

**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**21 April 2016**

**Internal Audit Consortium - External Review of Internal Audit**

**Purpose of the Report**

- To consult members on the format of the external review of internal audit that is required by the Public Sector Internal Audit Standards.

**1 Report Details**

**Background**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) were introduced from the 1<sup>st</sup> April 2013 and Internal Audit has been working to those standards since that date. The PSIAS require that internal and external assessments of internal audit must take place.
- 1.2 An internal self- assessment against the PSIAS utilising the recommended CIPFA checklist has been undertaken on an annual basis by the Internal Audit Consortium Manager and the resultant improvement plans have been reported to and monitored by this Committee.
- 1.3 The PSIAS require that an external assessment should be carried out at least once every 5 years by a qualified, independent assessor or team. The first external assessment needs to be completed by April 2018. The Internal Audit Consortium Manager is required to discuss the following in advance of the assessment with the Audit and Corporate Governance and Scrutiny Committee:-
  - The form of external assessments
  - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest
- 1.4 The external assessment can either be a “full” external assessment or a self- assessment with “independent validation”.
- 1.5 In order to gain economies of scale and because the working practices of the Councils involved are the same it would make sense for the assessment to be undertaken for all of the partner consortium members and Derbyshire Dales District Council at the same time.

## **Assessment Options**

- 1.6 Members firstly need to decide if a full assessment or a validation of a self- assessment is more appropriate.
- 1.7 A full assessment would provide Members with a greater level of assurance of the quality of internal audit however the cost of this would be greater than a validation of self- assessment.
- 1.8 A validation of the self- assessment would involve the external provider reviewing the evidence against the recommended PSIAS checklist that the Internal Audit Consortium Manager will provide and assessing its adequacy. In support of the validation of self- assessment option the following can be stated:-
- The effectiveness of internal audit is assessed by the Council's section 151 Officer on an annual basis and the results of this assessment have always been positive.
  - The annual audit plans have always been substantially completed
  - Regular reports are submitted to the Audit, Corporate Governance and Scrutiny Committee
  - External audit have placed reliance on internal audits work
  - The audit team is very experienced and well qualified.
  - Customer satisfaction surveys score very highly

## **Qualifications of Assessor**

- 1.9 Whichever assessment option is selected, the assessors would need to be appropriately qualified. Competence can be demonstrated through a mixture of experience and theoretical learning. The standards state that experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience.
- 1.10 The Internal Audit Consortium Manager should use their professional judgement when assessing if the assessor is appropriately qualified but the following guidelines could be used:-
- Does the reviewer possess a recognised professional qualification?
  - Does the reviewer have appropriate experience of internal audit e.g. 5 years at manager level within the public sector?
  - Does the reviewer have detailed knowledge of leading practices in internal audit and current, in-depth knowledge of the PSIAS.

## **Assessment Process**

- 1.11 If Members elect for the validated self- assessment option then CIPFA recommend that the PSIAS checklist included in their Application Note be used.
- 1.12 The review would likely be carried out through a process of review of documentation e.g. the Internal Audit Charter, internal audit working papers and interviews/questionnaires. The external assessor may wish to speak to the section 151 Officers, the Chairs of the Audit Committees, audit staff and a sample of clients.

## **Procurement of Assessor/Potential Cost**

- 1.13 Under Chesterfield Borough Council's procurement rules for goods and services between £10,001 and £50,000 three written competitive quotations must first be obtained. As there are four Councils involved it is very likely that the cost will exceed £10,000 with each Authority paying their share.
- 1.14 It is difficult to predict the cost of the assessment with accuracy. The Midlands Audit Group were surveyed however a number of the Council's that participate in this are themselves only just looking at undertaking their first external assessment. From the few responses received costs/quotes range from £2,500 per Council up to £10,000. As all four Council's utilise the same working practices and documentation this should result in some economies of scale.
- 1.15 All of the Councils involved now use the Royal Hospital NHS procurement service. The NHS procurement team have been consulted and advise that the best way forward would be to advertise the contract on Source Derbyshire. The NHS procurement service could assist in putting the documentation together and could receive the quotations through their electronic system.

## **Potential Assessors**

- 1.16 The parties that may be interested in undertaking the assessment of internal audit include:-
- External Audit firms
  - The Chartered Institute of Public Finance and Accountancy
  - The Institute of Internal Auditors
  - Firms providing assurance services/individuals
- 1.17 Consideration has been given to a peer review e.g. Derbyshire County Council's Internal Audit Section, however, on balance it is felt that a peer review could lead to a potential conflict of interest or have a detrimental effect on future relations.

## **2.0 Conclusions and Reasons for Recommendations**

- 2.1 Members of the Audit and Corporate Governance Scrutiny Committee have responsibility for Governance and need to be able to place reliance on internal audit therefore it is important that they are consulted on the proposal for the external assessment of internal audit.

## **3 Consultation and Equality Impact**

- 3.1 None.

## **4 Alternative Options and Reasons for Rejection**

- 4.1 Not Applicable.

## **5 Implications**

### **5.1 Finance and Risk Implications**

- 5.1.1 Finance - each Council will need to budget for the external review in 2016/17. The cost of the review is not yet known but it is anticipated that a budget of £5,000 per Council will be required and this has been built in to the 2016/17 Internal Audit Consortium's budget.
- 5.1.2 Risk - The procurement of an assessor to undertake an independent review of the internal audit service will ensure that PSIAS requirements are met. The review will identify the strengths and weaknesses of the internal audit service and make recommendations for improvement thereby strengthening governance arrangements. If an external review is not undertaken then there is a risk that any failings within the internal audit service will not be detected.

### **5.2 Legal Implications including Data Protection**

- 5.2.1 None

### **5.3 Human Resources Implications**

- 5.3.1 None

## **6 Recommendations**

- 6.1 To authorise proceeding with the procurement of an external provider to undertake an "independent validation" of the self-assessment of internal audit that has been undertaken by the Internal Audit Consortium Manager.
- 6.2 To agree that the procurement exercise is to be undertaken on behalf of the Internal Audit Consortium partner members and also Derbyshire Dales District Council.
- 6.3 To delegate authority to the Internal Audit Consortium Manager and the Section 151 Officers to agree a specification and to assess the external provider quotations based on cost and quality and to appoint an external provider to undertake the assessment.

## **7 Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	N/A
<b>Links to Corporate Plan priorities or Policy Framework</b>	The report is linked to NEDDC's corporate plan objective to provide customers with an excellent service

## 8 Document Information

Appendix No	Title
<b>Background Papers</b> (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)	
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