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To: The Chair and Members
of the Devon Audit
Partnership Committee

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 23 November 2022

Contact: Wendy Simpson, 01392 384383

Email: wendy.simpson@devon.gov.uk

DEVON AUDIT PARTNERSHIP COMMITTEE

Thursday, 1st December, 2022

A meeting of the Devon Audit Partnership Committee is to be held on the above date at 10.30 am as a Virtual Meeting to consider the following matters.

Jan Spicer
Interim Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies

2 Minutes (Pages 1 - 4)

Minutes of the meeting held on 12 July 2022, attached.

3 Items Requiring Urgent Attention

Items which in the opinion of the Chairman should be considered at the meeting as matters of urgency.

4 Six Month Update Report 2022/23 (Pages 5 - 14)

Report of the Director of Finance (DF/22/100), attached.

5 Budget Monitoring Month 6 2022/23 (Pages 15 - 18)

Report of the Director of Finance (DF/22/101), attached.

FOR INFORMATION

6 Culture Iceberg (Pages 19 - 20)

Awareness paper.

7 Risk in Focus 2023 (Pages 21 - 30)

Briefing attached.

8 Future Meeting Dates

To agree future meeting dates:

9 March 2023, 13 July 2023 and 23 November 2023.

**PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND
PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE
DISCLOSED**

Nil

MEETINGS INFORMATION AND NOTES FOR VISITORS

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Committee Terms of Reference

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Members of the public may also use social media to report on proceedings.

Declarations of Interest for Members of the Council

It is to be noted that Members of the Council must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.

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Induction Loop available



DEVON AUDIT PARTNERSHIP COMMITTEE - VIRTUAL

12 July 2022

Present:-

Councillors R Craigie, P Hackett, R Loxton, K Kennedy, N Davey, K Ball, B Spencer, M Hartnell, I Roome, J Phillips, L Finn and A Luggar

Apologies:-

Councillors R Scott and M Davies

* 28 **Election of Chair**

The Chair should be held on a rotational basis with each Council having a Member serve alternately for one year. Devon County Council had recently held the Chair and it was therefore North Devon Council's turn to hold the post of Chair for one year from the date of this meeting.

It was **MOVED** by Councillor Phillips, **SECONDED** by Councillor Hackett and

RESOLVED that Councillor Roome (North Devon) be elected Chair for the ensuing year.

* 29 **Election of Vice-Chair**

The Vice-Chair was elected from a Council other than that which currently held the Chair.

It was **MOVED** by Councillor Hackett, **SECONDED** by Councillor Loxton and

RESOLVED that Councillor Finn (Plymouth) be elected Vice-Chair for the ensuing year.

* 30 **Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

* 31 **Announcements**

The Committee were provided with an update on recruitment as follows:

- (a) Jon Triggs was the Section 151 Officer at North Devon Council, and also the new Chair of the Devon Audit Partnership Management Board.

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DEVON AUDIT PARTNERSHIP COMMITTEE

12/07/22

- (b) Rob Hutchins had left his role as Head of Devon Audit Partnership at the end of June and Tony Rose had been appointed to the role of Head of Devon Audit Partnership as from 1 July 2022.

* **32** **Minutes**

RESOLVED that the Minutes of the meeting held on 8 March 2022 be signed as a correct record.

* **33** **Devon Audit Partnership - Revenue Outturn Position 2021/22**

The Committee considered the Report of the Head of Devon Audit Partnership (DF/22/57) setting out the revenue outturn position 2021/22, the balance sheet as at 31 March 2022, the Accounting Statement, the Annual Internal Audit Report for 2021/22 and the Annual Governance Statement.

Members noted in particular:

- The outturn position for 2021/22 showed a small financial surplus of £1,200.
- Increased costs due to temporary staff recruited to meet additional request for services from partners and clients.
- Transport costs had been considerably less than expected due to staff working from home during the pandemic.
- The overspend on Supplies and Services was mainly due to costs relating to ICT support and the purchase of additional laptops to aid employees as they continued to work from home.
- Reserves remained at a healthy £222k.
- The requirement for a small bodies return had been removed, however the return contained some good elements of governance and enabled effective year on year comparisons to take place and would therefore remain "good practice" to continue.

It was **MOVED** by Councillor Hackett, **SECONDED** by Councillor Finn and

RESOLVED

- (a) that the DAP 2021/22 revenue outturn position be noted.
- (b) that the DAP balance sheet as at 31 March 2022 and the balances contained be noted.
- (c) that the Accounting Statement, prepared in accordance with the (former) small bodies return format, be noted.
- (d) that approval be given for the Chair to sign the Annual Governance Statement.

(e) that the Annual Internal Audit Report for 2021/22 be noted.

* **34** **Devon Audit Partnership - Annual Report 2021/22**

The Committee considered the Report of the Head of Devon Audit Partnership (DF/22/58) outlining the progress made by the Partnership during the year; the ongoing development of arrangements with partners; and the continued high level of customer satisfaction achieved.

Members noted in particular:

- The outturn position for 2021/22 showing a small financial surplus (£1,200), despite the pandemic and other challenges.
- The continuing success of the Partnership's EU grant work.
- A bid had been submitted to be accepted on the Government of Jersey Framework for provision of internal audit and assurance services.
- New staff had been employed (including apprentices) to help meet demand, build skills and to ensure business continuity.
- Customer survey results for 2021/22 remained good with 97% identified as Satisfied.

It was **MOVED** by Councillor Loxton, **SECONDED** by Councillor Finn and

RESOLVED

- (a) that progress made by the Devon Audit Partnership during the 2021/22 financial year be noted.
- (b) that the continued high level of customer satisfaction achieved by the Partnership be noted.

* **35** **Proposal for Devon & Somerset Fire & Rescue Service to join the Devon Audit Partnership**

(Councillor Room declared a personal interest in this item by virtue of being a member of the Devon and Somerset Fire and Rescue Service and abstained from voting.)

The Committee considered the Report of the Head of Devon Audit Partnership (DF/22/59) outlining the proposal for Devon and Somerset Fire and Rescue Service (DSFRS) to join the Devon Audit Partnership (DAP).

The internal audit provision for DSFRS was currently delivered by way of in-house staff supported by DAP, who had provided support to them since 2009. DSFRS had now made formal application to join DAP.

There were no expected financial risks from the proposal as the contribution from DSFRS (in the region of £55k) would cover the service delivery by DAP.

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If approved, it was envisaged that DSFRS would join DAP on or around 1st October 2022, with any TUPE affected staff also transferring to DAP on that date.

It was **RESOLVED** by Councillor Hackett, **SECONDED** by Councillor Lugger and

RESOLVED that

- (a) approval be given for the Devon and Somerset Fire and Rescue Service to join the Devon Audit Partnership during the 2022/23 financial year; and
- (b) it be noted that the actual date of commencement will be dependent upon governance and HR issues that will need to be fully addressed prior to commencement, with a joining date of 1 October 2022 being aimed for.

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Future Meetings

The next meeting was set for 29 November 2022.

NOTES:

1. *Minutes should always be read in association with any Reports for a complete record.*
2. *If the meeting has been webcast, it will be available to view on the [webcasting site](#) for up to 12 months from the date of the meeting*

* **DENOTES DELEGATED MATTER WITH POWER TO ACT**

The Meeting started at 10.30 am and finished at 11.01 am

Agenda Item 4

DF/22/100
Devon Audit Partnership Audit Committee
1st December 2022

DEVON AUDIT PARTNERSHIP – SIX MONTH UPDATE REPORT 2022/23 **Report of the Director of Finance**

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee notes the six month update report from the Head of Devon Audit Partnership

Summary

The attached report from the Head of Devon Audit Partnership summarises activity in the first six months of 2022/23.

The report recognises the continuing challenges brought about by national and global events, and the impact that this is having on the work of the team.

The report provides progress an update on changes to our staffing, with a number of new officers joining, and also provides an update with regards further work gained in several areas.

- Legal Consideration: There are no specific legal considerations resulting from this report.
- Environmental Impact Considerations (Including Climate Change): There are no environmental issues arising from this report.
- Equality Considerations: There are no equality issues arising from this report.
- Risk Management Considerations: No risks have been identified.
- Public Health Impact: There are no public health issues arising from this report.

Angie Sinclair
Director of Finance

Electoral Divisions: All
Local Government Act 1972

List of Background Papers

Contact for Enquiries: Tony Rose tony.d.rose@devon.gov.uk
Tel No: (01392) 385488 Larkbeare House

| <u>Background Paper</u> | <u>Date</u> | <u>File Ref</u> |
|-------------------------|-------------|-----------------|
| Nil | | |

Internal Audit, Counter Fraud, & Risk Management - Assurance

Update Report 2022

Partnership Management Committee

December 2022

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Support, Assurance and Innovation

Report of the Head of Audit Partnership

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee notes the current status of the Partnership and current issues influencing operations.

Key initiatives since June 2022

The impacts of the Covid pandemic are being surpassed and also compounded at present by wider global events in Ukraine, and the pressure on budgets across the public sector resulting from the wider cost increases. This does affect the Partnership, not just in our own budget management but the support we need to provide to our Partners, with ever more value coming from our assurance activities. Public reporting indicates that cases of Covid are rising and so an awareness of the impact coming into Autumn and Winter will need to be maintained.

It remains unlikely that we will fully return to working practices pre pandemic and we are progressing with maximising the opportunities and benefits that will be provided by more flexible working locations. We know that there are still challenges as we adjust to new ways of working, but I am sure that the Partnership Team are well equipped to rise to these. We will continue to support staff to achieve the appropriate balance and support needed.

We continue to have seen considerable change in our workforce and this is now settling with the most recent changes including a New Head of Partnership, Deputy Head of Partnership and Senior Assurance Manager. Our age profile means that staff will continue to retire in the coming years and we need to plan for effective succession planning of key staff. Supporting our Apprentices is a good start to ensuring this succession is managed proactively, in addition we have revised our management structure to create more flexibility as we evolve and grow.

We are pleased to confirm that Devon and Somerset Fire and Rescue has joined the Partnership for the delivery of Internal Audit Services, effective from 01st October 2022. We continue to work with both our Partners and Non Partners to provide a range of Assurance Services.

Tony Rose
Head of Devon Audit Partnership

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Finance, New Business and Staff

Budget position

The Partnership continues to remain on target to achieve a balanced budget as advised in the budget update item, having managed to offset some additional costs through the delivery of additional services. We have seen a number of Partners and Clients wishing to purchase further services and we are keen to support such requests. This leads to the need for additional staff (often on a temporary or short-term basis) to support that work. We know that things can, and do, change quickly and so constantly monitor the financial position to ensure we stay on track and within budget.



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New Business

In our June Annual Report we reported the ongoing bids for EU Grant work, and this continues. However this work will start to reduce during 2023/24 and so in response we are taking the opportunity to revise our Education Assurance offering and will seek increased levels of work amongst Multi Academy Trusts. Furthermore, we have been successful in bids to join the Government of Jersey Internal Audit Delivery Framework and are looking at how we can maximise the opportunity arising from increased remote working practices.

We continue to receive positive feedback where we are not successful with a bid. Remaining financially competitive in external markets risks becoming more challenging in the current financial context.

New staff

A number of staff have recently retired from the Partnership, and we wish them a long and enjoyable retirement; this, coupled with extra work requests, has given the opportunity for us to recruit a number of new staff.

We have appointed Jo McCormick as our Deputy Head of Partnership; Jo was previously a Senior Assurance Manager leading Internal Audit Delivery for our DCC Partner. Brad Hutton has joined as a Senior Assurance Manager with responsibility for Risk Management, and Yassin Razzouk El Attrach as a Trainee Assurance Practitioner focusing on Counter Fraud.

These appointments help to build resilience across the Partnership and offer opportunities to expand the Integrated Assurance Approach, aiming to increase the value of our work through the integration of Audit, Counter Fraud and Risk Management.



Adding Value

Adding value is inherent in our approach and in our Partner and customer expectations. We know that senior management and those charged with governance very much value our independent assurance & welcome our identification of untreated risk or control weaknesses, but they also want an assurance service that “adds value”.

Added value will mean different things to different people at different times; it is not about a “buy one get one free” approach, but it is about using our professionalism and ability to apply a unique and independent approach to help organisations and managers provide their services in the best possible fashion. We employ staff who can make a difference and encourage them to “add value” at every step in the assurance process. We set out below some comments received in the various elements of our service since June, more can be found [published on our website](#).

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Reporting was Timely and Accurate

Thank you for providing a professional service, in a timely fashion with clear instructions guidance and feedback throughout

Added Value

The audit has since enabled me to scope out an internal project to make the required changes.
The audit added value as it provided the supporting evidence to demonstrate areas for improvement which we can now look to address.

Done in a very friendly and professional manner with little disruption to the Service

Excellent planning from the start...meetings were always useful and done in a very friendly and professional manner with little disruption to the Service.

I found the Auditor to be an excellent communicator and I thoroughly enjoyed the process as it was very useful and informative...

The audit did add value as it uncovered some aspects of the Service that I needed to investigate further and also put some of the modernisation requirements that are absolutely imperative to be known by a wider audience.

It was a positive experience

Drilling down in to certain subjects was useful as it made me/the organisation see where there were some gaps and how they needed to be filled.

Honest feedback, particularly during a time of uncertainty has been helpful

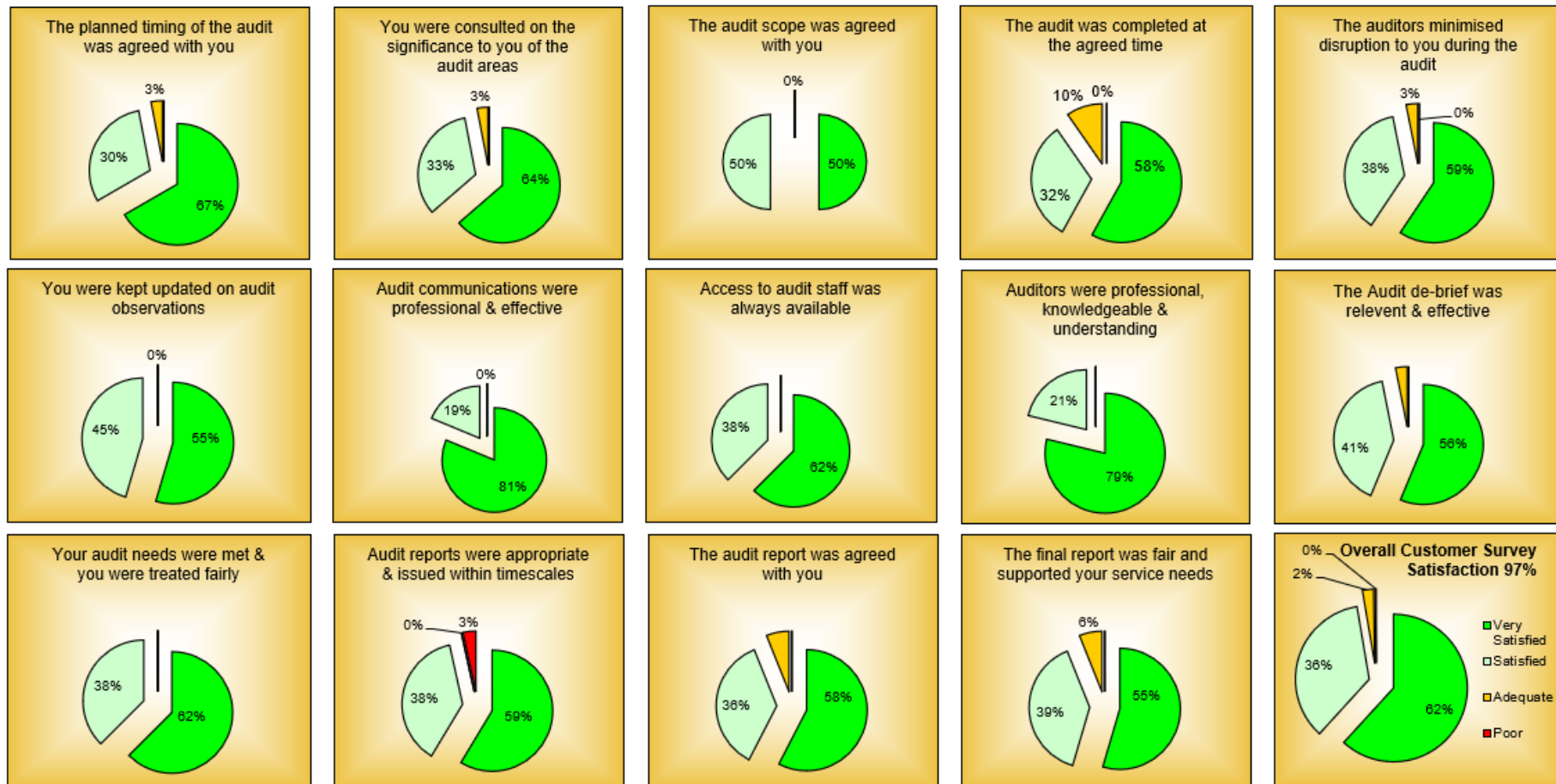
Identifying gaps, risks and ensuring these are well documented (and has also helped with pushing for decisions to be made on the future of the service) has added value.

We thank the Auditor for being open, honest, patient and incredibly approachable

Customer Service Excellence (CSE)

DAP holds the Customer Service Excellent award, and we have a rolling annual external assessment process, with the next assessment phase due to be carried out in late 2022. After every audit we issue client survey forms and the results of the surveys returned remain very good and positive. The overall result is very pleasing, with 98% being "satisfied" or better across our services, see below. It is very pleasing to report that our partners and clients continue to rate the services we provide highly.

Customer Survey Results April 2022 - September 2022





DAP - Internal Audit Performance

Our analysis of performance for the first six months of 2022/23 shows that, overall, performance is acceptable and in line with the impacts of partners still undertaking remote working, detailed information is shown in the table below. The Partnership Management Team is aware of the areas with challenges, and we are working hard to improve our MI to help us ensure that we meet the performance levels we aspire to. In addition we are reviewing all of our existing measures in advance of 2023/24 to ensure that they are relevant, informative and in line with industry best practice.

The majority of the indicators show a positive direction for travel compared to this point in 2021/22, but this should be considered against the backdrop of the ongoing need to respond to the “new normal” ways of working following the Covid pandemic. We continue to recruit new staff (apprentices and more experienced staff) but it will take time to train and fully develop these staff so that they can help drive up performance further.

| Devon Audit Partnership - Performance Indicators for Quarters 1 and 2 (2022-23) | | | | | Comments |
|---|------------------|--|-------------------|--------------------------------|--|
| Performance Indicator | Full Year Target | Mid-Year Position | Projected Outturn | Direction of Travel vs 2021/22 | |
| Percentage of work Commenced (Ex Schools) | 100% | 52% | 98% | ↑ | The “percentage of work commenced” is at expected levels but is under pressure. This is mainly due to delays requested by the client as our Partners respond to the ongoing national and local issues. |
| Percentage of Work Completed | 90% | 29% | 90% | ↑ | |
| Percentage of Chargeable time | 65% | 76% | 70 – 80 % | ↑ | Percentage of Audit Plan Completed – Compares similarly with this time last year. Audits are taking a little longer to complete as Partner staff take greater time to respond to our reports and findings due to other pressures. |
| Customer Satisfaction | 90% | 98% | 98% | ↑ | |
| Draft Reports Issued in Target Days | 90% | 84% | 90% | ↑ | Percentage of Chargeable time this varies according to the when the team take their leave. |
| Final Reports Issued in Target Days | 90% | 98% | 99% | ↑ | |
| Staff Turnover | 5% | 8% | 10% | ↓ | Draft Report production is a little slower than we would like. We will work with our team to ensure that this improves, and our increased MI will also help to identify and address this challenge. |
| Out Turn within Budget | Yes | Yes *2022/23 Pay Award Impact Pending | Yes | ↔ | |

DAP Counter Fraud Update

Counter Fraud Service Mission statement – Ensure that every pound of taxpayers’ money saved in fighting fraud is a pound invested in our public services or back in the pocket of the taxpayers we serve.

| Reactive Work Stats 2022/23 - (1 st April 2022 – 05 th October 2023) | | | | | |
|--|--|---|---|---|----------------|
| Completed / Closed Cases – Specific details cannot be provided and not all referrals result in identification of wrongdoing. | | | | | |
| Devon County Council | Plymouth City Council | Mid Devon District Council | North Devon Council | South Hams / West Devon Council | Torbay Council |
| 38 Cases <ul style="list-style-type: none"> • 33 Blue Badge • 3 Internal • 2 Other | 115 Cases <ul style="list-style-type: none"> • 72 Council Tax • 23 Tenancy • 14 Grants • 1 Permit • 1 Social Care • 1 Internal • 1 Other | 1 Case <ul style="list-style-type: none"> • 1 Tenancy | 1 Case <ul style="list-style-type: none"> • 1 Other | 1 Case | 1 Case |
| Ongoing Cases – Specific details cannot be provided and not all referrals result in identification of wrongdoing. | | | | | |
| 13 Cases <ul style="list-style-type: none"> • 5 Internal • 6 Other • 1 Blue Badge • 1 Concessionary Travel | 101 Cases <ul style="list-style-type: none"> • 35 Tenancy • 22 Council Tax • 11 Grant • 2 Social Care • 16 Permits • 7 Blue Badge • 4 Concessionary Travel • 1 Internal • 3 Other | 9 Cases <ul style="list-style-type: none"> • 8 Tenancy • 1 Internal | 1 Case <ul style="list-style-type: none"> • 1 Internal | 3 Cases <ul style="list-style-type: none"> • 3 Grant | (Nil) |

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Proactive Counter Fraud Work – This includes work such as the review of Single Person Council Tax Discounts, support for the completion of the Bi-Annual National Fraud initiative and increased work on Data Matching within partners organisations.

The DAP Counter Fraud Services Teams’ mission is aligned to that of the newly created [Public Sector Fraud Authority](#), to support provide and integrated assurance offer to all partners and clients.

DEVON AUDIT PARTNERSHIP – Budget Monitoring Month 6 2022/23 Report of the Director of Finance

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendations: That the committee notes the 2022/23 revenue position and the impact of wider events on the work to achieve a balanced budget in 2022/23.

Summary

The attached report from the Head of Devon Audit Partnership summarises the budget position on the activity in the first six months of 2022/23.

The report recognises the challenge brought about by the wider economic context, in which DAP along with Partners continue to face pressures on the budget for 2022/23.

The overall position is expected to be balanced by the end of the financial year, in part due to one off savings.

- Legal Consideration: There are no specific legal considerations resulting from this report.
- Environmental Impact Considerations (Including Climate Change): There are no environmental issues arising from this report.
- Equality Considerations: There are no equality issues arising from this report.
- Risk Management Considerations: No risks have been identified.
- Public Health Impact: There are no public health issues arising from this report.

Angie Sinclair
Director of Finance

Electoral Divisions: All
Local Government Act 1972

List of Background Papers

Contact for Enquiries: Tony Rose tony.d.rose@devon.gov.uk
Tel No: (01392) 385488 Larkbeare House

| <u>Background Paper</u> | <u>Date</u> | <u>File Ref</u> |
|-------------------------|-------------|-----------------|
| Nil | | |



Devon Audit Partnership (DAP) Committee Budget Update 2022/23

As is the case with the Partners, there is an impact on the DAP Budget resulting from the wider national and global events. This paper contains a brief summary of the specific challenge for the Partnership and the actions being taken to mitigate their impact.

| 2022/23 Budget and Comments at the half year point | | | | |
|--|----------------|------|---|---|
| Area | 2022/23 Budget | % | Comments / Context | Updates |
| Employees | 1,880,600 | 93% | 2022/23 budget included allowance for a pay award of 2%. | £1,925 pay award |
| Premises | 38,000 | 1.9% | | Increases are being finalised. |
| Supplies, Services and Transport | 66,600 | 3.2% | These areas include costs such as IT software, hardware and support, insurances, licence costs etc. | Costs in this area have increased by notably in year. |
| Support | 49,000 | 2.4% | | |

Headline Pressures in 2022/23

- Pay Award
 - £1,925 Salary cost per employee excluding the effect on employer NI and Pension.
- Premises and IT increases in year including one off costs
 - ICT 12k.
 - Licencing Costs 4k.
 - Premises Costs £10k

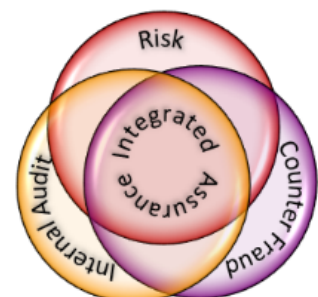
The anticipated gap is in the region of **£65k** based on the assumption that we are on target / within budget in all other areas year to date.

There are several elements that will help to address the gap including:

- Vacancy Management – A decision was made not to replace a member of the team who left in August, in addition year recruitment has resulted in various one off savings.
- External / Additional Work - We continue to seek additional external work which where possible can delivered via existing staff and avoid any income being negated from additional staffing costs.
- Reduction in any areas of non-staffing expenditure - Minimal Opportunity.

We will continue to look in detail at all planned expenditure in addition to the measures set out above. The pressures which have materialised during 2022/23 will also have an impact on the 2023/24 budget which is due to be presented at the next Devon Audit Partnership Committee meeting.

Tony Rose
Head of Devon Audit Partnership



Organisation culture...

“the way things are done around here”

“ the combination of values, attitudes and behaviours that a company exhibits in its operations and relations with those affected by its conduct, e.g. employees, customers, suppliers, and wider society!”



We sometime talk about Auditing Culture and when we do it tends for focus on the items above the water line as these can be assessed and measured more tangibly. This image shows some of the areas that are under the water line and harder to assess, but can be even more of a cultural driving force than visons and policies etc.

Note – This image was shared by Cornwall County Council Internal Audit team.

2023

RISK IN FOCUS

Board Briefing

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Agenda Item 7

BOARD BRIEFING: Risk in Focus 2023

Boards should harness internal audit to navigate the 'perfect storm' of high-impact interlocking risks

In 2022, a 'perfect storm' of high-impact, interlocking risks threw many businesses into a permanent state of crisis. Following an ongoing pandemic, the war in Ukraine intensified supply chain failures, fuelled inflation and energy price increases.

Boards must rapidly adapt to the new reality of heightened geopolitical instability, climate-related natural disasters, looming recession, an accelerating cost of living catastrophe in Europe, food shortages, employee welfare and skills deficits, and a rapidly industrialising cyberattack landscape.

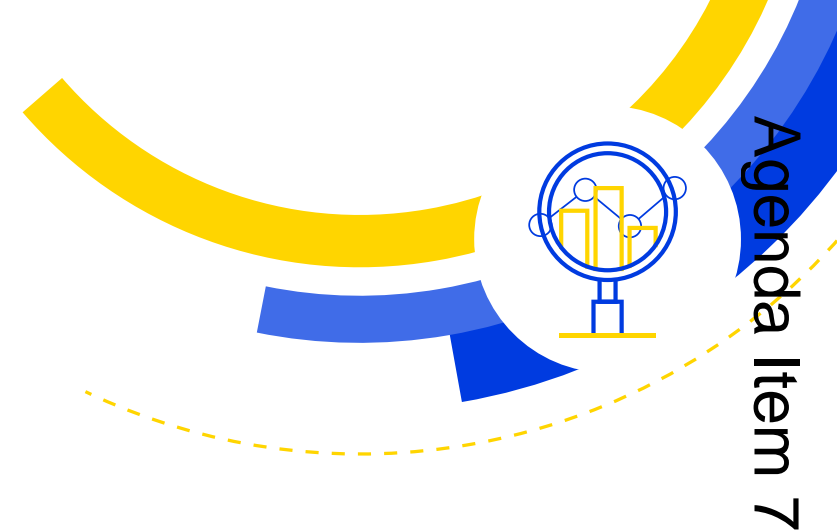
The key to success will be for senior management teams and boards to stop seeing sudden, systemic organisation-wide risks with contagious, unpredictable ramifications throughout the enterprise as Black Swan events: they are interlocking elements of a continuous storm that will blow through Europe in 2023 and beyond.

Chief audit executives have identified five key areas of focus to help boards navigate these headwinds: geopolitical uncertainty, climate change, organisational culture, cyber and data risk, and digitalisation and artificial intelligence.

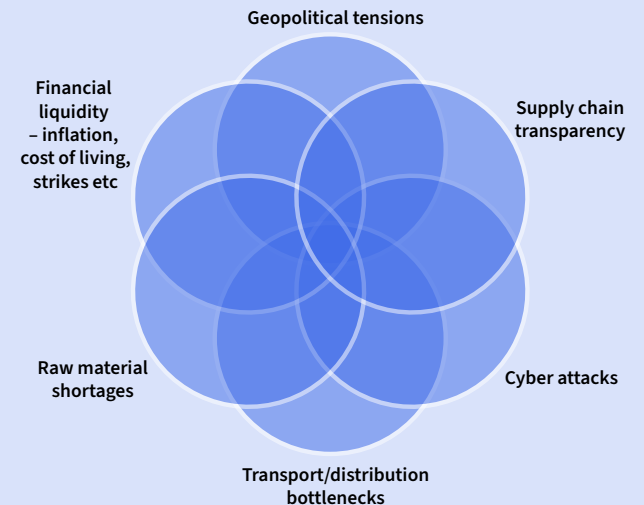
For example, fast-moving human capital and climate-related risks require a strategic response. While changes to laws and regulations are important from a compliance perspective, chief audit executives can help boards undertake deep-rooted cultural, governance, and risk management transformations to meet these challenges.

In addition, taking a strategic approach to cybersecurity and data governance can help organisations combat industrialised hacking attacks, ensure that reporting on issues such as sanctions compliance and climate change is accurate, and pave the way for effective digitalisation at a time when automation is a key tool for realising strategic goals, including in human capital to tackle skills shortages.

Finally, chief audit executives are ideally placed to help organisations tackle employee burnout and changing attitudes to employment. Working with the board to use the Environmental, Social and Governance agenda to discover and communicate purpose as well as protect staff wellbeing can help win the all-important war on talent.



Venn Diagram Illustrating the Perfect Storm of High-Impact Interlocking Risks



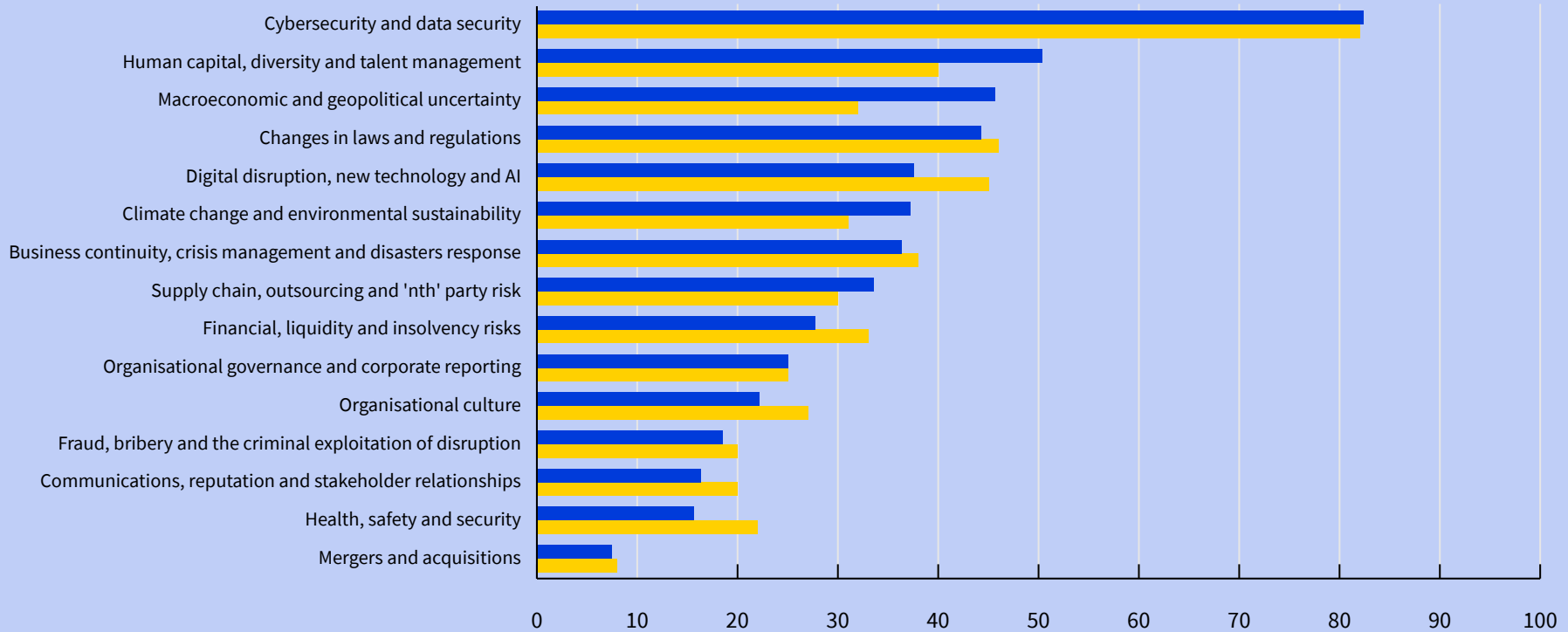
Key findings: 2022 vs 2023

What are the top five risks your organisation currently faces?



■ 2023
■ 2022

Human capital risk moves into second place this year followed by macroeconomic and geopolitical uncertainty.



CALL TO ACTION FOR BOARDS

1. Focus on systemic risks that create vulnerabilities in many parts of the organisation simultaneously and ensure risk assessment and risk management efforts provide the board with clear oversight of such risks
2. Ensure that governance, risk management and control efforts are coupled to strategic risks
3. Check that the board's risk appetite is up to date in order to provide clarity in rapid strategic decision making
4. Work with the chief audit executive to ensure the internal audit function spends as much time as necessary on emerging strategic and systemic risk areas
5. Provide the chief audit executive with the profile, authority and resources to properly support the organisation in achieving its strategic goals



HOT TOPICS

MACROECONOMIC AND GEOPOLITICAL RISK, EMERGING AND STRATEGIC RISK

Auditing in a time of crisis

Chief audit executives ranked macroeconomic and geopolitical risk as the third most pressing threat in the Risk in Focus 2023 quantitative survey, up from seventh place last year. On the other hand, they ranked it just 15th in terms of where they spend their time, which they expect to rise to 13th place over the next three years.

Given the pressure such high-impact, fast-moving events place on financial and liquidity risk, for example, the lack of attention to this key area seems either short-sighted or untenable. Board members could use these results to discuss whether internal audit's time is currently being focused on the risk areas of highest strategic importance, or whether they need more resources to give these emerging strategic risk areas sufficient attention.

In the first quarter of 2022, as a result of the War in Ukraine, sanctions risk arose as a major area of focus with internal auditors

in some sectors supporting their businesses in maintaining up-to-date risk assessments and strengthening controls for screening suppliers and shareholders. Data governance is key to increasing transparency in these areas to avoid compliance-related fines and legal action.

Following the conflict in Ukraine and increasing tensions with China, supply chain risks pose existential threats to both organisations and life. The nature of extended enterprises means that such risks cut across all areas of the business and demand a strategic (rather than operational and tactical) response from boards and internal audit teams. Supply chain visibility is vital, including the ability of businesses to digitally model their supply chain structures to stress test and improve them.

Large-scale, interconnected risk events are becoming systemic. Traditional operational

crisis management teams are not equipped to deal with non-stop emergencies – the effects of which can jump rapidly and unpredictably through the enterprise. An up-to-date risk appetite can provide greater clarity to rapid strategic decision-making in times of crisis.

3rd



Chief audit executives ranked **macroeconomic and geopolitical risk** as the **third most pressing threat**, up from seventh place last year.



Agenda Item 7

HOT TOPICS

CLIMATE CHANGE AND ENVIRONMENTAL SUSTAINABILITY

Transition to climate change auditing

Climate change has become one of the most dynamic, fast-moving areas for businesses, according to the Risk in Focus 2023 quantitative survey of chief audit executives. It moved from eighth to sixth place in the risk rankings – and respondents expect it to move to third place in three years' time. The qualitative interviews and round table sessions revealed that many chief audit executives are working to integrate climate change aspects into every audit assignment.

The Conference of the Parties (COP26) set new targets for net global emissions. European Sustainability Reporting Standards (a key component of the Corporate Sustainability Reporting Directive) and the International Sustainability Standards Board's own rules should be finalised by the end of 2022. Internal audit functions need to help companies rapidly get to grips with developing key performance indicators around these rules and robust data reporting systems that are accurate and timely.

Internal audit also has a key role to play in providing assurance to the board that the organisations' climate-related objectives are linked to its core strategy, have adequate risk management to ensure that strategy is achieved, and have robust data and reporting structures, relevant KPIs and that they comply with international standards. Boards must ensure that internal audit helps in the development of such frameworks from the outset to make certain that risks are managed in line with risk appetite. The business should have a firm grip on how and why it does business with key third party suppliers and seek assurance that they are not a weak link in its climate change strategy.

Given increasing pressure from shareholders and stakeholders on climate-related reporting, a key risk is that legal, voluntary and marketing statements are wrong. Organisations must not view climate change disclosure as a compliance exercise. Instead, applying an Environmental, Social and

Governance (ESG) lens to the issue provides businesses with the transparency they need to both avoid reputation risk from charges of green-washing and to assure stakeholders that the organisation is on the right path to achieve net zero objectives.



Climate change moved from eighth to sixth place in the risk rankings – and respondents expect it to move to third place in three years' time.



HOT TOPICS

HUMAN CAPITAL, DIVERSITY AND TALENT MANAGEMENT

The human factor

Human capital, diversity and talent management ranked as the second highest threat in Risk in Focus 2023 qualitative survey: 50% of chief audit executives rated it as a top five risk. Respondents said it would retain its new second-place position over the next three years.

The pandemic has accelerated skills shortages as many mature workers have retired and younger people have favoured education or alternative career routes. A leeching of institutional knowledge and burnout has left many organisations with hard-to-fill gaps for key projects, such as digitalisation – a process that promises to alleviate such shortages in future.

Businesses must tackle wage inflation, skill shortages and the need to offer better psychological support to staff. That entails retooling their organisational culture.

Organisations must create a core, purposeful and diverse culture to accommodate, for example, hybrid working and inclusion, while remaining highly operational, productive and functional however people choose to work.

Some boards fail to either articulate or communicate a sense of purpose that connects with the workforce and the communities in which they operate. The European Union's pandemic recovery plan, NextGenerationEU, is built on the UN's Sustainable Development Goals. Internal auditors can play a key role in supporting the board, by using such a framework to help bridge potential gaps between the organisation's purpose, the workforce and external stakeholders. Refreshing a business' Environmental, Social and Governance framework can help it strengthen its strategic human capital, diversity and talent management goals.

Chief audit executives can provide assurance that their organisations have created governance structures with adequate risk management controls that are aligned with strategic talent objectives. Assignments may include assessing the current culture and helping management develop a roadmap for change and helping ensure the desired strategy is well articulated and communicated. The right tone set at the top by the board and senior management is the key to success.

Businesses must tackle wage inflation, skill shortages and the need to offer better psychological support to staff.



HOT TOPICS

CYBERSECURITY AND DATA SECURITY

Auditing at the speed of crime

Cybersecurity and data security remained the number one threat for chief audit executives in the Risk in Focus 2023 quantitative survey: 82% ranked the risk in their top five. In addition, internal auditors said they spent most time and effort working on this area.

Ransomware has been a major threat in 2022, but the nature of cyberattacks is changing. Relatively inexperienced hackers now take advantage of a sophisticated ransomware-as-a-service industry. More ominously, “killware” attacks have also increased, targeting critical infrastructure and threatening lives.

That means that cyber and data breaches impact not only the quality and availability of products and services, an organisation’s trustworthiness and reputation, but also its financial stability and very existence. Where businesses have robust defences, hackers seek entry via their less well protected third party suppliers or cloud-enabled systems.

The European General Data Protection Regulation places responsibility for data breaches and losses squarely on the shoulders of businesses – an approach adopted in Europe’s revised cybersecurity directive NIS2. These data protection rules are mirrored in the UK GDPR and moves are underway to strengthen the UK’s version of the NIS regulation.

Despite the intensity and gravity of cybersecurity and data security risk, many chief audit executives participating in Risk in Focus 2023 said boards often lacked either sufficient knowledge or interest in such threats. While chief audit executives can play a key role in helping spread cyber and data best practice, the interest and support of the board is also critical.

Internal audit has an important role in giving assurance that an organisation’s cyber and data controls and policies, including

access rights, are properly implemented on the ground. In addition, in less mature organisations chief audit executives could facilitate breach simulation and tabletop exercises to strengthen defences and the effectiveness of remediation measures. With effective insurance protection difficult to quantify or purchase, businesses must do all they can to mitigate such risks with their own resources.

Cyber and data breaches impact not only the quality and availability of products and services, an organisation’s trustworthiness and reputation, but also its financial stability and very existence.



HOT TOPICS

DIGITAL DISRUPTION AND NEW TECHNOLOGY

Switching to automatic

Between 2020 and 2021, the pandemic forced many organisations to accelerate lagging digitalisation efforts as sales and distribution networks needed to rapidly virtualise and as many staff moved to homeworking.

This year, chief audit executives responding to the Risk in Focus 2023 quantitative survey ranked digital disruption and new technology as the fifth most pressing risk, down two places from 2022. But in three years' time, they said it would rank as the second biggest area of internal audit effort. But rocketing inflation, pay increases and supply chain disruption threaten to sink such projects – despite the need for businesses to use new technologies to cut costs in the face of rising prices and to plug growing skill shortages.

Organisations that succeed in digitalising their businesses have strong innovation cultures, clear strategic vision and the right talent. Internal audit can play a key role in ensuring innovation and risk are well-

balanced in an organisation's culture – and that innovation efforts are properly aligned to strategic objectives.

In addition, sound data governance is critical, and boards must focus on strategic data risk. Data risk can impact many areas at the same time including, for example, reputational, regulatory, operation and financial risk. Yet unlike with other emerging systemic risks, organisations can better control such threats by tackling the root cause of the problem – poor data governance and management.

As well as supporting businesses at a strategic level, internal audit must keep abreast of new technologies deployed in their organisations, including artificial intelligence (AI). That can include working with the first and second lines to use the business' AI to automate audit processes. Internal audit can also assess whether the organisation has a credible roadmap for progressing to AI, as well as provide assurance over its

processes for evaluating their reliability and validity. But given the proposed tough new regulations on AI in Europe and similar rules in the UK, internal audit must have the skills and knowledge to assess the risk of bias associated with such cognitive technologies so that unfairness does not become baked into an organisation's infrastructures.



In three years' time, chief audit executives said **digital disruption and new technology would rank as the second biggest area of internal audit effort**, but rocketing inflation, pay increases and supply chain disruption threaten to sink such projects.



ABOUT RISK IN FOCUS

For the past seven years, Risk in Focus has sought to highlight key risk areas to help internal auditors prepare their independent risk assessment work, annual planning and audit scoping. It helps Chief Audit Executives (CAEs) to understand how their peers view today's risk landscape as they prepare their forthcoming audit plans for the year ahead.

This year, Risk in Focus 2023 involved a collaboration between 14 Institutes of Internal Auditors spanning 15 European countries which included: Austria, Belgium, Bulgaria, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Slovenia, Spain, Sweden, Switzerland and the UK & Ireland. The highest number of European countries involved so far.

The survey elicited a record-breaking 834 responses from CAEs across Europe. Simultaneously, four roundtable discussions were organised with 39 CAEs on each of the risk areas covered in the report. In addition, we also conducted 9 one-to-one interviews with subject matter experts that included CAEs, Audit Committee Chairs and industry experts to provide deeper insights into how these risks are manifesting and developing.

The colour scheme for this year's Risk in Focus has been chosen as the same colours of the Ukraine flag, to express European solidarity and support with the people of Ukraine.

