

EXTERNAL REVIEW OF INTERNAL AUDIT

Audit Committee – 13 January 2015

Report of Chief Finance Officer

Status: For Information

Key Decision: No

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. Ramsay

Contact Officer(s) Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That the report be noted.

Introduction and Background

- 1 New mandatory Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The standards provide a comprehensive and consistent framework for internal audit across the UK public sector. The standards include a requirement for an external quality assessment.
- 2 The purpose of the review is not only to ensure that the Internal Audit Team are compliant with the new standards but also to provide Senior Management and the Audit Committee with assurance that the Internal Audit Service receives appropriate and necessary corporate support to enable it to be effective at strengthening internal control, risk management and governance processes within the Council and makes appropriate recommendations through its audit reviews to improve both the internal control framework and the achievement of value for money.
- 3 The Internal Audit Team is a shared service between Dartford Borough Council and Sevenoaks District Council. The team is ISO accredited and works in compliance with ISO quality standards, as well as relevant professional standards. The shared services agreement between the parties has been in operation since April 2010. The establishment consists of an Audit Manager, a Principal Auditor, 2.8 FTE Senior Auditors, an Auditor and an Admin Assistant at 0.5 FTE.
- 4 The internal audit manager carried out a self-assessment of the service in line with new PSIAS which identified areas for further development. This was reported to the Audit Committee on 10 June 2014.
- 5 This review is to consider the service as a whole but also consider where practices and approaches differ between the two authorities, including practical difficulties experienced by the shared service function, and how these have been addressed.

- 6 Quotations for the external review were received from three organisations and PwC were awarded the work.

Scope of the Review

- 7 To evaluate the compliance of Internal Audit against the PSIAS criteria.
- 8 To evaluate the effectiveness of Internal Audit by focussing on the following areas:

Organisation

- Review the effectiveness of the reporting lines and roles and responsibilities of the Internal Audit Team, including where the team reports and how it is line managed.

Independence

- Review the position of Internal Audit within the organisation to assess whether this provides sufficient independence and objectivity and allows the internal audit activity to fulfil its responsibilities.
- Assess whether the internal audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results.

Audit Team

- Assess the knowledge, skills and experience of the internal audit team.
- Assess the level of direction and support provided to the team by the Audit Manager.
- Assess the level of support provided by senior management to the audit manager
- Assess the work of the individual auditors.

Quality Assurance

- Assess whether the audit plan is based on a sound documented process which effectively considers risk.
- Determine the level of quality assurance that is undertaken with regards to the internal audit activity and assess its effectiveness in monitoring progress, assessing quality and in supervising staff.
- Provide comment on the standard of the audit reports issued to management and whether they are supported by sufficient, reliable, relevant and useful information.
- Provide comment on the standard and relevance of the reports from Internal Audit that are presented to the Audit Board/Audit Committee.

Managing the work

- “The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.”
- Assess whether the internal audit activity add value to the organisation by providing objective and relevant assurance.
- Review recommendations made in previous audits and assess whether they are practical, relevant and add value and are prioritised according to risk.
- Review the performance measures in place for the team and comment on their effectiveness.

Other

- Review the effectiveness of the internal audit team in identifying and evaluating key controls and suggesting improvements to both controls and the achievement of value for money.
- Review the effectiveness of the involvement of the audit team in the risk management processes.

Progress of the Review

- 9 The review commenced in November and is progressing well.
- 10 A verbal update on the review will be provided at the meeting and a final report will be presented to this committee on 17 March 2015.

Key Implications

Financial

The cost of the review is £13,500 and will be split equally between the two partner authorities.

Legal Implications and Risk Assessment Statement.

Compliance with the new standards is a regulatory requirement designed to make the Internal Audit service more effective. Compliance with the new standards should ensure that the service is effective in carrying out its statutory duties, aimed at strengthening internal control, risk management and governance processes within the Council, including the minimisation of fraud risks.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Value for Money and Asset Maintenance

A robust Internal Audit function contributes to the effective management of the Council and would help mitigate against poor value for money in service provision.

Appendices None

Background Papers: Report on the Public Sector Internal Audit Standards
– Audit Committee 10 June 2014

Adrian Rowbotham
Chief Finance Officer