


# LGA Audit Peer Challenge

Huntingdonshire District Council

23 March 2023

Feedback report - **DRAFT**





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# 1. Executive summary

## Engagement with HDC

Huntingdonshire District Council (HDC) has had significant change in both its members and officers in the last year. In May 2022, there was a change in political control of the Council to a joint administration between three parties and the independent group, with the largest group on the Council forming the opposition. There has also been significant change amongst the senior management with a new Section 151 Officer/Director of Finance and Corporate Services appointed in July 2022 and the Corporate Director for People stepping up to become the Interim Managing Director in March 2023. The Chair and Vice Chair of the Corporate Governance Committee are both new Councillors, as well as the portfolio holder for audit.

Members of the Corporate Governance Committee are supportive of the key role of Internal Audit and recognise its importance to the council. The 2021/22 annual report of the Corporate Governance Committee highlights that a knowledge and skills assessment has not been carried out recently and training needs have not been identified. This presents an opportunity for the Internal Audit Manager to facilitate or feed into a Corporate Governance Committee self-assessment exercise and help to develop a training programme for members.

Relevant guidance suggests that an annual self-assessment is carried out to allow the committee to consider whether it is performing effectively. It is therefore recommended that the Terms of Reference for the Corporate Governance Committee are regularly/annually reviewed to ensure continuous improvement. It is also recommended to consider a report to the Corporate Governance Committee on the CIPFA [‘Internal audit: untapped potential’](#) report to highlight areas for action. Along with this, it is a review the role of the Corporate Governance Committee within the Constitution would be beneficial, to ensure the role of committee is clear and transparent.

The peer team were informed that Internal Audit currently consults with the Senior Leadership Team and the Corporate Governance Committee to request input into the annual plan of internal audit work ahead of plan approval however there could be

more opportunity for face-to-face consultation. The council has developed a new strategic risk register and Internal Audit have been requested to discuss key strategic risks with each service area and devise an assurance plan to provide assurance on the management of key risks. This approach has many benefits, and it is recommended that HDC continue to seek opportunities for consultation.

The peer team were advised that some services approach the Internal Audit team for advice about control improvements. It is suggested that during planning the Internal Audit team considers areas where a 'position statement' could be provided, covering new or developing areas such as climate or culture. The position statement is designed to be advisory in nature, highlighting suggested improvement points using best practice or benchmarking without providing an overall opinion on the area reviewed.

The new Assurance Board is a positive step to achieving a strong ethical culture and provides support for statutory officers to ensure compliance, supporting shared values and accountability. It is suggested that the Internal Audit Manager, the Monitoring Officer and Director of Finance and Corporate Resources could establish forums to regularly meet to raise and resolve concerns.

HDC has seen recent changes to the senior management team and the membership of the Corporate Governance Committee. It is recommended to undertake a governance review as part of establishing the new management team as turnover in key statutory officer posts represents a risk to a strong governance culture. Joint training for members and officers on good governance can also establish effective relationships.

A calculation of auditor's chargeable time along with a skills and knowledge assessment would help to assess Internal Audit's capability and capacity needs. It is therefore recommended that both are carried out once an assurance plan for 2023/24 has been devised to provide coverage on the council's key risks.

The peer team observed that the Internal Audit team at HDC are currently involved in some tasks that typically sit outside of the Internal Audit function which could distract resources away core assurance services and could threaten the Internal Audit's objectivity if they are required to provide independent assurance over the effectiveness of controls within these systems. It is therefore recommended that

senior management and Internal Audit work together to consider whether internal audit is best placed to undertake these tasks.

### **Quality, impact and continual improvement**

The peer team reviewed a series of documents and provided a report to HDC including details of their assessment against the Public Sector Internal Audit Standards (PSIAS) standards. The Internal Audit Manager is currently undertaking a refreshed Internal Assessment and it is recommended that each standard makes references to available evidence where possible in preparation for a full External Quality Assessment.

To conform with the PSIAS, the Internal Audit service should maintain a Quality Assurance and Improvement Plan (QAIP) to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. It is recommended that the Internal Audit be supported to allocate time to evaluate what works well at the present time and indicate what areas require development and investment. A detailed QAIP that covers audit training, and any areas of partial conformance with PSIAS and Local Government Application Note (LGAN), along with work on improvements to internal audit planning, resourcing and auditor skills will likely realise the greatest benefits and allow the Internal Audit team to undertake more audits with a strategic focus as well as demonstrate a commitment to continuous improvement.

### **Assurance**

The peer team identified that Internal Audit could be called upon more frequently to contribute their advice and assistance during transformational developments, which could also promote a clearer understanding of the assurances and activities that internal audit can provide. For example, the Internal Audit Manager could be kept informed of the outcomes of management team meetings or invited where relevant to observe discussions relating to key transformation projects.

Annual face to face planning meetings with senior managers, discussing any third-party assurances and whether they can be relied upon in place of a full Internal Audit review, would allow an assurance map to be developed to conform to PSIAS standards.

## 2. Key recommendations

There are a number of observations and suggestions within the main section of the report. The following are the peer team's key recommendations to the council:

### 2.1. Corporate Governance Committee

It is recommended that the Corporate Governance Committee be enhanced with support from officers by:

- 2.1.1. Internal Audit Manager to facilitate or feed into a CIPFA Corporate Governance Committee self-assessment exercise and help to develop a training programme for members.
- 2.1.2. The Terms of Reference for the Corporate Governance Committee to be regularly/annually reviewed best practice to ensure continuous improvement. The council should also consider a review of the role of the Corporate Governance Committee within the Constitution, to ensure the role of committee is clear and transparent.

### 2.2. Roles and Responsibilities

Clarification of roles and responsibilities for audit, risk and governance by:

- 2.2.1. Senior management and internal audit to work together to consider whether internal audit is best placed to undertake additional tasks outside of its core purpose such as Annual Governance Statement, Code of Corporate Governance review.
- 2.2.2. Consider governance arrangements:
  - Internal Audit Manager, the Monitoring Officer and Director of Finance and Corporate Resources to consider regularly meeting to raise and resolve concerns.
  - Carrying out a governance review (stock-take) as part of establishing the new management team.
  - Joint training for members and officers on good governance.

2.2.3. Consider how to ensure the Internal Audit Manager is informed of the outcomes of Management Team meetings, including potentially inviting them where relevant to observe discussions relating to key transformation projects to enhance strategic approach to auditing.

### **2.3. Internal Audit Strategy**

Maximising the potential of Internal Audit and employing best practice by:

2.3.1. Internal Audit should consider areas in the assurance plan where a 'position statement' style approach could be used to provide advisory support for new or developing areas.

2.3.2. A calculation of auditor's chargeable time should be undertaken along with a skills and knowledge assessment of the audit team once an assurance plan for 2023/24 has been devised. If a shortfall is identified, this to be reported to senior management and Corporate Governance Committee for resolution.

2.3.3. The internal assessment should reference available evidence to support conformance for each standard in preparation for a full External Quality Assessment.

2.3.4. A detailed QAIP should be developed, shared and discussed with senior management and the Corporate Governance Committee.

2.3.5. Internal Audit should continue to look for opportunities to carry out data analytics and invests in skills in this area for the future. In the meantime, the team can suggest data maturity enhancements in each area audited if full population testing cannot be carried out.

2.3.6. Internal Audit to consider its approach to supporting the Assurance Board forward plan and Terms of Reference review in addition to supporting the Corporate Governance Committee.

## 3. Summary of the peer challenge approach

### 3.1. The peer team

Peer challenges are delivered by experienced elected member and officer peers. The make-up of the peer team reflected the focus of the peer challenge and peers were selected on the basis of their relevant expertise. The peers were:

- Lead Officer Peer – Faye Haywood, Head of Internal Audit – Eastern Internal Audit Services.
- Officer Peer - Heloise MacAndrew, Head of Companies, Compliance & Assurance – Cheshire West and Chester Borough Council.
- Member Peer – Cllr Mike Every, Deputy Leader and Cabinet Member for Finance - Cotswold District Council
- Peer Challenge Manager – Aimee Wittams-Smith, Regional Adviser, LGA

### 3.2. Scope and focus

It was agreed that the LGA would support and assist Huntingdonshire District Council (HDC) by delivering a programme of peer challenge and peer support. The peer challenge aimed to help HDC develop a plan to improve its approach to internal audit and help it prepare for an external assessment.

HDC asked the peer team to assess whether there needs to be some change to how internal audit is carried out, whether it should be more strategic and risk-based across the organisation rather than focusing on individual processes, and what controls are in place. The peer challenge process also included exploring the wider governance side of audit, including the council's constitution.

The LGA therefore utilised CIPFA's ['Internal audit: untapped potential'](#) report as the framework for this work, the peer team explored the challenges and potential for internal audit at Huntingdonshire District Council.

The 10 questions for Internal Audit formed the basis of this framework:

#### Engagement with HDC

1. Does internal audit receive the right level of support and engagement from the Corporate Governance Committee?



2. Does internal audit get good engagement from across HDC when it plans and conducts audits? How does it create its audit plan?
3. Do managers within HDC seek advice or assurance from internal audit? What are the drivers of or obstacles to this?
4. Has the head of internal audit indicated that resources (capability or capacity) need to increase? - How have they quantified this and what steps are being taken to address this?

### **Quality, impact and continual improvement**

5. Does internal audit conform to PSIAS? This should also include conformance with the Local Government Application Note.
6. What action is internal audit taking to continually improve its quality, engagement and impact for the organisation? Is internal audit considering the skills and competencies it will need in the future as well as now?

### **Assurance**

7. Is there a clear view of the assurance that internal audit does, and does not, provide? What assurance is provided by other functions or parties? Are there gaps in the assurance that management or the audit committee require?
8. How do internal audit plans map to the organisation's strategic priorities and risks?
9. How is internal audit developing its approach to providing assurance – for example, making greater use of data or undertaking audits with a more strategic focus?

### **Strategy**

10. What factors currently determine HDC's internal audit strategy? Is HDC confident that the strategy will deliver their internal audit needs in the future?

### **3.3. The peer challenge process**

Peer challenges are improvement focused; it is important to stress that this is not an inspection. The peer team have used their experience and knowledge of local government to reflect on the information presented to them by people they met, things they saw and material that they read. The peer team prepared by reviewing a

range of documents and information in order to ensure they were familiar with the council and the challenges it is facing.

This review was delivered in a two staged approach. Stage one included a desk-based diagnostic of key documentation requested by the peer review team. Discussions were also held with the Director of Finance and Corporate Resources (S151), the Internal Audit Manager, the Chair and Vice Chair of the Corporate Governance Committee, and the portfolio holder for audit.

For stage two, an onsite peer challenge was arranged on Thursday 23 March to present and discuss early observations to allow an action plan to be develop. During their time on-site, the peer team met with the Interim Managing Director, Director of Finance and Corporate Resources (S151), Internal Audit Manager, Monitoring Officer, Chief Operating Officer, Chief Financial Officer, the Chair and Vice Chair of the Corporate Governance Committee, an opposition committee member, the portfolio holder for audit and the Leader of the council.

This report provides a summary of the peer team's findings. In presenting feedback, they have done so as fellow local government officers and members.

## 4. Feedback

### 4.1. Does internal audit receive the right level of support and engagement from the Corporate Governance Committee?

Members of the Corporate Governance Committee are supportive of the key role of Internal Audit and recognise its importance to the council. The Chair and Vice Chair indicated that they could benefit from meetings with the Internal Audit Manager and Director of Finance and Corporate Resources officer in addition to the committee pre-meetings which currently take place.

The 2021/22 annual report of the Corporate Governance Committee highlights that a knowledge and skills assessment has not been carried out recently and training needs have not been identified. This presents an opportunity for the Internal Audit Manager to facilitate or feed into a Corporate Governance Committee self-assessment exercise and help to develop a training programme for members.

The Chartered Institute of Public Finance and Accountancy (CIPFA) '[Practical Guidance for Local Authorities and Police](#)' suggests that an annual self-assessment is carried out to allow the committee to consider whether it is performing effectively and in accordance with its Terms of Reference. In addition, the Public Sector Internal Audit Standards (PSIAS) also call for the committee to assess their remit and effectiveness, in relation to Purpose, Authority and Responsibility. It is therefore recommended that the Terms of Reference for the Corporate Governance Committee are regularly/annually reviewed against CIPFA best practice standards and other example of best practice from across the sector to ensure continuous improvement. It is also recommended to consider a report to the Corporate Governance Committee on the CIPFA '[Internal audit: untapped potential](#)' report to highlight areas for action.

In comparison to other council constitutions, references to internal audit and the Corporate Governance Committee's terms of reference in relation to audit in HDC's constitution are less comprehensive. It is recommended that HDC consider a review the role of the Corporate Governance Committee within the Constitution, to ensure the role of committee is clear and transparent.

#### **4.2. Does internal audit get good engagement from across HDC when it plans and conducts audits? How does it create its audit plan?**

Internal Audit indicated good engagement from auditees when conducting audits and that questionnaire feedback from auditees gathered upon audit completion has not indicated any concerns in this area.

The PSIAS highlights that audit planning should be carried out in consultation with senior management and the Corporate Governance Committee to understand the organisation strategies, key business objectives, associated risks, and risk management processes. The resource management standard within the PSIAS also outlines that the deployment of resources, especially the timing of engagements, should be done in conjunction with management to minimise abortive work and time.

The peer team were informed that Internal Audit currently consults with the Senior Leadership Team and the Corporate Governance Committee to request input into the annual plan of internal audit work ahead of plan approval however there could be more opportunity for face-to-face consultation. The 2022/23 Internal Audit Plan was

devised by undertaking a risk assessment within the audit universe (the council's record of auditable areas). Previous audit gradings in each area and risks known to the Internal Audit Manager were considered to create an assurance plan for the year ahead.

The council has developed a new strategic risk register and Internal Audit have been requested to discuss key strategic risks with each service area and devise an assurance plan to provide assurance on the management of key risks. This approach is beneficial as it allows the senior leadership team and service managers to buy into the audit approach, giving an indication of their concerns and how the audit could add value. It can also lead to the establishment of a mutually acceptable timeframe for the audit, reducing the risk of requests for audit cancellations or deferrals. In addition, this approach can allow information to be gathered about other available and reliable assurances in order to conform with PSIAS standards.

#### **4.3. Do managers within HDC seek advice or assurance from internal audit? What are the drivers of or obstacles to this?**

The HDC 2022/23 Internal Audit & Assurance Plan includes a commitment for the Internal Audit Team to Remain future focused. Within the Internal Audit Charter, the roles and responsibilities section outlines the difference between assurance and advisory services provided by the team. The peer team observed that it can be difficult for Internal Audit to support advisory work with current resources when also delivering assurance work for the opinion. Internal Audit did however report that some services do approach the team for advice about control improvements. It is suggested that during planning the Internal Audit team considers areas where a 'position statement' could be provided, covering new or developing areas such as climate or culture. The position statement is designed to be advisory in nature, highlighting suggested improvement points using best practice or benchmarking without providing an overall opinion on the area reviewed.

Having a strong ethical culture is frequently highlighted as essential for good governance, including recent Best Interest reports which highlight the devastating impact of obstacles and the importance of a speak up culture supported by a strong internal audit function. The new Assurance Board is a positive step to achieving this and provides support for statutory officers to ensure compliance, supporting shared

values and accountability. It is suggested that the Internal Audit Manager, the Monitoring Officer and Director of Finance and Corporate Resources could establish forums to regularly meet to raise and resolve concerns.

There have been recent changes to the management team and membership of the Corporate Governance Committee at HDC. Team building and a governance focus which includes Internal Audit could ensure relationships are positively established, roles and responsibilities are understood and working styles identified to avoid silos, ensure effective collaboration, and a listening 'speaking truth to power' culture. Best Interest reports highlight that turnover in key statutory officer posts represents a risk to a strong governance culture and therefore undertaking a governance review as part of establishing the new management team is recommended. Joint training for members and officers on good governance can also establish effective relationships.

#### **4.4. Has the head of internal audit indicated that resources (capability or capacity) need to increase?**

The PSIAS Resource Management standard outlines that if the Internal Audit Manager believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, these consequences should be brought to the attention of the Corporate Governance Committee. This may include an imbalance between the work plan and resource availability or other significant matters that jeopardise the delivery of the plan or require it to be changed. Reference is made throughout the PSIAS standards to stress the importance of auditors keeping skills and knowledge up to date whilst only carrying out work for which they have the relevant expertise.

A calculation of auditor's chargeable time (available audit days) has not been undertaken at HDC, and a skills and knowledge assessment has not been carried out in the current Internal Audit team. These would help to determine whether capability or capacity needs to increase. It is therefore recommended that both are carried out once an assurance plan for 2023/24 has been devised to provide coverage on the council's key risks.

The peer team observed that the Internal Audit team at HDC are currently involved in

some tasks that typically sit outside of the Internal Audit function such as management of the whistleblowing register, National Fraud Initiative data upload and match management, anti-fraud and corruption policy update, code of corporate governance updates and drafting the council's Annual Governance Statement. These are all legitimate functions for Internal Audit to feed into, however accountability for these tasks could distract resources away from providing core assurance services and could threaten the Internal Audit's objectivity if they are required to provide independent assurance over the effectiveness of controls within these systems. It is therefore recommended that senior management and Internal Audit work together to consider whether internal audit is best placed to undertake these tasks.

**4.5. Does internal audit conform to PSIAS? This should also include conformance with the Local Government Application Note.**

The peer team reviewed an internal assessment document and various reports provided to the Corporate Governance Committee and provided a report to HDC including details of their assessment against the standards. The Internal Audit Manager is currently undertaking a refreshed Internal Assessment and it is recommended that each standard makes references to available evidence where possible in preparation for a full External Quality Assessment.

**4.6. What action is internal audit taking to continually improve its quality, engagement and impact for the organisation? Is internal audit considering the skills and competencies it will need in the future as well as now?**

To conform with the PSIAS, the Internal Audit service should maintain a Quality Assurance and Improvement Plan (QAIP) to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

Outstanding actions from the council's 2018 self-assessment of conformance against the PSIAS and Local Government Application Note (LGAN), contained in the most recent annual Internal Audit report presented to the Corporate Governance Committee in July 2022, include carrying out auditor training on the PSIAS, a review of auditor training and development needs, and a full review of the audit manual. The

peer team were informed that questionnaire feedback is sought from auditees to feed into the QAIP and to assist with continuous improvement however the results of any feedback are not yet reported to senior management or the Corporate Governance Committee.

A highly dedicated and experienced internal audit resource is an asset worth investing in and should result in the council being able to take advantage of sound advice on emerging risks that could threaten the council's ability to achieve objectives. It is recommended that the Internal Audit be supported to allocate time to evaluate what works well at the present time but also to indicate what areas require development and investment. A detailed QAIP could include team training requirements, areas of all perceived partial conformance with PSIAS and LGAN with actions and performance metrics measured by the team with stretching targets to demonstrate a commitment to continuous improvement.

**4.7. A) Is there a clear view of the assurance that internal audit does, and does not, provide? B) What assurance is provided by other functions or parties? C) Are there gaps in the assurance that management or the Corporate Governance Committee require?**

HDC's Internal Audit Charter outlines a high-level overview of the roles and responsibilities of the Internal Audit team, covering examples of assurance activities and advisory work. The Internal Audit & Assurance plan presented to the CGC in April 2022 highlights that internal audit can provide assurance at an early stage of service or transformational development and that internal audit strives to be trusted advisor to senior management and the Corporate Governance Committee. Contributing positively to service developments and initiatives is one way in which that trust can be gained.

The peer team identified that Internal Audit could be called upon more frequently to contribute their advice and assistance during transformational developments, which could also promote a clearer understanding of the assurances and activities that internal audit can provide. For example, the Internal Audit Manager could be kept informed of the outcomes of management team meetings or invited where relevant to observe discussions relating to key transformation projects. Keeping the Internal



Audit team informed could promote pragmatic discussions about where Internal Audit can be involved at an earlier stage in an advisory capacity such as through a 'position statement' as described earlier in this report.

The peer team were advised that Internal Audit have sought to keep the audit universe up to date with details of any available assurances. Annual face to face planning meetings with senior managers, discussing any third-party assurances and whether they can be relied upon in place of a full Internal Audit review, would allow an assurance map to be developed to conform to PSIAS standards.

Risk Management has been identified by the Corporate Governance Committee as a key area for increased focus, and a Risk Management Register has been developed to address this. Members advised that they are keen to engage with Risk Management. For example, the portfolio holder for audit identified the council's investment property portfolio of approximately £70 million in value as an area of significant financial risk and suggested it could be reviewed regularly given the risk of voids on revenue and the illiquidity of the assets should the council need additional one-off funding.

#### **4.8. How do internal audit plans map to the organisation's strategic priorities and risks?**

Until such time that Internal Audit can rely on the council's assessment of risk to inform audit planning, it is suggested to promote risk management improvements and rely on alternative audit planning methods. CIPFA's ['Internal audit: untapped potential'](#) report highlights that Internal Audit should be involved in enhancing risk maturity. Conducting a risk maturity assessment would be a good way to provide advice and increase the chances that the risk register can be relied on for planning purposes as maturity increases.

HDC's risk management strategy is under review, and the council acknowledge that risk management could be further developed. The peer team shared with HDC some observations that would likely be made about the current strategic risk register and strategy during a maturity assessment. These included a need for further clarification of roles and responsibilities, ensuring that strategic and operational risks are linked to



the council's objectives, risk training provision, and defining the risk appetite.

The peer team undertook a high-level review of the strategic risk register which indicated some symmetry with risks raised and assurances suggested. There are areas suggested in the 2022/23 revised plan but not necessarily delivered due to resourcing constraints or it not having been determined that there is value in carrying out an audit in-year.

**4.9. How is internal audit developing its approach to providing assurance – for example, making greater use of data or undertaking audits with a more strategic focus?**

Work to develop a QAIP that covers audit training, and any areas of partial conformance with PSIAS along with work on improvements to internal audit planning, resourcing and auditor skills will likely realise the greatest benefits and allow the Internal Audit team to undertake more audits with a strategic focus.

Data analytics is often an emerging area of audit practice in local government. The peer team understand that the Internal Audit team at HDC has access to software for data analytics but in practice this software is not being fully utilised. It is acknowledged that work can be carried out using Excel if Internal Audit team members are skilled in data analytics techniques. It is suggested that the Internal Audit team continues to look for opportunities to carry out data analytics and invests in skills in this area for the future.

From a governance and strategic focus perspective, Internal Audit should consider its approach to supporting the Assurance Board forward plan and undertake a Terms of Reference review in addition to supporting the Corporate Governance Committee.

**4.10. What factors currently determine HDC's internal audit strategy? Is HDC confident that the strategy will deliver their internal audit needs in the future?**

Access to a skilled and adequately resourced team supported by senior management and the Corporate Governance Committee will determine the effectiveness of the

Internal Audit Strategy. The recruitment and retention of local government internal auditors is acknowledged as a key challenge and the HDC team have attempted the 'grow your own' strategy to enhance resilience in the long term. Investment in the training and development needs of an internal audit team would demonstrate conformance with PSIAS and allow the team to fulfil their potential and take up their role as trusted advisors.

It is often unrealistic to expect a small internal audit team to recruit and retain a specialist IT auditor so using an outsourced provision for this work is a viable solution for providing valuable coverage. It is therefore recommended that the Director of Finance and Corporate Resources and Internal Audit Manager to work together to formally appoint the outsourced provider so that assurance can be provided to support the opinion.

## 5. Next steps

It is recognised that senior political and managerial leadership will want to consider, discuss and reflect on these findings.

Both the peer team and LGA are keen to build on the relationships formed through the peer challenge.

In the meantime, Rachel Litherland, Principal Adviser for the East of England Region, is the main contact between your authority and the Local Government Association. Rachel is available to discuss any further support the council requires. [rachel.litherland@local.gov.uk](mailto:rachel.litherland@local.gov.uk), 07795 076834.