

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

29th June 2022

CIPFA PUBLICATION – INTERNAL AUDIT UNTAPPED POTENTIAL

Report of the Head of the Internal Audit Consortium

Classification: This report is public

Report By: Head of the Internal Audit Consortium

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PURPOSE / SUMMARY

The purpose of this report is to make Members aware of a recent CIPFA publication – Internal Audit Untapped Potential.

RECOMMENDATIONS

1. That the report be noted
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IMPLICATIONS

Finance and Risk: Yes No

Details:

On Behalf of the Section 151 Officer

Legal (including Data Protection): Yes No

Details:

On Behalf of the Solicitor to the Council

Staffing: Yes No

Details:

DECISION INFORMATION

Decision Information	
<p>Is the decision a Key Decision? 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>NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	No
District Wards Significantly Affected	None
<p>Consultation: Leader / Deputy Leader <input type="checkbox"/> Cabinet <input type="checkbox"/> SAMT <input type="checkbox"/> Relevant Service Manager <input type="checkbox"/> Members <input type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/></p>	No Details:

Links to Council Plan (NED) priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.
This document highlights how internal audit can contribute to ensuring that the Council has sound governance, risk and control arrangements in place.

REPORT DETAILS

1 Background

- 1.1 CIPFA have recently conducted a survey in respect of internal audit and the results of that survey are reflected in their publication Internal Audit Untapped Potential (Appendix 1).
- 1.2 The publication promotes the importance of internal audit and the benefit that it can bring to the organisation in terms of managing risks and improving the governance and control framework.
- 1.3 This report is valuable as it highlights for Members and Officers what makes an effective internal audit service, what the current impact of internal audit is and how internal audit can become more effective.

2. Details of Proposal or Information

2.1 The publication covers the following areas:-

1. Identifying the impact of internal audit
2. How internal audit is making an impact
3. The potential for internal audit
4. What is holding internal audit back

Some of the main points arising from the survey are:-

- That since 2008 the perception of internal audit has improved.
- The role of internal audit varies greatly between organisations.
- That internal audit provide a range of services in addition to assurance such as providing advice and sharing best practice.
- The independence of internal audit is critical – internal audit can attend steering or project groups as a critical friend but should not have a decision making role
- Capacity is highlighted as a key issue for many internal audit services.
- Internal audit need to be able to provide assurance on emerging issues whilst still providing a core assurance on business as usual activities.
- That recruiting and retaining the right skills is a challenge.

2.2 The research highlights the top 6 areas that should be covered by internal audit for the most impact in coming years:-

1. Cybersecurity
2. Digitisation and the greater use of data within the organisation
3. Environmental sustainability / climate change
4. Financial viability
5. Culture and ethics
6. Supporting improved risk maturity

2.3 It is pleasing to note that all of these areas are covered within NEDDC's internal audit plan although we will continue to develop our work in these areas. The research recognises that internal audit are unlikely to have the significant technical knowledge in respect of cyber security but can provide assurance in terms of the Council's strategic approach.

2.4 The conclusions of the publication are that things need to change:-

1. Successful organisations need to have robust and effective management and governance, including an understanding of assurance. Improving this understanding will enable the most effective use of internal audit.
2. Internal audit is often not allowed to unleash its full potential. The importance of its contribution must be fully understood and appreciated by clients – management and audit committees. Internal audit managers must become greater advocates in promoting the function within organisations.

3. Internal audit must be kept independent to achieve its maximum impact in an organisation. Auditors frequently take on additional roles, which may compromise their independence. They must have a sole focus and a direct reporting line to the leadership team as required by the Public Sector Internal Audit Standards.
4. Discussion on public sector policy issues, be they social care, financial resilience or technological change, should acknowledge the importance of assurance and highlight internal audit's contribution. This would help raise the expectations of internal audit's clients.

3 Reasons for Recommendation

- 3.1 To ensure that Members are aware of the role, impact and future potential of internal audit as identified by the CIPFA survey.

4 Alternative Options and Reasons for Rejection

- 4.1 Not applicable

DOCUMENT INFORMATION

Appendix No	Title
1	CIPFA Publication – Internal Audit Untapped Potential
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 you must provide copies of the background papers)	