

FOR PUBLICATION

EXTERNAL REVIEW OF INTERNAL AUDIT

MEETING: **STANDARDS AND AUDIT COMMITTEE**

DATE: **6TH April 2016**

REPORT BY: **INTERNAL AUDIT CONSORTIUM MANAGER**

WARD: **ALL**

COMMUNITY ASSEMBLIES: **ALL**

KEY DECISION REFERENCE (IF APPLICABLE):

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BACKGROUND PAPERS FOR PUBLIC REPORTS:
TITLE: LOCATION:

1.0 PURPOSE OF REPORT

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

2.0 RECOMENDATIONS

2.1 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.

2.2 To agree that the procurement exercise be undertaken on behalf of the Internal Audit Consortium partner members and also Derbyshire Dales District Council by the NHS procurement service.

2.3 To delegate authority to the Internal Audit Consortium Manager and the Section 151 Officers to agree the specification of the assessment, to assess the quotations received based on cost and quality and to appoint an external provider to undertake the assessment.

3.0 BACKGROUND

3.1 The Public Sector Internal Audit Standards (PSIAS) were introduced from the 1st 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.

3.2 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.

3.3 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 Committee:-

- The form of external assessments
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest

3.4 The external assessment can either be a “full” external assessment or a self-assessment with “independent validation”.

3.5 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.

4.0 ASSESSMENT OPTIONS

4.1 Members firstly need to decide if a full assessment or a validation of a self-assessment is more appropriate.

4.2 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.

4.3 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 Standards and Audit 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

5.0 QUALIFICATION OF ASSESSORS

5.1 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.

The Head of Audit 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.

6.0 ASSESSMENT PROCESS

6.1 If Members elect for the validated self-assessment option then CIPFA recommend that the PSIAS checklist included in their Application Note be used.

6.2 The review would likely be carried out through a process of review of documentation e.g. the Internal Audit Charter, review of 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.

7.0 PROCUREMENT OF ASSESSOR / POTENTIAL COST

- 7.1 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.
- 7.2 It is difficult to predict the cost of the assessment with accuracy. The Midlands Audit Group were surveyed however a number of the Councils which are members of the group that participated in this are themselves only just looking at undertaking their first external assessment. From the few responses received costs/quotes range from £2,500 to £10,000 per Council. As all four Council's utilise the same working practices and documentation a joint procurement should result in some economies of scale.
- 7.3 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.

8.0 POTENTIAL ASSESSORS

- 8.1 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
- 8.2 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 place a stress on future working relationships.

9.0 CONSIDERATIONS

9.1 Finance and Risk Implications

- 9.1.1 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. This cost has been built in to the 2016/17 Internal Audit Consortium budget.
- 9.1.2 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.

10.0 RECOMMENDATIONS

- 10.1 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.
- 10.2 To agree that the procurement exercise be undertaken on behalf of the Internal Audit Consortium partner members and also Derbyshire Dales District Council by the NHS procurement service.
- 10.3 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.

11.0 REASON FOR RECOMMENDATION

- 11.1 Members of the Standards and Audit 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.

**JENNY WILLIAMS
INTERNAL AUDIT CONSORTIUM MANAGER**

Further information on this report can be obtained from Jenny Williams (Extension 5468)