

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

2 February 2017

External Review of Internal Audit

This report is public

Purpose of the Report

- To inform members of the results of the external review of internal audit that took place at the beginning of October 2016.

1 Report Details

Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) were introduced from the 1 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. In addition at the close of each financial year the Client Officer is required to prepare a report to the Audit and Corporate Governance Scrutiny Committee evaluating the effectiveness of the Internal Audit service that has been provided during the year.
- 1.3 The PSIAS require that an external assessment of internal audit should be carried out at least once every 5 years by a qualified, independent assessor or team. The first external assessment needed to be completed by April 2018.
- 1.4 A tender exercise was carried out by the NHS procurement unit. The tender was assessed on the basis of 60% quality and 40% cost. Six parties submitted a tender which were analysed by a panel. The tender was awarded to Gateway Assure and the external assessment of internal audit was undertaken by Robin Pritchard from this company.
- 1.5 The assessor (Robin Pritchard) is CIPFA qualified and has 38 years internal audit experience including being Chief Internal Auditor at Staffordshire County Council and a national partner responsible for internal audit at a number of professional service firms. Robin joined Gateway Assure in September 2013 after spending 6 years as Head of Centre for Birmingham City University the leading academic provider of training and research to the internal audit and risk management professions. Robin is an experienced External Quality Assessor and has experience of assessing other Council's internal audit teams against the PSIAS.

Format of the assessment

- 1.6 The assessment took place at the beginning of October 2016 and involved a review of the Consortium's documentation, working practices, committee reports and discussions with the Internal Audit Consortium Manager and Client Officers at each Council. As part of this process the assessor visited each site and reviewed a number of audit working papers.
- 1.7 This approach enabled the assessor to assess the Internal Audit Consortium's conformance with the PSIAS against the recommended checklist and associated standards.

Results of the Review - Headlines

- 1.8 The report concludes that the Internal Audit Consortium complies with the requirements of the Public Sector Internal Audit Standards. This means that Members can have confidence in the service provided by the audit team. It is acknowledged that the audit team has significant experience and a range of qualifications allowing a robust internal audit standard to be maintained and delivered.
- 1.9 The outcome of the review has been benchmarked against other provision in both the sector and the wider industry and this shows that the team compares favourably in comparison with its peers (end of Appendix 1)
- 1.10 As would be expected, the report has made a number of recommendations that are aimed at highlighting where further development can be made to enhance the value of the service being provided.
- 1.11 The assessor's full report can be seen at Appendix 1.
- 1.12 Appendix 2 is an action plan that has been completed by the Internal Audit Consortium Manager in Liaison with each Council's client Officer.
- 1.13 Each of the assessor's recommendations has been graded to reflect the relative importance to the relevant standard within the PSIAS.

Recommendation grading	Explanation
Enhance	The internal audit Consortium must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit Consortium should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit Consortium should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

Key Points Arising out of the Review

1.14 The key theme throughout the report and associated recommendations is in relation to enhancing and developing the use of risk based auditing in order to be able to provide increased levels of assurance. The responses in the action plan at Appendix 2 detail how this will be achieved but actions include:-

- Annual audit plans to more clearly demonstrate the links to the strategic and operational risk registers
- Identification of other sources of assurance that are available in addition to internal audit upon which the Council can place reliance
- Greater discussion with managers at the commencement of an audit in terms of identifying the key risks to a service
- Consideration of further risk management training for the audit team
- Reviewing the terminology used for the opinion given at the end of an audit to reflect assurance and risk levels
- Developing the annual audit opinion to incorporate all significant risks with a greater link to the significant risks as identified in the Annual Governance statement, strategic risk register and from other sources of assurance.

1.15 Two recommendations received a red grading. The first red recommendation was:-

“There is a need for the Consortium to be able to provide assurance relating to the IT risks given the increased complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members”

1.16 Although the Consortium staff do not possess any formal IT qualifications, a number of IT audits are successfully carried out and pertinent recommendations made. Team members keep abreast of new IT threats and challenges through articles in professional

journals and ad hoc training sessions. This is also a prime example of where assurance can be gained from other sources e.g. an external assessment has to take place for the Council to gain PSN accreditation.

1.17 A dedicated IT Auditor would be expensive and difficult to recruit. Training an existing member of staff would be a lengthy process and there is no guarantee that they would remain with the Consortium. The Internal Audit Consortium has a budget of £5,000 a year for professional services that is currently not committed. Consideration will be given to using this budget for external specialist support if required. Derby City and Derbyshire County Council have dedicated IT auditors that may be able to provide this service.

1.18 The second red recommendation was:-

“In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to provide a wider assurance to each Authority in support of the governance statement. Best practice is that the annual report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised the range of assurances available is essential in order to meet this broader scope. In this way the annual report can be used to support the Council's governance statement”

1.19 The audit plan is already risk based however this process will continue to be refined with the audit plan being more demonstrably linked to the strategic and operational risk registers. The format of the annual audit opinion will be reviewed to ensure that it covers all significant risks as identified by the audit work undertaken, the annual governance statement, the strategic risk register and any other significant risks identified by other sources.

1.20 Other recommendations have been graded amber and green. Each recommendation has been responded to as Appendix 2.

2 Conclusions and Reasons for Recommendation

2.1 To ensure that Members are aware of the results of the external review of internal audit that is required by the PSIAS.

3 Consultation and Equality Impact

3.1 None.

4 Alternative Options and Reasons for Rejection

4.1 None.

5 Implications

5.1 Finance and Risk Implications

5.1.1 The action plan will be implemented with the resources already available in the Consortium. Potentially some of the Consortium's budget will be utilised in respect of an external IT audit.

- 5.1.2 The implementation of the action plan will ensure that the Council continues to receive an effective internal audit service that is compliant with the PSIAS and that continually strives to improve.

5.2 Legal Implications including Data Protection

- 5.2.1 None

5.3 Human Resources Implications

- 5.3.1 None

6 Recommendation

- 6.1 That the results of the external review of internal audit be noted.
- 6.2 That the action plan that has been put in place to address the recommendations arising out of the review be approved.

7 Decision Information

Is the decision a Key Decision? (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
District Wards Affected	N/A
Links to Corporate Plan priorities or Policy Framework	The report is linked to NEDDC's aims and objectives to provide customers with an excellent service

8 Document Information

Appendix No	Title
1	External Review of Internal Audit
2	External Review of Internal Audit – Action Plan
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
Jenny Williams Internal Audit Consortium Manager	01246 217547