

---

## **Audit and Standards Committee – 23rd June 2021**

### **Report of the Director of Finance and Legal**

### **Audit Services Annual Performance Report 2020-21**

#### **Purpose of the Report**

1. To give Members an overview of the performance of Audit Services for the period 1<sup>st</sup> July 2020 to 31<sup>st</sup> March 2021.

#### **Recommendations**

2. The Committee accept this report on the performance of Audit Services during 2020-21.
3. The Committee requests Members to complete the questionnaire included at **Appendix E** and forward to the Head of Audit Services.
4. The Committee note and comment on the self - assessments included at **Appendices F and G**.
5. The Committee note and comment on progress on addressing the recommendations made in the External Quality Assessment on Audit Services at **Appendix H**.

#### **Background**

##### Impact of Covid-19

6. Following lockdown in March 2020 internal audit work was suspended whilst the Council was dealing with the consequences of the pandemic. Also, staff were

required to support the Council in its efforts to provide Covid-19 related services to Borough residents and businesses.

7. Three members of Audit Services were seconded to assist with Business Grants administration. They helped devise processes and carried out pre-payment checks. Other members of the Team were required to provide telephone support to vulnerable people in the Borough.
8. Although it was initially thought that Audit Services normal work could reconvene fully from the 1<sup>st</sup> Jul 2020 (and a revised Audit Plan was produced on this basis) there have been further calls on audit resources including support to a complex HR investigation.
9. The Council's response to Covid-19 has had consequences in terms of performance both on delivering the Audit Plan and in management responses to audits.
10. It is pleasing to report that the Head of Audit Services has received a number of compliments from Council Managers, residents and Borough businesses on the work delivered by Audit Services staff.

#### Independence

11. The Public Sector Internal Audit Standards require that Audit Services (Internal Audit) is independent and this is achieved by the Head of Audit Services' reporting to the Audit and Standards Committee and having free and unfettered access to the Chief Executive and the Chair of the Audit and Standards Committee.
12. The Head of Audit Services is not aware of any issues that have impinged on the independence of Audit Services during 2020-21 or interference in determining the scope of internal auditing, performing work and communicating results.

#### Performance Management

13. Audit Services completed 92% of the audit plan as at 31<sup>st</sup> March 2021 (compared with 96% in 2019/20). The work outstanding at the year-end has now been completed.
14. Audit Services reviewed 34 areas of activity, which are summarised in **Appendix A**. Cancelled/Changed audits and audits completed during 2020-21 that were not in the original audit plan are shown in **Appendix B**. In addition to this, Audit Services carried out:
  - 3 Honorary audits (8 sets of individual accounts),
  - 50 School Financial Value Standard assessment reviews,
  - Work on 1 Multi - Academy Trust audit.

15. The audit work carried out resulted in 321 Actions being raised. Of these, 2 were classified as “Critical” priority, 81 as “High” priority, 172 as “Medium” priority, and 66 as “Advisory”. There were also 40 actions that were unimplemented from the previous review. Please see **Appendix C**. The following assurance ratings were given for council audits:

<b>Council Directorates</b>	
<b>Assurance Rating</b>	<b>Percentage Achieved (%)</b>
Substantial	0
Reasonable	50
Limited	36
Minimal	14

16. Audit Services have a target of nine weeks to produce and issue the draft report from the start date of the audit. During 2020-21 (as at 31<sup>st</sup> March 2021), Audit Services achieved 67% (96% in 2019/20) against a target of 90%. Council Managers have been under a lot of pressure with additional work created by the Covid-19 pandemic and as a result have not been able to supply the documents and explanations required on a timely basis. This has caused audits to take longer to complete.
17. Managers are required to provide an initial response within four weeks of the date of the draft report. This is to encourage Managers to liaise with Audit Services on a more-timely basis. 73% of Managers (as at 31<sup>st</sup> March 2021) provided an initial response within four weeks (100% during 2019/20).
18. Audit Services currently have a target of issuing the final audit report within six weeks of the date of the draft report. This target requires the support and co-operation of Directors. During 2020-21 (as at 31<sup>st</sup> March 2021), 63% of final reports were issued within six weeks of the date of the draft report. This compares with 88% during 2019/20.
19. The deterioration in performance for the receipt of management responses and the issue of the final audit reports is due in the main to the additional work created by the Covid-19 pandemic.

### Fraud

20. The Annual Fraud Report details what work has been completed in line with the Fraud Action Plan on prevention, detection, investigation and resolution. This was presented to the April 2021 meeting of Audit and Standards Committee. As mentioned above, far less resources were able to be spent on fraud related work during this financial year and the majority of the time was spent on fraud investigations.

## Governance

21. Audit Services updated the Code of Corporate Governance, with support from Council Managers, which was then discussed at Strategic Executive Board and approved by Audit and Standards Committee in August 2020.
22. Audit Services made further improvements to the Annual Governance Statement, which was discussed at Strategic Executive Board on two occasions and was approved by Audit and Standards Committee in September 2020.
23. Audit Services staff have supported council Managers during the year with advice on internal controls, systems, IT security, and compliance with Financial Regulations. Members of the team also attended a number of corporate and external groups.

## Risk Management

24. Following an internal audit report on Corporate Risk Management, a decision was made by Strategic Executive Board to transfer responsibility for risk management to Audit Services with effect from the 1<sup>st</sup> September 2020. Since this decision was made, Audit Services have produced a new Risk Management Framework, which was approved by Audit and Standards Committee in April 2021 and made significant changes to the risk management ICT System (Spectrum).
25. Audit Services are currently rolling out the new Framework to Council directorates.
26. This new Risk Management Framework will improve the effectiveness of the Council's risk management procedures and help to improve internal audit planning.
27. Due to the dynamic nature of risk management, the key risks recorded on the Corporate Risk Register may change during the year, but as at 31<sup>st</sup> March 2021, the Council had the following "Major" corporate risks:
  - There is a risk that various changes to welfare and benefits systems could place people at risk and increase pressures on statutory services.
  - Failure to have in place effective arrangements for managing health and safety leading to risks to Council staff, service users and visitors to Council premises
  - Risk of failure to protect adults in positions of vulnerability due to increasing demand, changing patterns of abuse (e.g. exploitation) and reducing resources
  - Risk of failure to protect children in positions of vulnerability, due to increasing demand, changing patterns of abuse (e.g. exploitation) and reducing resources.



- Risk of insufficient funding streams or failure to successfully bid for funds due to capacity and experience within the Team which could result in restrictions in regeneration activity.
- Failure to adhere to the Equality Act 2010 and Public Sector Equality Duty could result in reputational and legal consequences which could impact on recruitment and retention.
- Failure to effectively implement the Local Outbreak Management plan will result in a rising infection rate, greater economic distress and increased deaths.
- Failure to embed carbon reduction in all aspects of the Council's operation will result in the inability to achieve the carbon neutral aspiration by 2041.

#### Follow Up of Previous Actions

28. It was previously resolved by this Committee, that Audit Services would follow up audit reports which had an overall assurance rating of "Minimal" or "Requires Improvement"/ "Inadequate" within six months of the date the final report was issued and the results would be presented to this Committee. This was to enable the Committee to assess management action, in appropriate cases on a more-timely basis. During the year the following "Minimal" and "Requires Improvement"/ "Inadequate" assurance reports were issued or followed up:

<b>Audit</b>	<b>Original Rating</b>	<b>First Follow Up Rating</b>	<b>Second Follow Up Rating</b>	<b>Follow Up Date</b>
Information@Work Systems Review	Minimal	Minimal	Minimal	<b>NB1</b>
M3 Public Protection Systems Review	Minimal	Minimal	N/A	<b>NB1</b>
Property Income	Minimal	Minimal	Limited	N/A
Digital Platform Programme	Minimal	Minimal	N/A	Audit Plan 2021-22
Housing Maintenance Systems	Minimal	Limited	N/A	N/A
Transport Team	Minimal	Minimal	N/A	Audit Plan 2021-22
Redhall Primary School	Requires Improvement	Good	N/A	N/A
Old Park School	Requires Improvement	Excellent	N/A	N/A
Maidensbridge School	Inadequate	Excellent	N/A	N/A

Children in Care Commissioning, Placement and Payment Processes	Minimal	N/A		October 2021
Revenues and Benefits Systems Review	Minimal	N/A		September 2021

**NB1** –The timing of further follow up audits is subject to changes being made by system suppliers.

29. In addition to the follow up of “Minimal” and “Requires Improvement”/ “Inadequate” assurance audit reports, Audit Services also follows up all “High” priority Actions approximately six months after the issue of the final audit report. During the period up to the 31<sup>st</sup> March 2021, Audit Services undertook 19 separate reviews and followed up 81 “High” priority Actions. The number of follow up reviews is less than normal as they did not commence until September 2020 due to Covid-19. Further detail on these will be included in the annual reports.

#### Budget

30. The cost of providing Audit Services during 2020/21 was approximately £420K (excluding overhead recharges) which was an overspend of approximately £7,000. It should be noted that Audit Services spent over 25% of the year supporting the Council in dealing with the pandemic and this time has not been recharged. The overspend was caused by not achieving the income target which was partially offset by not appointing to a Principal Auditor vacancy.

#### Customer Feedback

31. To obtain feedback about the quality of work, post-audit questionnaires are issued to customers after most audits. They are asked to respond to questions relating to the various stages of the audit process and also to provide an overall rating. Of the 11 questionnaires returned, 9 indicated that they had received either a “Very Good” or “Good” service and “2” stated they had received a “Satisfactory” service. Where a “Satisfactory” questionnaire is received, further contact is made with the service manager.
32. Audit Services also received 20 compliments during 2020/21 and no complaints.

#### Quality Assurance and Improvement Programme

33. From the 1<sup>st</sup> April 2013, CIPFA endorsed the new Public Sector Internal Audit Standards (PSIAS) which are based on the international standards for the professional practice of internal auditing, but provide additional requirements and interpretations for UK public sector bodies.

34. The Head of Audit Services' maintains a quality assurance and improvement programme that covers all aspects of internal audit activity and includes both internal and external assessments. Internal assessments would include the following:
- The Head of Audit Services' would review all planning documentation and audit terms of reference (except for Schools) prior to them being issued. For Schools, a methodology is agreed in advance of the annual audit plan commencing to determine which areas are to be considered,
  - All internal audit work is reviewed by a more senior officer,
  - The Head of Audit Services' reviews all draft reports and agrees all final reports before they are issued,
  - Post audit questionnaires are returned to the Head of Audit Services for review,
  - The Head of Audit Services' undertakes the detail review of a number of audit files each year,
  - The Head of Audit Services' monitors the quality reports generated from the audit electronic system,
  - The Head of Audit Services' monitors the time spent on audits and the timeliness of audits being completed and ensures key performance indicators are being achieved,
  - The Head of Audit Services' meets with Directors and Heads of Service on a regular basis and views on the internal audit service are obtained,
  - Benchmarking of procedures and activities are undertaken with other council internal audit teams on a regular basis,
  - Internal Audit Plans and Corporate Risk Registers are compared with similar organisations,
  - An Action Plan detailing all improvement and quality activity is maintained,
  - The Head of Audit Services' monitors the internal audit press/media to understand developments in the profession.
  - Training is delivered in accordance with the agreed training priorities, which would include any training identified to assist in delivering the current year's plan.
35. The internal quality assurance programme has not identified any significant non-conformances with the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics. Regular discussions are held in Management and Team meetings on procedures and issues that have been identified.
36. Public Sector internal audit functions are required to have an external assessment to confirm compliance with the public sector internal audit standards every five years. The last assessment was undertaken by Business Risk Solutions (external assessor) in February 2020.
37. The external assessor concluded that "Dudley MBC Internal Audit Division is delivering a service to a standard that meets the Public Sector Internal Audit



Standards”. The assessment was delivered over 3 categories and Audit Services achieved the top rating in 2 of the categories. Benchmarking included within the report also indicated that Dudley Audit Services compared well with both public and private sector providers.

Area	Opinion
Resources	Excelling
Competency	Excelling
Delivery	Established

38. The Head of Audit Services has undertaken an assessment against the recommendations made in the External Quality Assessment, which is included at **Appendix H**. The areas that are still “In Progress” relate to updating the Council’s Risk Management Framework and embedding it within the Council.

#### Audit and Standards Committee

39. CIPFA have published guidance on Audit Committees (Audit Committees – Practical Guidance for Local Authorities and Police 2018 Edition). This guidance contains documents to self-assess whether the Audit Committee is complying with good practice and whether the Audit Committee is effective. It also contains a position statement on the role of the Audit Committee (**Appendix D**). The Head of Audit Services has now carried out another self-assessment against these documents and they are attached at **Appendices F and G**. The main issues identified by the self-assessments are as follows:

- The Audit and Standards Committee produced an Annual Report for the first time during the 2020-21 municipal year. Further work can be carried out going forward to obtain the views of those who interact with the Committee or who the Committee report to.
- Audit and Standards Committee does not receive any reports comparing the risk management procedures and particularly the information submitted to Audit and Standards Committee with those of similar sized councils. The Head of Audit Services will undertake some work on this during this municipal year and report back to Committee.
- The Council does not currently identify in its risk management reports all sources of significant assurance, whether internal or external, so that gaps in assurance can be identified. The new Risk Management Framework, once embedded should allow this to be undertaken.

40. CIPFA also suggests Members should evaluate their skills and knowledge on a regular basis and have developed a questionnaire for the purpose that is included at **Appendix E**. Although some Members of this Committee may have completed the questionnaire in the past, there may be benefit in updating the assessment, which will then be used to identify training needs.



## External Audit

41. Audit Services have regular dialogue with Grant Thornton and provide access to working papers and reports. This helps to co-ordinate audit activity and avoids unnecessary duplication.

## Head of Audit Services' Opinion

42. The Head of Audit Services is required by Public Sector Internal Audit Standards to deliver an annual report which contains an internal audit opinion. The internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
43. This opinion is based upon the work carried out by Audit Services during 2020-21 and any significant external assurance received by the Council. It must be acknowledged, however, that it is not possible to review all aspects of governance, risk management and control within a single year. In giving the opinion it should be noted that assurance can never be absolute and the most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Council's governance, risk management and control processes. In assessing the level of assurance the following have been taken into account:
- All internal audit reviews undertaken including consultancy for the year ending 31st March 2021,
  - Follow up reviews undertaken on "High" priority actions and audits that have been given a "Minimal" or "Requires Improvement" / "Inadequate" assurance rating,
  - Continuing work being undertaken by Management to respond to actions arising from internal audit work,
  - Whether any "High" priority actions have not been accepted by Management,
  - Any other assurance opinion given by other providers that Audit Services have relied upon.
44. The Head of Audit Services' opinion is as follows:

"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion as to the adequacy and effectiveness of Dudley MBC's overall internal control environment and there has been no limitations to the scope of our activity or resource constraints imposed on Audit Services which have impacted on our ability to meet the full internal audit needs of the Council. Taking into account what is detailed in paragraph 42, for the 12 months ending 31st March 2021, I am able to provide 'Reasonable' assurance on Dudley MBC's framework of governance, risk management and internal control, which is required in order to achieve the Council's priorities. The main concern which I am required to bring to your attention is:

- Ofsted undertook a focused visit in October 2020 and identified ‘serious weaknesses in many areas. This is because of long standing instability in the senior leadership team that has led to delays in addressing strategic and practice deficits. Services for children in Dudley are not consistently effective in the early identification of risk, and therefore some children remain in harmful situations for too long. The quality of management oversight of individual casework and planning is frequently poor’.

The Children’s Service’s Improvement Plan has now been aligned with the outcome of the focused visit, and is being monitored by the Improvement Board.”

## **Finance**

45. There are no direct financial implications arising from this report. The cost of internal audit is met from within the base budget of the Council.

## **Law**

46. The Council has a statutory duty under section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs. This includes a duty to have effective controls and procedures in place to prevent, detect and investigate fraud.
47. Accounts and Audit Regulations 2015 state 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 auditing standards or guidance.

## **Risk Management**

48. The proposals contained in this report do not create any “material” risks.

## **Equality Impact**

49. This report does not raise any equal opportunities issues.
50. The work of Audit Services helps to protect the interests of children and young people, albeit they were not consulted on, or involved, with the production of this report.

## **Human Resources/Organisational Development**

51. This report does not contain any human resources/organisational development implications.

## **Commercial/Procurement**

52. There are no commercial/procurement considerations relating to this report.

## **Council Priorities**

53. An effective framework of governance, risk management and internal control will greatly assist the Council in achieving its priorities.



**Iain Newman**  
**Director of Finance and Legal**

**Contact Officer:** Graham Harrison  
Telephone: 01384 815105  
Email: [graham.harrison@dudley.gov.uk](mailto:graham.harrison@dudley.gov.uk)

## **List of Background Papers**

- Appendix A – Audit work carried out during 2021-22
- Appendix B – Changed or Cancelled audits
- Appendix C – Summary of Actions
- Appendix D – CIPFA’s Position Statement: Audit Committees in Local Authorities
- Appendix E – Member Core Areas of Knowledge
- Appendix F – CIPFA Audit Committee Self-Assessment
- Appendix G – CIPFA Audit Committee Self-Assessment
- Appendix H – External Quality Assessment - Progress Update

Public Sector Internal Audit Standards  
CIPFA’s Audit Committees Practical Guidance for Local Authorities and Police (2018)  
Audit Services Reports

# Appendix A

## AUDIT WORK CARRIED OUT DURING 2020-21

Status	Audit	Assurance
<b>Adult Social Care (3 audits)</b>		
Final	Adult Social Care Information and Advice	Reasonable
Final	Children with Disabilities Team Procedures	Consultancy
Final	Court of Protection	Reasonable
<b>Children's Services (4 audits)</b>		
Final	Virtual Head Teacher	Reasonable
Final	Children in Care Commissioning, Placement and Payment Processes	Minimal
Final	Strengthening Families Grant Claim	N/A
Draft	Pupil Access Team/Exclusions	Reasonable
<b>Public Health and Wellbeing (1 audits)</b>		
Final	Covid-19 Grant Claims	N/A
<b>Digital, Commercial and Customer Services (6 audits)</b>		
Final	Council Website and Connect	Limited
Final	Schools Trading and Revolution	Limited
Final	Cheque Process	Reasonable
Final	ICT Inventory Management	Consultancy
Final	Northgate Housing System Review	Limited
Draft	Information@Work System Review	Minimal
<b>Finance and Legal (5 audits)</b>		
Final	Revenues and Benefits Systems Review	Minimal
Final	Council Tax	Reasonable
Final	Creditors	Reasonable
Final	Corporate Governance	N/A
Draft	Serious and Organised Crime	Consultancy
<b>Housing and Community Services (3 audits)</b>		
Final	Libraries and Archives Contract Management	Limited
Final	Homelessness	Reasonable
Final	Housing Sales	Reasonable

<b>Public Realm (3 audits)</b>		
Final	Pest Control	Limited
Final	Operators' Licence Compliance	Reasonable
Final	Green Care including Arboriculture	Limited
<b>Regeneration and Enterprise (3 audits)</b>		
Final	Development Management	Reasonable
Final	Regeneration Programme Management Governance	Reasonable
Draft	Property Income	Limited
<b>HR and Organisational Development (1 audit)</b>		
Final	Payroll, HR and Systems Processes	Limited
<b>Schools (1 audit)</b>		
Final	School Thematic – Procurement and Payment	Note 1
<b>Other (4 audits)</b>		
N/A	Advice and Support - Council	N/A
N/A	Advice and Support - Schools	N/A
N/A	Follow Up - Council	N/A
N/A	Follow Up - Schools	N/A

**Note 1** – Due to not being able to visit/contact schools, a desktop review was undertaken based on the information held on electronic systems. The audit will be completed during 2021-22 once Covid-19 related restrictions have eased.

# Appendix B

## CANCELLED OR CHANGED AUDITS

<b>Public Health and Wellbeing</b>	<b>REASON</b>
Air Quality Grant Claim	The submission of the return had been pushed back to 2021-22 as the grant had not been spent.
<b>Adult Social Care</b>	
Children with Disabilities Team	This service had been affected by Covid-19 and a new model of working was being implemented involving Family Social Workers. As a compromise, Audit Services undertook a desktop review of their documented procedures and provided a report on identified weaknesses. An assurance audit will be undertaken in 2021-22.
<b>Public Realm</b>	
Waste Management/Recycling	The Waste Team had been affected by sickness (some Covid-19 related) and were struggling to deliver a service. An assurance audit will be undertaken in 2021-22.
Local Transport Capital Funding Grant Claim	The Head of Audit Services is no longer required to sign off the grant return.
<b>Housing and Community Services</b>	
Housing Rent Arrears	The service had been impacted significantly by Covid-19. The court and bailiff service had been disrupted and limited enforcement action was being taken. An assurance audit will be undertaken in 2021-22.
<b>Schools</b>	
School Thematic Audit (School Procurement and Payment)	Schools were under significant pressure to provide remote schooling for those children who can work from home and tuition for those children who needed to come into school. As a compromise, Audit Services completed a desktop review based on information that it had got access to. The audit will be completed in 2021-22.

The above audits have been replaced with:  
 Pest Control  
 ICT Equipment Inventory Management  
 Revenues and Benefits Systems  
 Libraries and Archives Contract Management

# Appendix C

## SUMMARY OF ACTIONS

Directorate	Total	Critical	High	Medium	ADV	UN
Adult Social Care Number: 3	34	0	5	19	10	3
Children's Services Number:4	36	1	15	18	2	2
Digital, Commercial and Customer Services Number:6	44	0	21	21	2	8
Finance and Legal Number:5	26	1	6	11	8	3
Housing and Community Services Number:3	35	0	7	19	9	0
Public Realm Number:3	59	0	12	33	14	3
Regeneration and Enterprise Number:3	42	0	5	28	9	4
HR and Organisational Development Number:1	45	0	10	23	12	17
<b>TOTAL</b>	<b>321</b>	<b>2</b>	<b>81</b>	<b>172</b>	<b>66</b>	<b>40</b>

**ADV – Advisory**

**UN – Unimplemented Action**



# Appendix D

## CIPFA's Position Statement: Audit Committees in Local Authorities and Police

**The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.**

1. Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
2. The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
3. Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
  - act as the principal non-executive, advisory function supporting those charged with governance
  - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
  - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
  - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
  - be directly accountable to the authority's governing body or the PCC and chief constable.
4. The core functions of an audit committee are to:
  - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
  - in relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process
    - promote the effective use of internal audit within the assurance framework
  - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations



- monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
  - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
  - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
  - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
5. An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
  - working with local standards and ethics committees to support ethical values
  - reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017)
  - providing oversight of other public reports, such as the annual report.
6. Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
  - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
  - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
    - promoting apolitical open discussion
    - managing meetings to cover all business and encouraging a candid approach from all participants
    - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
  - unbiased attitudes – treating auditors, the executive and management fairly
  - the ability to challenge the executive and senior managers when required.
7. To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
  - be able to meet privately and separately with the external auditor and with the head of internal audit
  - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where

such a post exists). These officers should also be able to access the committee, or the chair, as required

- have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
- report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.



# Appendix E

## MEMBER CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge	Required (Yes or No)
Organisational knowledge	<p>An overview of the governance structures of the authority and decision-making processes</p> <p>Knowledge of the organisational objectives and major functions of the authority</p>	<p>This knowledge will be core to most activities of the audit committee including review of the Annual Governance Statement, internal and external audit reports and risk registers</p>	
Audit committee role and functions	<p>An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements</p> <p>Knowledge of the purpose and role of the audit committee</p>	<p>This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others</p>	
Governance	<p>Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the Annual Governance Statement</p> <p>Knowledge of the local code of governance</p>	<p>The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework</p> <p>The committee will plan the assurances it is to receive in order to adequately support the Annual Governance Statement (AGS).</p> <p>The committee will review the AGS and consider</p>	

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge	Required (Yes or No)
		how the authority is meeting the principles of good governance	
Internal audit	<p>An awareness of the key principles of the Public Sector Internal Audit Standards and the Local Government Application Note.</p> <p>Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled</p>	<p>The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards</p> <p>The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards</p> <p>In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed</p> <p>The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan</p>	
Financial management and accounting	Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them	<p>Reviewing the financial statements prior to publication, asking questions</p> <p>Receiving the external audit report and opinion on the financial audit</p>	

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge	Required (Yes or No)
	<p>Understanding of good financial management principles</p> <p>Knowledge of how the organisation meets the requirements of the role of the Chief Finance Officer (CFO), as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018)</p>	<p>Reviewing both external and internal audit recommendations relating to financial management and controls</p> <p>The audit committee should consider the role of the CFO and how this is met when reviewing the Annual Governance Statement.</p>	
External audit	<p>Knowledge of the role and functions of the external auditor and who currently undertakes this role</p> <p>Knowledge of the key reports and assurances that external audit will provide</p> <p>Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken</p>	<p>The audit committee should meet with the external auditor regularly and receive their reports and opinions</p> <p>Monitoring external audit recommendations and maximising benefit from audit process</p> <p>The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service</p>	
Risk management	<p>Understanding of the principles of risk management, including linkage to good governance and decision making</p> <p>Knowledge of the risk management policy and strategy of the organisation</p> <p>Understanding of risk governance</p>	<p>In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces</p> <p>Keeping up to date with the risk profile is</p>	

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge	Required (Yes or No)
	arrangements, including the role of members and of the audit committee	<p>necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee</p> <p>The committee should also review reports and action plans to develop the application of risk management practice</p>	
Counter fraud	<p>An understanding of the main areas of fraud and corruption risk to which the organisation is exposed</p> <p>Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)</p> <p>Knowledge of the organisation's arrangements for tackling fraud</p>	<p>Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy</p> <p>An assessment of arrangements should support the Annual Governance Statement and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment</p>	
Values of good governance	<p>Knowledge of the Seven Principles of Public Life</p> <p>Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff</p>	<p>The audit committee member will draw on this knowledge when reviewing governance issues and the Annual Governance Statement (AGS).</p> <p>Oversight of the effectiveness of</p>	



Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge	Required (Yes or No)
	Knowledge of the whistleblowing arrangements in the authority	whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported	
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: regulatory requirements treasury risks the organisation's treasury management strategy the organisation's policies and procedures in relation to treasury management See also Treasure Your Assets (CfPS, 2017)	Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny	



# Appendix F

## CIPFA Audit Committee self-assessment

Audit committee purpose and governance				
Good practice questions		Yes	Partly	No
1	Does the authority have a dedicated audit committee?	✓		
2	Does the audit committee report directly to full council? (applicable to local government only)	✓		
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓		
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓		
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✓	
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	good governance	✓		
	assurance framework, including partnerships and collaboration arrangements	✓		
	internal audit	✓		
	external audit	✓		
	financial reporting	✓		
	risk management	✓		
	value for money or best value	✓		
	counter fraud and corruption	✓		
	supporting the ethical framework	✓		
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓		

9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓		
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	N/A		
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓		
<b>Membership and support</b>				
12	Has an effective audit committee structure and composition of the committee been selected? This should include: a) separation from the executive  b) an appropriate mix of knowledge and skills among the membership  c) a size of committee that is not unwieldy  consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)	✓  ✓  ✓		✓
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?	N/A		
14	Does the chair of the committee have appropriate knowledge and skills?	✓		
15	Are arrangements in place to support the committee with briefings and training?	✓		
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓	
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	✓		
18	Is adequate secretariat and administrative support to the committee provided?	✓		
<b>Effectiveness of the committee</b>				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			✓

20	Are meetings effective with a good level of discussion and engagement from all the members?	✓		
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	✓		
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓		
23	Has the committee evaluated whether and how it is adding value to the organisation?	✓		
24	Does the committee have an action plan to improve any areas of weakness?			✓
25	Does the committee publish an annual report to account for its performance and explain its work?	✓		



# Appendix G

## CIPFA Audit Committee self-assessment

### Assessment Key

<b>5</b>	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
<b>4</b>	Clear evidence form some sources that the committee is actively and effectively supporting the improvement across some aspects of this area.
<b>3</b>	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
<b>2</b>	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
<b>1</b>	No evidence can be found that the audit committee has supported improvements in this area.

<b>Areas where the audit committee can add value by supporting improvement</b>	<b>Examples of how the audit committee can add value and provide evidence of effectiveness</b>	<b>Overall assessment: 5 – 1 See key above</b>
Promoting the principles of good governance and their application to decision making	<p>Supporting the development of a local code of governance</p> <p>Providing robust review of the AGS and the assurances underpinning it</p> <p>Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it</p> <p>Supporting reviews/audits of governance arrangements</p> <p>Participating in self-assessments of governance arrangements</p> <p>Working with partner audit committees to review governance arrangements in partnerships</p>	<b>5</b>
Contributing to the development of an effective control environment	Actively monitoring the implementation of recommendations from auditors	<b>5</b>

	<p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Raising significant concerns over controls with appropriate senior managers</p>	
<p>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks</p>	<p>Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking</p> <p>Monitoring improvements</p> <p>Holding risk owners to account for major/strategic risks</p>	<b>4</b>
<p><b>Possible Improvements:</b>  <b>Audit Services will during this municipal year carry out a benchmarking exercise comparing the risk information presented to Audit and Standards Committee to what's presented to other Council Audit Committees.</b></p>		
<p>Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively</p>	<p>Specifying its assurance needs, identifying gaps or overlaps in assurance</p> <p>Seeking to streamline assurance gathering and reporting</p> <p>Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit</p>	<b>3</b>
<p><b>Possible Improvements:</b>  <b>Now Audit Services have taken responsibility for risk management and developed a new Risk Management Framework, it is proposed once the new Framework is embedded to change the format of risk reports to Audit and Standards Committee. Audit Services want to report other forms of assurance against the corporate risks so that gaps in assurance can be identified.</b></p>		
<p>Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence</p>	<p>Reviewing the audit charter and functional reporting arrangements</p> <p>Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements</p> <p>Actively supporting the quality assurance and improvement programme of internal audit</p>	<b>5</b>

<p>Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements</p>	<p>Reviewing how the governance arrangements support the achievement of sustainable outcomes</p> <p>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place</p> <p>Reviewing the effectiveness of performance management arrangements</p>	<p style="text-align: center; font-size: 2em;"><b>5</b></p>
<p><b>Comment: The Council's key risks are captured in the Corporate Risk Register. This includes risks in relation to the Council's major projects and programmes and climate change. The effectiveness of performance management arrangements are partially covered by Scrutiny Committees</b></p>		
<p>Supporting the development of robust arrangements for ensuring value for money</p>	<p>Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee</p> <p>Considering how performance in value for money is evaluated as part of the AGS</p>	<p style="text-align: center; font-size: 2em;"><b>5</b></p>
<p>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks</p>	<p>Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)</p> <p>Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks</p> <p>Assessing the effectiveness of ethical governance arrangements for both staff and governors</p>	<p style="text-align: center; font-size: 2em;"><b>5</b></p>
<p>Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability</p>	<p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency</p> <p>Publishing an annual report from the committee</p>	<p style="text-align: center; font-size: 2em;"><b>4</b></p>
<p><b>Possible Improvements: Further develop the Audit and Standards Committee's Annual Report.</b></p>		



# Appendix H

## External Quality Assessment - Progress Update

Recommendation	Status	Progress Update
<p>The Head of Internal Audit should ensure that the approval of the Internal Audit Charter is specifically recorded in the minutes of the meeting of the Audit and Standards Committee.</p>	Consider	<p>The Audit Charter was discussed at Audit and Standards Committee and approved but this was not reflected in the minutes. The Head of Audit Services will ensure that this is the case going forward.</p> <p><b>IMPLEMENTED</b></p>
<p>The review of the Head of Internal Audit's performance should be informed by formal feedback from the Chair of Audit Committee.</p>	Consider	<p>The Director of Finance and Legal will discuss the performance of the Head of Audit Services with the Chair of Audit and Standards Committee.</p> <p><b>IMPLEMENTED</b></p>
<p>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. In order to support this requirement it would be beneficial to secure improvements in the structure and maturity of the Council's risk management framework including identifying inherent risk in order to embed risk appetite throughout the activity of the organisation. The audit planning process can then be further developed to reflect the assurance needs of the Council through transparent alignment with the Council wide approach to risk management.</p> <p>The formation of a direct link with the Council's risk register and the key mitigating controls, supported by documented discussions with Directors and other managers would provide an effective risk based basis for future</p>	Review	<p>Audit Services have always used a methodology for prioritising areas for inclusion in the Annual Audit Plan. However, how risk management was operated at Dudley did not support the audit planning process.</p> <p>Following an internal audit report on Corporate Risk Management a decision was made to transfer responsibility for risk management to Audit Services with an effective date of the 1<sup>st</sup> September 2020. Since taking responsibility for risk management, Audit Services have produced a new Risk Management Framework and made some significant changes to the Council's risk management system (Spectrum).</p>

<p>internal audit plans and create increased understanding and ability of members of the Audit and Standards Committee to contribute to the assurance agenda.</p> <p>The internal audit planning process should continue to identify and document other sources of assurance that are available and upon which the Council can place reliance, and which may if available be formally recorded within the annual Head of Internal Audit report and subsequently the Governance Statement.</p> <p>This may act as a catalyst for full inclusion in the Council risk management system as well as identify any gaps in the assurance framework</p>		<p>The new Risk Management Framework was approved by Audit and Standards Committee on the 21<sup>st</sup> April 2021 and Audit Services are currently rolling out the Framework to Council directorates.</p> <p>The new Framework includes a defined risk appetite and there will be a requirement going forward to establish inherent risks as well as residual risks. There will also be a requirement for sources of assurance to be identified against each risk.</p> <p>Once the new risk management procedures are embedded this should improve the effectiveness of the audit planning process.</p> <p><b>IN PROGRESS</b></p>
<p>The Head of Internal Audit should also identify those other areas where it is felt independent assurance is required in the forthcoming year and advise the Audit and Standards Committee as part of the annual plan approval process. A decision should then be made as to whether such assurance is required, when and how it will be accessed.</p>	Review	<p>Once the new risk management procedures are embedded and sources of assurance are captured, then the Head of Audit Services will be in a stronger position to recommend to Audit and Standards Committee where external independent assurance is required.</p> <p><b>IN PROGRESS</b></p>
<p>The Head of Internal Audit maintains a link between skills and the annual training plan however this would be better informed if extended to consider the scope and requirements of forthcoming audits.</p> <p>The training needs of the team should be recorded in the Quality Assurance Improvement Programme (QAIP) report which is reported to Audit and Standards Committee.</p>	Consider	<p>Although the training needs for forthcoming audits were considered, they were not formally documented. They will be in future and detailed in the Head of Audit Services' Annual Report in the section on Quality Assurance and Improvement Programme.</p> <p><b>IMPLEMENTED</b></p>

<p>It would be beneficial to provide more specific guidance to internal audit staff regarding what reflects a risk to the Council, as this would give a better guide regarding whether findings were material.</p>	<p>Review</p>	<p>Since the External Quality Assessment training has been provided to Auditors on the identification of risks and the priority rating that should be allocated.</p> <p><b>IMPLEMENTED</b></p>
<p>It would be beneficial for audit staff to clearly record and explain the nature of each risk that the area under review is or may become exposed to, as this would help guide the focus of the audit and the limited resources available to the most appropriate areas, rather than spread resources too thinly.</p>	<p>Review</p>	<p>In the audit planning documentation, risks are clearly identified and an assessment of what risks are to be covered in the audit is made. This ensures that the audit focuses on the most significant risks.</p> <p><b>IMPLEMENTED</b></p>
<p>Care should be taken when constructing the framework of the audit to highlight the key controls that are to be relied upon – rather than identify ‘all’ controls. This would help focus the audit and highlight areas to which Audit and Standards Committee and management attention should be drawn.</p>	<p>Consider</p>	<p>The planning document has been amended to identify key controls at the planning stage. This has also been discussed in training sessions with the Audit Services Team.</p> <p><b>IMPLEMENTED</b></p>
<p>The Head of Internal Audit should issue a reminder to managers with outstanding returns with a view to including a comprehensive summary of feedback regarding performance in the Head of Internal Audit annual report.</p> <p>Consider how post audit communication and assistance may be developed to enhance added value of internal audit.</p>	<p>Review</p>	<p>Further work has been undertaken to chase up outstanding post audit questionnaires.</p> <p>Also, to make it easier to complete, the post audit questionnaire has been incorporated into the email that is sent out with the final audit report.</p> <p>The Head of Audit Services will email Directors on a six monthly basis to obtain their support in getting post audit questionnaires back.</p> <p><b>IMPLEMENTED</b></p>

<p>The Head of Internal Audit should ensure that:-</p> <ul style="list-style-type: none"> <li>a) a section on significant risks facing the Council is summarised in the Annual Report taking account of the risk appetite of the Council.</li> <li>b) recognition is given to the other sources of assurance that have been identified and which have informed the Head of Internal Audit overall opinion.</li> </ul>	<p>Review</p>	<p>The Head of Audit Services' Annual Report for 2019-20 included the most significant corporate risks of the Council. Other sources of assurance that were taken account of in determining the Head of Audit Services' annual opinion for 2019-20 were detailed in the opinion. This will also be the case for 2020-21.</p> <p><b>IMPLEMENTED</b></p>
<p><b>Recommendation Grading</b></p>	<p><b>Explanation</b></p>	
<p>Enhance</p>	<p>The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant Public Sector Internal Audit Standards in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.</p>	
<p>Review</p>	<p>The Internal audit service should review its approach in this area to better reflect the application of the Public Sector Internal Audit Standards.</p>	
<p>Consider</p>	<p>The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services</p>	