

## EXTERNAL REVIEW OF INTERNAL AUDIT - UPDATE

Audit Committee - 19 July 2018

Report of                      Chief Finance Officer

Status                         For Consideration

Key Decision                No

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**Executive Summary:** This report presents the PricewaterhouseCoopers (PWC) follow-up review report to Members, together with the associated action plan.

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**This report supports the Key Aim of Effective Management of Council Resources.**

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Portfolio Holder        Cllr. John Scholey

Contact Officer        Adrian Rowbotham, Ext. 7153

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**Recommendation to Audit Committee:** That Members note the finding from the PWC follow-up review and approve the associated action plan at Appendix B.

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### Introduction and Background

- 1      The Public Sector Internal Audit Standards (PSIAS) require that an external review of Internal Audit is carried out by an external assessor at least once every five years. In order to meet this requirement, PricewaterhouseCoopers (PWC) were appointed to carry out an independent review of the Internal Audit service in 2015.
- 2      The purpose of the review was not only to ensure that the Internal Audit Team are compliant with the new standards but also to provide assurance that the Internal Audit Service is 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 outcome of the review was reported to the Audit Committee on 23 June 2015.
- 4      The review recognised that Internal Audit had a full set of templates and a quality management system that were comprehensive, represented good practice and conformed to PSIAS. However, their report also highlighted a number of improvements to processes and procedures. It also identified that moving forward the service needed to modernise in response to the changing

face of local government and needed to find innovative ways of working to add real value to the organisation. Consequently an action plan was developed to address these issues.

- 5 The Internal Audit Team is a shared service between Dartford Borough Council and Sevenoaks District Council. 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.

## **Follow Up Review**

- 6 It was previously intended to carry out a follow-up review in 2016 to give assurance that the Internal Audit Team is providing, or is in the process of providing, the service that the council requires going forward.
- 7 The follow-up review was delayed due to the long term absence of the Audit, Risk and Anti-Fraud Manager but following his departure, PWC were commissioned to undertake a review to ascertain what progress has been made against the action plan and to identify where further improvements are required. The PWC report is included at Appendix A.
- 8 The key headlines from PWC's findings are as follows:
  - Good progress has been made to implement the recommendations raised in respect of quality assurance and performance management. A new audit management system, Teammate, has been implemented. Moving forward, the team must ensure that they fully utilise the functionality of Teammate. The audit manual should also be updated to ensure it remains a useful tool for the team.
  - Improvements have been made to the communication and reporting of audit findings, however, key stakeholders remain unclear on where the Internal Audit service can add further value. A vision should therefore be developed to ensure that there is a clear understanding of what Internal Audit can deliver and what the Council wants from the Internal Audit service going forward.
  - There has been an improvement in the perception of the Internal Audit service by stakeholders. Feedback on the management of the audit plan and the timeliness of delivery of audit reports from stakeholders has been positive. However, there remain concerns regarding the team's ability to provide deep insight into complex areas. A skills assessment of the current Internal Audit team should therefore be undertaken and a schedule of training implemented.
  - An Audit Needs Assessment is now undertaken annually to identify current and emerging risks to ensure they are reflected in the annual audit plan. However, there needs to be greater engagement between Internal Audit and the wider business to ensure that there is a clear

understanding of the Council's key risks and thus to ensure that Internal Audit can provide assurance where it is needed.

### **Next Steps**

- 9 Consideration has been given to the above findings and an action plan has been developed to address the service gaps (Appendix B).
- 10 The positions of Audit, Risk and Anti-Fraud Manager and Principal Auditor are currently vacant. There is also a vacant Auditor role within the team. An update on the staffing position will be provided at the meeting.

### **Key Implications**

#### Financial

The cost of the follow-up review was shared with Dartford Borough Council and has been met from within existing Internal Audit budgets.

#### Legal Implications and Risk Assessment Statement.

Compliance with the PSIAS is a regulatory requirement designed to make the Internal Audit Service more effective. Compliance with the 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.

### **Appendices**

Appendix A - PWC Report

Appendix B - Action Plan

### **Background Papers**

[External Review of Internal Audit Update - Audit Committee 15 March 2016](#)

[External Review of Internal Audit - Audit Committee 23 June 2015](#)

[External Review of Internal Audit - Audit](#)

[Committee 13 January 2015](#)

[Report on the Public Sector Internal Audit  
Standards - Audit Committee 10 June 2014](#)

**Adrian Rowbotham**  
**Chief Finance Officer**