

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

18 April 2019

Annual Review of the Effectiveness of Internal Audit

Report of the Chief Accountant and Section 151 Officer

This report is public

Purpose of the Report

- To provide to the Audit and Corporate Governance Scrutiny Committee the annual review by the Chief Financial Officer of the effectiveness of the Council's Internal Audit arrangements.
- For the Audit Committee to consider whether the conclusion set out within this report represents a reasonable evaluation of the position in respect of the Internal Audit service and its effectiveness as part of the Council's Governance arrangements.

1 Report Details

Background

- 1.1 The Accounts and Audit Regulations require local authorities to follow proper accounting practices and to maintain an appropriate regime of internal control. These Regulations require that the Council will on at least on annual basis conduct a review of the effectiveness of its internal audit service, and that this review will be considered by a committee of the Council as part of the wider consideration of the system of internal control.
- 1.2 Given the role of the Audit Committee in relation to financial governance and internal control issues it is appropriate that this report is brought before that Committee for consideration. These reviews have been undertaken for each year of operation since the current consortium arrangements with Chesterfield and North East Derbyshire became operational in 1 April 2007.

Review of the Effectiveness of Internal Audit

- 1.3 The Chief Financial Officer in reviewing the effectiveness of the Council's Internal Audit Service during 2018/19 is satisfied that an effective service has been provided, and her overall conclusion regarding the service is as follows:

"It is my opinion that the Council's Internal Audit section which is provided as a Joint Service between Chesterfield, Bolsover and North East Derbyshire carries out this function competently and to a high standard. The Consortium provides an effective service upon which I can place reliance."

The sections below outline the evidence which support that judgement and this Committee are asked to consider and comment upon the reasonableness of the conclusion that has been reached.

- 1.4 Firstly, the Internal Audit Consortium has achieved at least 96% of the Internal Audit Plan for 2018/19 with just one audit being deferred to 2019/20. The Audit Plan is based on a risk assessment process in respect of the Council's systems and internal controls, and the fact that the Plan has effectively been completed by the year end supports the view that a systematic review of the Council's activities has been undertaken during the course of the year. The Council's Senior Management Team were consulted and agreed the Audit Plan before the start of the financial year. It was a robust plan which covered all of our main systems of internal control and areas of identified risk. Progress against the Audit Plan has been reported to this Audit Committee on a regular basis during the year by the Internal Audit Consortium Manager. The Internal Audit Consortium 2018/19 Annual Report to North East Derbyshire District Council, which will be presented to this Committee in May will provide Members with a true and fair view as to internal audit work undertaken during 2018/19.
- 1.5 Secondly, the most direct outcome which arises from the work of Internal Audit are the reports, which cover the areas as agreed within the Audit Plan. These reports provide important evidence which enable other stakeholders to evaluate the quality of the work of internal audit. There are a number of quality checks built into the process of producing and agreeing these audit reports. These include the right of the responsible Service Manager, Head of Service and Strategic Director to comment on the conclusion of the audit and the fact that all of the audit reports are effectively quality checked by members of the Senior Management Team and considered by this Committee. This comprehensive range of quality control has not raised any issues. As Chief Financial Officer no issues have been brought to my attention which would suggest that the Internal Audit service is failing to operate to appropriate professional standards.
- 1.6 Thirdly, the audit team operate to recognised good practice as set out by the Chartered Institute of Public Finance and Accountancy (CIPFA), in its Public Sector Internal Audit Standards (2013, 2017). The Head of the Internal Audit Consortium reports on an annual basis the outcome of the self assessment that has been undertaken, with the assessment together with an Improvement Plan reported to and agreed by this Audit Committee. On the basis of the evidence available the Chief Financial Officer is satisfied that the Consortium is operating in line with the requirements of the Public Sector Internal Audit Standards. In addition the Council operates its internal audit function in line with best practice as set out in the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2010).
- 1.7 It should be noted that under the Public Sector Internal Audit Standards which have applied since April 2013 that the Council is required once every five years to commission an independent review of its Internal Audit function by a suitably qualified external organisation. That review was undertaken during the 2016/17 financial year with a detailed report on the outcome being considered at the meeting of this Committee on 2 February 2017. The external review was a positive one and concluded that the Internal Audit service complied with the requirements of the Public Sector Internal Audit Standards. The review did however identify some areas

for improvement to enhance the existing service and these were detailed in an Action Plan which has now been delivered. I consider that the review supported my own understanding of the position of the Internal Audit team and it is reassuring that the service has once again responded positively and is seeking to use the outcome of the review to secure further improvement in the quality of the service.

- 1.8 Finally, in terms of the judgement regarding the effectiveness of Internal Audit it should be noted that the service has operated within the approved financial budget since its inception in April 2007. Given that these budgets were based upon the Business Case which was developed concerning the Internal Audit consortium as part of the process of setting up the Consortium arrangements, and that the Business Plan explicitly considered best value issues I am satisfied that the service is providing good Value for Money for the Council.

2 Conclusions and Reasons for Recommendation

- 2.1 Having considered the evidence above and consulted with relevant senior officers I am satisfied that the Internal Audit Service is operating at an appropriate standard. I am also satisfied that the Consortium is in a good position to continue to provide a high quality, cost effective service to the Council.

- 2.2 To establish whether the Audit Committee is in support of the view of the Chief Financial Officer that

"It is my opinion that the Council's Internal Audit function which is provided as a Joint Service between Chesterfield, Bolsover and North East Derbyshire carries out this function competently and to a high standard. The Consortium provides an effective service which I can place reliance on."

3 Consultation and Equality Impact

- 3.1 Given that the purpose of this report is to consider the effectiveness of an existing service it is not considered that there is a requirement for consultation on this matter, or that there is any direct impact upon equality issues.

4 Alternative Options and Reasons for Rejection

- 4.1 The Chief Financial Officer is required by good practice to consider at the end of each financial year whether or not the Internal Audit team provide a service on which she can place reliance. There is therefore no option other than to bring this report to the Audit Committee which is the Committee charged with ensuring the sound financial governance of the Council.
- 4.2 In arriving at the conclusion of the report there is an option to conclude that the Internal Audit team does not provide a service on which the Chief Financial Officer can place reliance. Section 1 of the report sets out the grounds on which the Chief Financial Officer has concluded that this would not be an appropriate conclusion to reach.

5 Implications

5.1 Finance and Risk Implications

- There are no additional financial implications arising out of this report.
- On the basis that the Internal Audit Consortium provided a service on which the Council can place reliance then this provided a significant mitigating factor which will reduce the risk of a failure of the Council's Internal Control arrangements.

5.2 Legal Implications including Data Protection

There are no Legal or Data Protection issues arising directly from this report.

5.3 Human Resources Implications

There are no additional HR implications arising out of this report.

6 Recommendations

- 6.1 That the Audit and Corporate Governance Scrutiny Committee consider and endorse the views of the Chief Financial Officer in her assessment of the Internal Audit Service during the 2018/19 financial year which is that:

"It is my opinion that the Council's Internal Audit function which is provided as a Joint Service between Chesterfield, Bolsover and North East Derbyshire carries out this function competently and to a high standard. The Consortium provides an effective service which I can place reliance on."

- 6.2 That the Audit and Corporate Governance Scrutiny Committee make any comments which they consider to be appropriate either on the contents of this report, or on the opinion of the Chief Financial Officer regarding the effectiveness of the Internal Audit service.

7 Decision Information

<p>Is the decision a Key Decision?</p> <p>A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p>BDC: Revenue - £75,000 <input type="checkbox"/></p> <p> Capital - £150,000 <input type="checkbox"/></p> <p>NEDDC: Revenue - £100,000</p> <p> Capital - £250,000</p>	<p>No</p>
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* Please indicate which threshold applies	
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
Has the portfolio holder been informed?	N/A
District Wards Affected	None directly
Links to Corporate Plan priorities or Policy Framework	All indirectly

8 Document Information

Appendix No	Title
N/A	
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	Contact Number
Jayne Dethick – Chief Accountant and Section 151 Officer	7078