are tested to ensure their effectiveness in reducing inherent risk. Consideration will be given to incorporating other sources of assurance into the audit planning process. | Ongoing     | Head of Audit       |

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|          |  | <p>to identify and record the other assurances available at an early stage in each assignment as this will aid staff when formulating an overall opinion.</p> <p>An example template is provided at Appendix A.</p>  |         |  |             |                     |
| Delivery | <p><b>Focus on pre-identified controls</b></p> <p>Assignments are currently undertaken by reference to controls; there is a tendency for these to reflect KLOE based controls or those from previous audit work rather than be generated to reflect the materiality of the current risk involved.</p> <p>The service has more recently commenced consideration of wider risk aspects relating to the area subject to review.</p> | <p>The use of risk as a basis for the control evaluation summary will allow auditors to focus on the key controls and assurances which reflect the most material control risk to the area under review.</p> <p>The service should continue to develop pre-audit communication with management to focus on significant risk and key controls.</p> | Review  | <p>There is a longer term aim to align the audit process more closely to risk management. This has to be balanced with other considerations such as local external audit requirements. Audit planning meetings already include discussion of risk registers and management objectives and these will be documented and agreement of control evaluations evidenced. In addition key mitigating controls identified in risk registers are tested to ensure their effectiveness in reducing inherent risk. Consideration will be given to incorporating other sources of assurance into the audit planning process.</p> | Ongoing     | Head of Audit       |

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| Delivery | <p><b>Supervision</b></p> <p>Demonstration of effective supervision is necessary in order to both ensure the quality of the review and provide appropriate instruction to staff regarding the delivery of the internal audit methodology.</p> <p>Whilst it is recognised that the staff can consult each other regarding progress on work a common, formal and consistent process should exist in order to demonstrate supervision as each audit progresses.</p> | The service should utilise the existing Manager Review process to provide a further documented trail of supervision throughout the audit and cross reference to discussions and correspondence by email; in addition to the formal record that currently exists when approving the draft report. | Review   | Where applicable audit working papers incorporate e-mail discussions and correspondence which are reviewed during the quality control process.   | N/A         | N/A                 |
| Delivery | <p><b>Closing meetings</b></p> <p>At present no formal mechanism exists for the management of an exit meeting as a basis for discussing the outcomes of an audit prior to draft report which is used as a basis for an exit meeting with management.</p>   | The HoIA should consider whether introducing an exit meeting form to be completed on completion of field work would aid production of the draft report and contribute to reducing the time taken to finalisation of a report.  | Consider | Exit meetings prior to production of a draft report currently take place at the conclusion of audit fieldwork to ensure factual correctness and manager buy-in. These communications will be documented within audit working papers. | N/A         | N/A                 |
| Delivery | <p><b>Audit Opinions - Recommendations</b></p> <p>These are currently developed and assessed by</p>  | a. Risk definitions used by internal audit should be   | Review   | The current risk definitions have been reviewed to   | Ongoing     | Head of Audit       |

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|       | <p>each internal auditor, prior to release of the draft report and which include a grading of the recommendations being made.</p> <p>The basis for grading of recommendations should influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest impact category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'.</p> <p>Aligning the grading of internal audit recommendations with the impact/likelihood gradings within each Councils risk management system provides a consistent understanding of the relative importance of findings within both the internal audit team and those being audited.</p> <p>At present the service adopts a basis which provides</p> | <p>developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. Explanation of the use of these gradings should be included in all reports.</p> <p>It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits Attention and perhaps support this with RAG rated colours linked to the Council's risk management system.</p> <p>These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting.</p> <p>b. Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports;</p> | <p style="background-color: green; color: white; text-align: center;">Consider</p> | <p>ensure best practice and consistency and are considered appropriate (<i>CIPFA Audit Engagement Opinions: setting common definitions</i>) Definitions will be reviewed periodically.</p> <p>The current risk definitions have been reviewed to ensure best practice and consistency and are considered appropriate</p> | <p>Ongoing</p> | <p>Head of Audit</p> |

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|          | flexibility for the HoIA to determine the grading of the recommendations being made and the overall opinions. This does however lead to inconsistencies with regard to grading of recommendations and overall assurance opinions being made.  | alternatively reflecting on these in discussion at the closure meeting and confirmed in a side letter or email to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.  |         | (CIPFA Audit Engagement Opinions: setting common definitions) Definitions will be reviewed periodically.  |             |                     |
| Delivery | <p><b>Audit Opinions - Overall opinions</b></p> <p>These are currently based upon the personal judgement of each auditor, within the definitions specified in the following table. These are subject to review by the HoIA prior to release of the draft report.</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those</p> | <p>The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> <li>- Where a fundamental risk (red) is identified that limited assurance is given.</li> <li>- Where significant risks (amber) are identified then adequate assurance is given, and</li> <li>- Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is</li> </ul> | Review  | The current risk definitions and assurance levels have been reviewed to ensure best practice and consistency and are considered appropriate (CIPFA Audit Engagement Opinions: setting common definitions) Definitions and assurance levels will be reviewed periodically. | Ongoing     | Head of Audit       |

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|          | recommendations being made.   | given.  |          |  |             |                     |
| Delivery | <p><b>Annual Report</b></p> <p>The HoIA produces an Annual Internal Audit report which summarises the years work and includes analysis of performance. The opinion reflects a format that takes account of all information and sources of assurance available to the HoIA and therefore reflects upon the assurances provided in each audit supporting the current statement:</p> <p><i>“Based on the work undertaken by Internal Audit during the year and the resultant assurance opinions outlined above, and the implementation by management of the recommendations agreed, and also comments made by our external auditors, Internal Audit can provide reasonable assurance that the Council’s governance arrangements including risk management and systems of internal control were operating adequately and effectively. Where</i></p> | <p>In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk and the other assurances available so that the HoIA is able to provide wider assurance to each Authority in support of the governance statement.</p> <p>Best practice is that the Annual Report should contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope.</p> | Consider | The annual report content will be reviewed in line with any changes to the audit planning and engagement processes (see above) and will be in accordance with best practice. | Ongoing     | Head of Audit       |

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|       | <p><i>deficiencies in internal control have been identified, we have been assured that these have been or will be resolved in an appropriate manner and we will continue to monitor such cases”.</i></p> <p>Whilst this reflects a position it could be better structured to meet the requirements of the PSIAS as it:</p> <p><i>‘must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board’.</i></p> |                |         |                     |             |                     |

| Recommendation grading | Explanation  |
|------------------------|--|
| Enhance                | The internal audit managed service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control. |
| Review                 | The Internal audit division should review its approach in this area to better reflect the application of the PSIAS.  |
| Consider               | The internal audit division should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services   |