

**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**30th September 2020**

<p><b><u>External Review of Internal Audit</u></b></p>
--

**Report of the Internal Audit Consortium Manager**

This report is for publication

**Purpose of the Report**

- The purpose of this report is 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. These reviews have confirmed that the Consortium is compliant with the standards.
- 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.
- 1.4 The Consortium's first external assessment took place in July 2016, Derbyshire Dales District Council (DDDC) were also assessed at the same time (as the IAC manager provides a management service to DDDC) and recharged for their element of the cost of the review. The results of the review were reported to each Council's Audit Committee in October 2016. The review concluded that the Consortium and DDDC met, and in some places exceeded, the requirements of the Public Sector Internal Audit Standards. A number of improvements were identified from the review that have been implemented.

- 1.5 The next external review of internal audit is due in July 2021.
- 1.6 The Internal Audit Consortium Manager is required by the PSIAS to discuss the following in advance of the assessment with the Audit Committee's:-
- The form of external assessments
  - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest

### **Form of assessment**

- 1.7 It is suggested that an appropriate means of assessment would be by reviewing performance against the CIPFA Public Sector Internal Audit Standards checklist. This will identify if there are any areas of non-compliance or where improvements could be made.

### **Qualification of Assessor / s**

- 1.8 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.

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**

- 1.9 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**

- 1.10 Under Chesterfield Borough Council's procurement rules for goods and services between £1,001 - £10,000 quotations must be obtained.
- 1.11 In October 2016 the external review for the Internal Audit Consortium and Derbyshire Dales District Council cost £3,600. The assessment was undertaken by Robin Pritchard from Business Risk Solutions (previously Gateway Assure). It is proposed therefore that quotations be obtained.

## **Potential Assessors**

- 1.12 In order to inform the decision who to ask to quote, internal audit providers were surveyed to ask:-

- Who did you use to conduct your last external review?
- Were you happy with the quality of the review?
- Cost of the review (if happy to divulge)?

- 1.13 In fact, only 2 main parties have been used by all of the respondents, with one council using the Institute of Internal Auditors. A summary of the comments in relation to the 2 main parties can be seen below:-

**CIPFA** (Ray Gard / Elizabeth Humphries) – very thorough, very pleased, a bit picky, expensive compared to Robin Pritchard. Cheaper if you go to their own companies rather than through CIPFA. (Used by 8 respondents).

**Robin Pritchard** (Business Risk Solutions) – very pleased with review and price, pragmatic in approach. (Used by 8 respondents).

- 1.14 Both of these parties are suitably experienced and qualified to undertake external reviews.
- 1.15 Other parties that may be interested in undertaking the assessment of internal audit include:-
- External Audit firms
  - The Institute of Internal Auditors
  - Firms providing assurance services/individuals
- 1.16 Consideration has been given to a peer review e.g. by 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 sour relations for future working together. Peer reviews do not appear to have taken place in the Midlands.

## **2 Conclusions and Reasons for Recommendation**

- 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 None.

## **5 Implications**

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

- 5.1.1 Finance – a budget of £10,000 has been included in the 2021/22 budget estimates for the external review. The cost of the review will be split equally between the Consortium partners and Derbyshire Dales District Council.
- 5.1.2 Risk management - 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 be undetected.

### **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 external assessment of the Internal Audit Consortium and Derbyshire Dales District Council.
- 6.2 To delegate authority to the Internal Audit Consortium Manager and the Section 151 Officers to agree the specification of the assessment, to assess quotations received 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 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: BDC:      Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input type="checkbox"/> NEDDC:   Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> Please indicate which threshold applies	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>Has the relevant Portfolio Holder been informed</b>	N/A
<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	All

## 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)	
Report Author	Contact Number
Jenny Williams Internal Audit Consortium Manager	01246 217547