

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

19 May 2016

Annual Review of the Effectiveness of Internal Audit

Report No EDO/01/16-17/BM of the Executive Director - Operations

This report is public

Purpose of the Report

- To provide to the Audit and Corporate Governance Committee the annual review by the Chief Financial Officer of the effectiveness of the Council's Internal Audit arrangements.
- For the Audit and Corporate Governance 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 an 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 and Corporate Governance 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 2015/16 is satisfied that an effective service has been provided, and his 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 outlines the evidence which support that judgement and this Committee are asked to consider and comment upon the reasonableness of the judgement that has been reached.

- 1.4 Firstly, the Internal Audit Consortium has achieved 93% of the Internal Audit Plan for 2015/16 that was approved by this committee on 16 April 2015, with the remaining two audits (which will be completed by the end of May 2016) to be considered as part of the 2016/17 Audit Plan. 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. As Chief Financial Officer I was consulted on and agreed the Audit Plan before the start of the financial year. I am satisfied that it was a robust plan which covered all of our main systems of internal control and areas of identified risk. As mentioned above the Plan was reported to this Audit and Corporate Governance Committee at its meetings on the 16 April 2015, where it was given appropriate consideration. Progress against the Audit Plan has been reported on to this Audit and Corporate Governance Committee on a regular basis during the year by the Internal Audit Consortium Manager. Elsewhere on this agenda is the Internal Audit Consortium 2015/16 Annual Report to North East Derbyshire District Council, which I am satisfied gives Members a true and fair view as to internal audit procedures and progress during the 2015/16 financial year. It should be noted that the Plan in respect of 2016/17 was agreed at this Committee on 21 April 2016.
- 1.5 Secondly, the most direct outcome which arises from the work of Internal Audit is its formal 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 and Director to comment on the conclusion of the audit, while the audit reports are effectively quality checked by the Executive Director Operations and the Assistant Director – Finance and Revenues and Benefits who exercises the Council's client function. Reports are also considered where appropriate by both the Council's Corporate Management Team (Senior Alliance Management Team) and by this Committee. This comprehensive range of quality control has not raised any issues which would conflict with my own views that the reports are prepared to an appropriate professional standard. 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, 2016). At the meeting of this Committee on 12 November 2014 a report was brought to this Committee setting out a comparison between the requirements of the Standards with an outline as to how the internal audit function at North East Derbyshire District Council complied with these requirements. That assessment concluded that the Council complied with all main areas of the Standards. An Improvement Plan was agreed to address the minor areas of non compliance. Progress against that Improvement Plan is covered in

Appendix 3 of the Internal Audit Consortium's Annual Report which appears elsewhere on this agenda. In addition a further item on this agenda concerning the update of the Internal Audit Charter amends Internal Audit arrangements to ensure they remain in line with the revisions introduced in the 2016 version of the Code. 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 is planned to take place later this year with the principle and process having been agreed at the previous meeting of this Committee on the 21 April 2016.
- 1.8 It should also be noted that the Council's External Auditors KPMG place an on going reliance in its annual audit on the background work of the Internal Audit team in relation to system and other key controls. That work is quality assessed by the KPMG to ensure that it can place reliance on the work of the Internal Audit team. While there is no formal assurance work undertaken by the External Auditors they have not raised any issues regarding the quality of the Internal Audit work that is undertaken on the Council's behalf. This does provide some further assurance regarding the appropriateness of the work that is undertaken on the Council's behalf.
- 1.9 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. Over the period since its inception the audit resource available to North East Derbyshire District Council has been reduced reflecting the requirement within local authorities to secure on going efficiencies. Although resource levels within the service have been reduced, an exercise to review the scope of the Internal Audit Plan against the Audit Plan of other Council's operating within the Derbyshire area (undertaken in 2013/14) supports the view that the scope and depth of the Internal Audit Work Plan is appropriate. Accordingly cost reduction has not been achieved by reducing the Audit Workplan to an unrealistic level. I am also aware that the Internal Audit Consortium Manager does give consideration to the overall cost of the Internal Audit Consortium in conjunction with colleagues as part of the Midlands Audit Group.

2 Conclusions and Reasons for Recommendation

- 2.1 Having considered the evidence above and consulted with my colleagues on CMT (SAMT) and my senior finance officers I am satisfied that the Internal Audit Service is operating at an appropriate standard. Given my discussions with the senior staff within the Consortium I am 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 and Corporate Governance 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 he can place reliance. There is therefore no appropriate option other than to bring this report to the Audit and Corporate Governance 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 and thus the Council can place reliance. Section 1 of the report sets out the grounds on which the Chief Financial Officer has concluded that the Internal Audit Team does provide a service on which he can place reliance.

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 Committee consider and endorse the views of the Chief Financial Officer in his assessment of the Internal Audit Service during the 2015/16 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 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

Is the decision a Key Decision? (A Key Decision is an executive decision 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
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)	
Internal Audit Reports relating to individual services.	
Report Author	Contact Number
Executive Director – Operations (Chief Financial Officer)	2431