

Audit Committee

1 July 2022

Annual Review of the System of Internal Audit 2021/2022



Report of Paul Darby, Corporate Director of Resources

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To present to members the annual review of the system of Internal Audit for consideration and comment.

Executive Summary

- 2 This report sets out the outcome of the annual review of the effectiveness of the internal audit service. In undertaking the review, a number of key elements were assessed in order to inform a judgement over whether the service is fulfilling its responsibilities. This included:
 - (a) The structure and resourcing level, including qualifications and experience of the audit team;
 - (b) The extent of conformance with the Public Sector Internal Audit Standards (PSIAS);
 - (c) Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
 - (d) The overall performance of the internal audit service.
- 3 The review found that the structure and resourcing level, including qualifications and experience of the audit team are satisfactory.
- 4 In February 2022, an external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2021/22 was carried by the Chartered Institute of Public and Finance and Accountancy (CIPFA).

- 5 The opinion delivered by CIPFA's external assessment is that **'Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'**.
- 6 Further to the onset of the COVID-19 pandemic in March 2020, the emergent 2021/22 Internal Audit Plan was provided to the Audit Committee in February 2021 and 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 Committee.
- 7 It was based on reasonable estimates of available resources and incorporated management requests and referrals and it was acknowledged that the Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. The final Internal Audit Plan for 2021/22 was presented to Audit Committee for review and approval on 30 June 2021.
- 8 Performance Management of the Section 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 Section is the completion of the Internal Audit Plan within the year.
- 9 Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter and allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review. Performance is monitored throughout the year and there are no significant issues that would demonstrate the Service was not effective. Whilst productivity remained high, remote working during the pandemic when combined with additional testing of core financial systems data related to COVID payments had the effect of reducing the overall number of individual audits delivered than would normally be expected. Furthermore, as a result of resourcing issues within the team, it was necessary to reprioritise activities to be delivered within the 2021/22 plan, though importantly this did not require the Chief Internal Auditor and Corporate Fraud Manager to provide any formal Limitation on the Opinion to be provided.

- 10 The service continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives.
- 11 The service has delivered a reasonable plan of work for the year, particularly when the considerable impact and prolonged nature of the COVID-19 pandemic is taken into account and it is considered that it has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

Recommendation

- 12 Members are asked to:
 - (a) Note the findings and conclusions of the 2021/22 review of the effectiveness of the system of Internal Audit contained within this report.

Background

- 13 The Accounts and Audit Regulations 2015 Regulation 3 states that –
- ‘A relevant authority must ensure that it has a sound system of internal control which –*
- (a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
 - (b) Ensures that the financial and operational management of the authority is effective; and*
 - (c) Includes effective arrangements for the management of risk.’*
- 14 The Accounts and Audit Regulations 2015 Regulation 6 states that –
- ‘A relevant authority must, each financial year conduct a review of the effectiveness of the system of internal control as required by Regulation 3’.*
- 15 Internal Audit is defined as the means by which the Council assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance process are evaluated and reported in the Annual Governance Statement.
- 16 To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those charged with governance.

Detailed Review

- 17 A dedicated Internal Audit Service forms part of the system of Internal Audit in the Council. The Service is part of the Resources Service Grouping. It is led by the Chief Internal Auditor and Corporate Fraud Manager. It has strong links with the Risk, Insurance Claims and Corporate Fraud areas and works closely with others across the Council tasked with governance, assurance and risk management. Whilst part of a wider service, it retains its own identity as Internal Audit for the Council.
- 18 The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director of Resources but also has direct access to the Chief Executive and the members of the Audit Committee.
- 19 At the start of 2021/22 the team comprised of 17 approved posts (16.35FTE) plus the Interim Chief Internal Auditor and Corporate Fraud

Manager. This team delivered work for the Council as well as work for external clients including the Pension Fund, Durham Constabulary, County Durham and Darlington Fire and Rescue Authority, Peterlee Town Council, Spennymoor Town Council, Horden Parish Council, Shotton Parish Council, Monk Hesleden Parish Council and Trimdon Parish Council.

- 20 During the year one Senior Auditor was seconded to Accountancy Services and one part time Senior Auditor agreed to work additional hours during 2021/22 to support the delivery of the Internal Audit Plan.
- 21 In September 2021 one Internal Audit Apprentice was appointed and in February 2022 a part time Senior Auditor was recruited via an agency to provide temporary support the service in the delivery of the Internal Audit Plan.
- 22 With effect from 1 February 2022, a new permanent Chief Internal Auditor and Corporate Fraud Manager was appointed, and the Interim Chief Internal Auditor and Corporate Fraud Manager reverted back to his substantive Audit Manager post until he retired at the end of the 2021/22 Internal Audit year.
- 23 The Vision and Strategy for Internal Audit is described in the Annual Internal Audit Plan and Strategy, the Internal Audit Service Terms of Reference (TOR) within the Internal Audit Charter and it outlines the status of the Section in context with the organisation and defines the principles of how the service operates. The TOR provides appropriate arrangements to ensure that the Service is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The requirements of the Public Sector Internal Audit Standards (PSIAS) are reflected in the Internal Audit Charter.
- 24 Arrangements for investigation work are defined in the Council's policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and these are reported to Corporate Management Team and the Audit Committee in the Protecting the Public Purse update reports. The Council's Corporate Fraud Team conduct this work.

Resourcing, Qualifications and Experience

- 25 Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; 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 Clients, Service Grouping Management Teams, Corporate Management Team and to the Audit Committee.

- 26 The structure of the service reflects the configuration of the Council at Corporate Director level and allows for close client liaison during the year. It is the intention that auditors continue to develop knowledge and client relationships. Where possible auditors will continue to work with similar service groupings to that of 2021/22 in order to offer an element of continuity for clients with whom we have built constructive relationships. We consider this approach continues to be successful in building a better understanding of the Council and its business needs and objectives and the service continues to receive positive feedback from management on this approach. There has been a need for employee rotation for development purposes and to maintain objectivity, this is continually reviewed.
- 27 The service enables the objectives of Internal Audit to be more clearly articulated through the service planning process and is demonstrated in service plans. Key priorities, options for development and service delivery, service objectives assessments of performance and workforce plans are encapsulated in the annual Internal Audit Plan.
- 28 The training and development within the division encourages development 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).
- 29 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.
- 30 The following information about qualifications and experience of employees available for audit work as at 31 March 2022 demonstrates the experience and qualification mix.

Experience 2021/22

Auditing Experience	No	%	Public Sector Auditing	%
Up to 1 Year	1	5.6	1	5.6
1 to 5 Years	0	0	0	0

Auditing Experience	No	%	Public Sector Auditing	%
5 to 10 Years	0	0	0	0
Over 10 Years	17	94.4	17	94.4
Total Employees	18	100	18	100

Qualifications

Accountants (CCAB)	6
Institute of Internal Auditors	1
Institute of Internal Auditors – Training	1
Certified Information System Auditor	1
Association of Accounting Technicians	8
Association of Accounting Technicians – Training	1
Total	18

31 The level of experience of audit employees and skills level available remained high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.

32 At 31 March 2022 the Service had two vacant posts.

Conformance with UK Public Sector Internal Audit Standards (PSIAS)

33 In February 2022, an external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2021/22 was carried by the Chartered Institute of Public and Finance and Accountancy (CIPFA).

34 The opinion delivered by CIPFA's external assessment is that '**Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note**'.

35 Within the assessment report, some improvement opportunities have been identified and an action plan has been developed to address these. The outcome of this assessment is attached as Appendix 2.

36 The service must be externally assessed once every five years, with the next external review being due in the Internal Audit Year 2026/27.

37 All employees comply with the 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 enough 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.

- 38 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.
- 39 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

- 40 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. 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.
- 41 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 and are linked to the Council's overall objectives.
- 42 It is considered that the 2021/22 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 Committee. It was based on reasonable estimates of available resources and with management requests and referrals. An emergent Internal Audit Plan was provided to the Audit Committee in February 2021 and the final internal Audit Plan for 2021/22 was presented to Audit Committee on 30 June 2021.

Performance Measures

- 43 Performance Management of the Section 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 Section is the completion of the Internal Audit Plan within the year.

- 44 Delivery of the audit plan 2021/22 was impacted in year by the COVID-19 pandemic. Whilst productivity across the Service remained high with 91% of productive days recorded, remote working during the pandemic when combined with the additional testing of COVID related payments had the effect of reducing the overall number of individual audits delivered than would normally be expected to approximately 67% of those planned. Importantly in adopting an approach that prioritised both assurance work and advisory work that supports the annual opinion, and by focusing coverage to key activities, and in utilising other sources of assurance, this did not require the Chief Internal Auditor and Corporate Fraud Manager to provide any formal Limitation on the Opinion to be delivered. Work deferred following review of the audit plan has been agreed at the Audit Committee throughout the year.
- 45 Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter and are used for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.
- 46 Key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2022
Planned audits completed	% of plan achieved.	90%	91%
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure	90%	95% (54 out of 57)
Timeliness of Final Reports	% of final reports issued within 10 working days of receipt of management response	95%	100% (53 out of 53)
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	100%
Post Audit Customer Surveys	% of customers scoring at least 3 out of 5	100%	100%
Customers providing feedback responses	% of customers returning satisfaction returns	70%	85%

- 47 There continues to be a positive response to customer satisfaction returns and positive feedback on a number of specific assignments, which is reflected in the customer satisfaction questionnaires.
- 48 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. This has been consistent with previous years with all reports being issued within set timescales.
- 49 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

- 50 The process for monitoring implementation of recommendations continues to build on improvements last year and there are good levels of engagement from all services across the Council. 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.
- 51 Internal Audit continues to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to the Corporate Management Team/Senior Officer Group. This process has ensured that time is targeted on key issues and that appropriate support and advice is offered at the right time.
- 52 The Audit Committee are provided with regular updates from the Section during the year and have the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is felt of be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2021/22.

Audit Committee

- 53 The system of Internal Audit includes the role of the Audit 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.
- 54 Further to the Local Government elections, new Audit Committee Members were elected in May 2021. As part of the Member induction, Members received comprehensive training on the role of Audit Committee members in June 2021 and they also received Risk Management training in July 2021. The arrangements for the Audit

Committee remained the same during 2021/22. A review of the effectiveness of Audit Committee will be carried out in 2022

- 55 Audit Committee request reports from management in response to issues raised in within Internal Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

Summary and Key Priorities

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

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Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Completion of the review of the effectiveness of internal audit ensures compliance with both the Public Sector Internal Audit Standards 2017 and the Accounts and Audit Regulations 2015

Furthermore, Internal Audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

All Corporate Directors and Heads of Service.

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no climate change implications as a result of this report.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

The report presents the internal audit services 17.35 FTE (18 posts) and the relevant experience within the service.

Accommodation

There are no accommodation implications as a result of this report.

Risk

The key risk is that the internal audit service is not effective. To mitigate this risk, a defined process exists within the Service to carry out effective performance management and as such assurance is reflected in reports to the Audit Committee. Any issues with performance would be reported to the Audit Committee where further action would be agreed and overseen. To provide further assurance an external assessment is required every five years with the last external review being completed in 2022 which delivered a positive outcome.

Procurement

There are no procurement implications as a result of this report.



External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Durham County Council's Internal Audit Service

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Internal QA: Policy and Technical, CIPFA.

29th March 2022

1. Introduction

- 1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period. This is Durham County Council's second external quality assessment of conformance to the PSIAS that the Internal Audit Service has undergone.

2. Background

- 2.1 The Internal Audit team provides internal audit services to a portfolio of clients including Durham County Council (DCC), County Durham and Darlington Fire and Rescue Service, Durham Police and Crime Commissioner and Durham Constabulary, an FE College, an academy, a Museum, Durham County Pension Fund, and a number of town and parish councils. The Internal Audit Service is an in-house service managed by the Chief Internal Auditor and Corporate Fraud Manager (CIA). There was an interim officer at the start of the EQA, but this changed to a permanent officer during the review process. There are 17 people in the Internal Audit team and apart from the apprentice all of them are suitably experienced, with the majority team members holding relevant professional qualifications.
- 2.2 From an operational perspective, Internal Audit reports directly to the Corporate Leadership teams and the Audit Committees at their respective clients. These two bodies fulfil the roles of 'senior management' and 'the board', as defined by the Public Sector Internal Audit Standards. For the Council, the CIA reports directly to the Corporate Director Resources (the Council's Section 151 Officer) and has direct access to the Council's Chief Executive Officer, the Chair and full membership of the Audit Committee (AC). Chief Internal Auditor and Corporate Fraud Manager regularly reports on the audit plan and its delivery and the annual CIA's opinion, and outturn are made to the Audit Committee. Similar arrangements are in place for the Service's other clients.
- 2.3 Internal Audit has a comprehensive audit manual in place, and they use standard template documents for the engagement working papers and testing schedules, engagement terms of references, action plans and audit reports, all of which are held in the Service's audit management application, Galileo. This application is also used for managing the audit engagements with all staff recording time spent on the assignments in the application. Supervision of the engagements is undertaken at every stage of the audit process and is recorded in the Galileo application.
- 2.4 Internal Audit has a quality assurance process in place that feeds into its Quality Assurance and Improvement Programme (QAIP). There are five main elements to this process. The first element is a review of the engagement by the supervising officer to ensure the audit has been performed properly and conforms to the PSIAS. The second is a post audit evaluation completed by the auditor and the supervising officer to ascertain whether there are any lessons to be learnt for future reviews or for the development of the auditor. The third element is a quality review of a sample of completed audits by the audit managers which is undertaken on a quarterly basis. The fourth element involves obtaining feedback from the Service's clients, usually obtained by the use of a satisfaction survey but also from attending the various departmental management team meetings. The final element is an annual self-assessment of Internal Audit's overall conformity with the PSIAS and the five yearly external quality assessment. All the above processes are used to inform Internal Audit's QAIP.

3. Validation Process

- 3.1 The self-assessment validation comprises a combination of a review of the evidence provided by Durham County Council's Internal Audit Service; a review of a sample of completed internal audits covering the Service's main clients; questionnaires that were sent to and completed by a range of stakeholders from the Service's clients; and a series of (virtual) interviews using MS Teams with key stakeholders, again covering all of Internal Audit's main clients. The questionnaire and interviews focussed on determining the strengths and weaknesses of Internal Audit and assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.
- 3.2 Internal Audit provided a comprehensive range of documents that they used as evidence to support their self-assessment, and these were available for examination prior to and during this validation review. These documents included the:
- self-assessment against the standards;
 - quality assurance and improvement plan (QAIP);
 - evidence file to support the self-assessment;
 - the audit charter;
 - the annual reports and opinions for the main clients;
 - the audit plans and strategies for the main clients;
 - audit procedures manual;
 - a range of documents and records relating to the team members; and
 - progress and other reports to the respective Audit Committees.

All the above documents were examined during the EQA.

- 3.3 The validation process was carried out during February 2022 and involved interviews with the key personnel from Internal Audit plus a sample of key stakeholders from Internal Audit's customer base, made up of members of the senior management teams and chairs of Audit Committees. Overall, the feedback from the interviewees was positive with clients valuing the professional and objective way Internal Audit delivered services.
- 3.4 A questionnaire was sent to a range of other key stakeholders and the results analysed during the review. A summary of the survey results has been provided to the Chief Internal Auditor and Corporate Fraud Manager.
- 3.5 The assessor also carried out an end-to-end review of a sample of completed audits, covering the County Council, The Durham Police and Crime Commissioner and Constabulary and the County Durham and Darlington Fire and Rescue Service, to confirm his understanding of the audit process used by Internal Audit and embedded in their Galileo audit management system.

4. Opinion

It is our opinion that Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

The table below shows the Internal Audit Service's level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	Fully Conforms
Core principles	Fully Conforms
Code of ethics	Fully Conforms
Attribute standard 1000	Fully Conforms
Attribute standard 1100	Fully Conforms
Attribute standard 1200	Fully Conforms
Attribute standard 1300	Fully Conforms
Performance standard 2000	Fully Conforms
Performance standard 2100	Fully Conforms
Performance standard 2200	Fully Conforms
Performance standard 2300	Fully Conforms
Performance standard 2400	Fully Conforms
Performance standard 2500	Fully Conforms
Performance standard 2600	Fully Conforms

5. Areas of full conformance with the Public Sector Internal Audit Standards

5.1 Mission Statement and Definition of Internal Audit

The mission statement and definition of internal audit from the PSIAS are included in the audit charter.

5.2 Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate an internal audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance standards of the PSIAS.

The clear indication from this EQA is that the Core Principles are embedded in the Galileo audit management application and the Service's working methodologies and demonstrates that Internal Audit is a competent and professional service that conforms to all ten elements of the Core Principles.

5.3 **Code of Ethics**

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.

The clear indication from this EQA is that Internal Audit conforms to the Code of Ethics, and this is embedded in their Galileo audit management application and their audit methodologies. Conformance to the code of ethics is part of their overarching culture and underpins the way the Service operates.

5.4 **Attribute Standard 1000 – Purpose, Authority and Responsibility**

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The internal audit charter must be reviewed regularly and presented to senior management and the audit panel for approval.

The Internal Audit Service has a standard format for the audit charter used at its clients. We reviewed this document and the processes used to present it to the various Audit Committees for approval and found the audit charter to be a comprehensive and well written document that contained all the elements required by the standards. We are therefore satisfied that they conform to attribute standard 1000 and the LGAN.

5.5 **Attribute Standard 1100 – Independence and Objectivity**

Standard 1100 states that the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is an integral part of Internal Audit's culture. The Chief Internal Auditor and Corporate Fraud Manager reports in their own name and directly to senior management and the Audit Committees at the service's respective clients. All employees sign a declaration of interest each year and declare any potential impairment to their independence or objectivity. The Chief Internal Auditor and Corporate Fraud Manager has direct responsibility for the strategic and operational management for some functions that are subjected to periodic internal audits. This potential impairment to independence is disclosed in the Audit Charter and there are mechanisms in place to preserve the independence and objectivity of the Service. However, there does not appear to be any reference to potential impairments to independence and objectivity in the Chief Internal Auditor and Corporate Fraud Manager's annual report. The audit charter is a forward-looking document whereas the annual report reflects on the audit year that has just ended. On this basis, it is recognised as good practice to include a statement in the annual report to confirm that either there have not been any impairments to the Service's independence and objectivity during the year, or if there have, setting out what those impairments were and how the Service managed them.

We have reviewed the Service's audit manual, their standard documentation, quality assurance and improvement plan, their audit charters and annual reports and opinions, and a sample of completed audit files, together with their reporting lines and their positioning in the organisations they work with. We are satisfied that Durham County Council's Internal Audit Service conforms with attribute standard 1100 and the LGAN. There is one action in section nine relating to this standard. **(Paragraph 9.2).**

5.6 **Attribute Standard 1200 – Proficiency and Due Professional Care**

Attribute standard 1200 requires Durham County Council's Internal Audit Service's engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

It is evident from this EQA that Durham County Council's Internal Audit Service has a professional and experienced, workforce the majority of which hold relevant professional qualifications. The senior managers in the Service all hold relevant professional qualifications (the interim CIA holds a CCAB qualification, and the interim Audit Manager and new permanent CIA is a Chartered Internal Auditor). The second Audit Manager holds a CCAB qualification.

The Service holds a licence for the latest version of the IDEA data analytics software application which is used for some of the audits where there are large volumes of data.

The Service has a qualified specialist IT auditor in its establishment, and there are arrangements in place to obtain further specialist audit resources from external organisations as and when required.

From discussions with the Chief Internal Auditor and Corporate Fraud Manager it is evident that Internal Audit are struggling to fill some vacant posts in its structure, largely due to the dire shortage nationally of qualified and experienced internal auditors and finance professionals wanting to work in the public sector. Whilst there is no quick solution to resolving this issue other than perhaps lowering the experience criteria to see if that attracts more candidates, a longer-term solution would be to consider introducing career graded trainee or apprentice posts to Internal Audit's structure. Staff would follow one of the recognised training or apprenticeship programmes, such as the Accounting Technicians or the Institute of Internal Auditors Apprenticeship schemes, or the CIPFA graduate training programme. To assist with this process, we suggest that the Chief Internal Auditor and Corporate Fraud Manager produces a skills and competencies matrix for the career graded trainee or apprentice posts, based on the CIPFA guide "The Excellent Internal Auditor, Good Practice Guide to Skills and Competencies.

It is evident from this review that the Service's employees perform their duties with due professional care. We are satisfied that Durham County Council's Internal Audit Service complies with attribute standard 1200 and the LGAN. There is one action in section nine relating to this standard. **(Action 9.3).**

5.7 **Attribute Standard 1300 – Quality Assurance and Improvement Programmes**

This standard requires the Chief Internal Auditor and Corporate Fraud Manager to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Durham County Council's Internal Audit Service has developed a robust and effective quality assurance process that ensures engagements are performed to a high standard within the available resources. It is effective and feeds into Internal Audit's quality assurance and improvement programme. We have examined this

process during the EQA and are satisfied that Durham County Council's Internal Audit Service conforms to attribute standard 1300 and the LGAN.

5.8 **Performance Standard 2000 – Managing the Internal Audit Activity**

The remit of this standard is wide and requires the Chief Internal Auditor and Corporate Fraud Manager to manage the internal audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when internal audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Head of Audit, Anti-Fraud and Assurance must produce an audit plan for each client, and communicate this and the Service's resource requirements, including the impact of resource limitations, to senior management and the Audit Committees at each client for their review and approval. The Chief Internal Auditor and Corporate Fraud Manager must ensure that Internal Audit's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Chief Internal Auditor and Corporate Fraud Manager to establish policies and procedures to guide the internal audit activity, and to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Last, but by no means least, the standard requires the Chief Internal Auditor and Corporate Fraud Manager to report periodically to senior management and the Audit Committees on internal audits activities, purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the audit panels.

Durham County Council's Internal Audit Services has a comprehensive audit manual, supervision, and quality assurance processes in place that meet the requirements of the PSIAS. They have developed comprehensive planning processes that follow best practice by taking into consideration the client's risks, objectives and risk management, and governance frameworks; other relevant and reliable sources of assurance; any key issues identified by the client's managers; Internal Audit's own risk and audit needs assessments; and the resources that are available to undertake the audits. From this information, they produce risk-based audit plans that are designed to enhance the client's risk management and governance frameworks and control processes; and objectively provide them with relevant assurance. These audit plans are reviewed and approved by the senior management and the Audit Committees at the Service's respective clients.

Although the planning process takes into consideration the risks and objectives of each service area, the published audit plan is not currently cross referenced to them, and the audits are not currently prioritised. Cross referencing each audit in the audit plan to the client's objectives and risks would provide the reader with a clearer picture of how Internal Audit's work fits into the organisation's governance framework and prioritising them would highlight the importance of each planned audit.

Details of the completed audits and the risk and control issues found, together with the progress being made on delivering the audit plans and the performance of Internal Audit, is regularly reported to the respective Audit Committees, with an annual report and opinion for each client being issued at the end of the year.

The clear indication from this EQA is that Durham County Council's Internal Audit Service is effectively managed and conforms to standard 2000 and the LGAN. There is one action in section nine relating to this standard. **(Paragraph 9.4).**

5.9 **Performance Standard 2100 – Nature of Work**

Standard 2100 covers the way the internal audit activity evaluates and contributes to the improvement of the organisation's risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

This is the approach adopted by Durham County Council's Internal Audit Services and is set out in their audit manual, the Galileo audit management system, and their working methodologies. During this EQA, we selected a sample of completed audit engagements from the Service's main clients and examined them to see if they conformed to standard 2100 and the Service's own methodologies. We found that the sample audits complied with both.

Internal audit's credibility and value is enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact on the organisation. Overall Internal Audit's clients value the work the Service does in this area and often turn to them for advice and guidance when faced with emerging risks or are developing or changing systems. The key projects that Internal Audit have assisted with are set out in the Chief Internal Auditor and Corporate Fraud Manager's annual report.

The clear indication from this EQA is that Durham County Council's Internal Audit Service conforms to performance standard 2100 and the LGAN.

5.10 **Performance Standard 2200 – Engagement Planning**

Performance standard 2200 requires internal auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

As mentioned above, Durham County Council's Internal Audit Service has an audit manual, supervision and quality assurance processes in place that cover engagement planning in detail and meet the requirements of the PSIAS. During this EQA, we selected a sample of completed audit engagements, and examined them to see if they conformed to standard 2200. We found that they all conformed to the standards and the Service's own audit procedures, and therefore we conclude that Durham County Council's Internal Audit Service conforms to performance standard 2200 and the LGAN.

5.11 **Performance Standard 2300 – Performing the Engagement**

Performance standard 2300 seeks to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

Durham County Council's Internal Audit Service's audit manual, methodologies, supervision and quality assurance processes all fulfil the requirements of the standards and our examination of a sample of completed audit engagements confirmed that the Service adopts a consistent approach to the way audits are undertaken and managed, with all of the audits conforming to the standards and the Service's own procedures., We therefore conclude that Durham County Council's Internal Audit Service conforms to performance standard 2300 and the LGAN.

5.12 **Performance Standard 2400 – Communicating Results**

This standard requires internal auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the

expectations of their senior management, the audit panels and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".

The communication of results is covered in detail in the Service's procedures and meet the requirements of the PSIAS. We selected a sample of completed audit engagements and found that they all conformed to the standards and the Service's own procedures. As the service is conforming to the standards, and has done for a number of years, we feel the Service could consider adding a statement to the audit reports to confirm that the audit has been carried out in accordance with the requirements of the PSIAS. Such a statement is already included in the Chief Internal Auditor and Corporate Fraud Manager's annual report and opinion.

We have also reviewed the progress and annual reports to the Audit Committees and found that overall, these also conformed to the standards and Internal Audit's own internal procedures, although we feel there is scope to enhance the Chief Internal Auditor and Corporate Fraud Manager's annual report in two ways. The first relates to the reporting of the independence and objectivity of the service and this has been covered in more detail in standard 1110 at paragraph 5.2 above.

Our second observation relates to the annual opinion. Although the annual report makes reference to the scope of Internal Audit's work covering the organisations control environment, risk management and governance arrangements, the annual opinion only makes reference to the control environment and does not specifically mention the risk management and governance arrangements. It is recognised as good practice to expand the wording of the annual opinion to include these two elements and as such we suggest the Chief Internal Auditor and Corporate Fraud Manager considers this for future annual reports.

We therefore conclude that Durham County Council's Internal Audit Service conforms to performance standard 2400. There are three actions in section nine relating to this standard. **(Paragraphs 9.2 and 9.5).**

5.13 **Performance Standard 2500 – Monitoring Progress**

There is a comprehensive follow-up process in place which monitors the client's progress towards the implementation of agreed actions. The results of follow-up reviews are reported to the respective Audit Committees. From this EQA, it is evident that Durham County Council's Internal Audit Service conforms to performance standard 2500 and the LGAN.

5.14 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the Interim Business Assurance Manager has concluded that a client's management has accepted a level of risk that may be unacceptable to the organisation. Situations of this kind are expected to be rare, consequently, we did not see any during this EQA. From this external quality assessment, it is evident that Durham County Council's Internal Audit Service conforms to performance standard 2600 and the LGAN.

6. Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

6.1 There are no areas of partial conformance with the Public Sector Internal Audit Standards.

7. Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

- 7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards.

8. Survey results

- 8.1 Overall, the results of the survey of key stakeholders from Internal Audits clients were positive with respondents valuing the services provided by Internal Audit. The overall number of negative responses were low ranging from zero to a maximum of three on any given question. We have shared the summary report from the survey with the Chief Internal Auditor and Corporate Fraud Manager as they may wish to explore some of the responses in further detail to understand if there are any underlying issues that may need to be addressed.

9. Issues for management action

- 9.1 We have assessed Durham County Council's Internal Audit Service as conforming to the PSIAS and the LGAN, however we feel there are a few minor enhancements the Service could make to their documentation. We have therefore made the following suggestions that management should consider addressing.
- 9.2 The audit charter makes reference to the other management and operational responsibilities of the Chief Internal Auditor and Corporate Fraud Manager that may be subjected to periodic internal audits and sets out the mechanism that will be used to ensure the independence and objectivity is maintained. The audit charter is however a forward-looking document whereas the annual report reflects on the audit year that has just ended. On this basis, it is now recognised as good practice to include a statement in the annual report to confirm that there have not been any impairments to the Service's independence and objectivity, or if there have, setting out what those impairments were and how the Service managed them. We suggest that the Chief Internal Auditor and Corporate Fraud Manager considers including such a statement in the next annual report and opinion.
- 9.3 Internal Audit is, like much of the public sector, experiencing problems recruiting suitably experienced and qualified staff to fill vacant posts. Whilst there is no quick solution to resolving this issue, a longer-term solution is to consider introducing career graded trainee or apprentice posts to Internal Audit's structure. Staff would follow one of the recognised training or apprenticeship programmes, such as the Accounting Technician's or the Institute of Internal Auditors' Apprenticeship schemes, or the CIPFA graduate training programme. To assist with this process, we suggest producing a skills and competencies matrix for the career graded posts, based on the CIPFA guide "The Excellent Internal Auditor, Good Practice Guide to Skills and Competencies.
- 9.4 To provide greater clarity and demonstrate the link between the internal audit plan and the organisation's risks and objectives, the Chief Internal Auditor and Corporate Fraud Manager should consider cross referencing the individual audits in the published audit plans to the respective strategic and/or operational risks, and organisation's objectives for each client. To demonstrate the importance of each audit in the plan, the Chief Internal Auditor and Corporate Fraud Manager should also consider assigning a priority to each of them.
- 9.5 Although the annual report makes reference to the scope of Internal Audit's work covering the organisations control environment, risk management and governance arrangements, the annual opinion only makes reference to the control environment and does not specifically mention the risk management and governance arrangements. It is recognised as good practice to expand the wording of the annual opinion to include these two elements and as such we suggest the Chief Internal Auditor and Corporate Fraud Manager considers this for future annual reports.

10. Definitions

Opinion	Definition
Fully Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Action Priorities	Criteria
High priority	The internal audit service needs to rectify a significant issue of non-conformance with the standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The internal audit service needs to rectify a moderate issue of conformance with the standards. Remedial action to resolve the issue should be taken, ideally within six months or as soon as practicably possible.
Low priority	The internal audit service should consider rectifying a minor issue of conformance with the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	These are issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

The co-operation of the Chief Internal Auditor and Corporate Fraud Manager, the Audit Managers, and other members of the Internal Audit Service in providing the information requested for this EQA, is greatly appreciated. Our thanks also go to the chairs of Audit Committees and the key stakeholders that made themselves available for interview during the EQA process and/or completed questionnaires.

Ray Gard, CPFA, FCCA, FCIIA, DMS

21st March 2022

This report has been prepared by CIPFA at the request of the Durham County Council's Internal Audit Service's Chief Internal Auditor and Corporate Fraud Manager, the terms for the preparation and scope of the report have been agreed with him. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues that exist with their conformance to the Public Sector Internal Audit Standards that exist, or of all the improvements that may be required.

The report was prepared solely for the use and benefit of the Durham County Council's Internal Audit Service, including the senior management and boards of Durham County Council's Internal Audit Service's clients, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any other third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Management action plan

1. Statement on impairments to independence in the annual report (Advisory)	
Rationale	Agreed Action
<p>The audit charter makes reference to the other management and operational responsibilities of the Chief Internal Auditor and Corporate Fraud Manager that may be subjected to periodic internal audits and sets out the mechanism that will be used to ensure the independence and objectivity is maintained. The audit charter is however a forward-looking document whereas the annual report reflects on the audit year that has just ended. On this basis, it is now recognised as good practice to include a statement in the annual report to confirm that there have not been any impairments to the Service's independence and objectivity, or if there have, setting out what those impairments were and how the Service managed them. We suggest that the Chief Internal Auditor and Corporate Fraud Manager considers including such a statement in the next annual report and opinion.</p>	<p>We agree to implement this good practice area of improvement and will include a statement within all client 21/22 Annual Internal Audit Reports to confirm that either there have not been any impairments to the Service's independence and objectivity during the year, or if there have, setting out what those impairments were and how the Service managed them.</p>
Action Responsibility	Tracy Henderson, Chief Internal Auditor and Corporate Fraud Manager
Deadline	30 June 2022

2. Consider introducing career grade posts to help with recruitment (Advisory)	
Rationale	Agreed Action
Internal Audit is, like much of the public sector, experiencing problems recruiting suitably experienced and qualified staff to fill vacant posts. Whilst there is no quick solution to resolving this issue, a longer-term solution is to consider introducing career graded trainee or apprentice posts to Internal Audit's structure. Staff would follow one of the recognised training or apprenticeship programmes, such as the Accounting Technician's or the Institute of Internal Auditors' Apprenticeship schemes, or the CIPFA graduate training programme. To assist with this process, we suggest producing a skills and competencies matrix for the career graded posts, based on the CIPFA guide "The Excellent Internal Auditor, Good Practice Guide to Skills and Competencies.	<p>We commenced a programme of apprenticeship posts into the service structure 3 years ago and we currently have one Internal Audit apprentice in post.</p> <p>We are already in the process of developing a Workforce Plan for the Service, which includes considering introducing career graded posts. In the event of career graded posts being introduced, we will implement this best practice area of improvement and produce a skills and competencies matrix based on the CIPFA guide "The Excellent Internal Auditor, Good Practice Guide to Skills and Competencies</p>
Action Responsibility	Tracy Henderson, Chief Internal Auditor and Corporate Fraud Manager
Deadline	31 December 2022

3. Provide more information on the published internal audit plan (Advisory)	
Rationale	Agreed Action
To provide greater clarity and demonstrate the link between the internal audit plan and the organisation's risks and objectives, the Chief Internal Auditor and Corporate Fraud Manager should consider cross referencing the individual audits in the published audit plans to the respective strategic and/or operational risks, and organisation's objectives for each client. To demonstrate the importance of each audit in the plan, the Chief Internal Auditor and Corporate Fraud Manager should also consider assigning a priority to each of them.	We will consider this advisory action in the medium term as part of our ongoing service improvement programme.
Action Responsibility	Tracy Henderson, Chief Internal Auditor and Corporate Fraud Manager
Deadline	31 March 2023

4. Include risk management and governance in the annual audit opinion (Medium priority)	
Rationale	Agreed Action
<p>Although the annual report makes reference to the scope of Internal Audit's work covering the organisations control environment, risk management and governance arrangements, the annual opinion only makes reference to the control environment and does not specifically mention the risk management and governance arrangements. It is recognised as good practice to expand the wording of the annual opinion to include these two elements and as such we suggest the Chief Internal Auditor and Corporate Fraud Manager considers this for future annual reports</p>	<p>We agree to implement this area of improvement and will include additional narrative within all client 21/22 Annual Internal Audit Reports to reflect the risk management and governance arrangements.</p>
Action Responsibility	Tracy Henderson, Chief Internal Auditor and Corporate Fraud Manager
Deadline	30 June 2022