

Eden District Council
Accounts and Governance Committee
27 September 2018

External Review of the Council's Internal Audit Service

Portfolio:	None
Report from:	Director of Finance
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

- 1.1 To advise Members of the process to secure the external review of the Council's Internal Audit service, as required by Public Sector Internal Audit Standards (PSIAS).

2 Recommendation

That:

- (1) The appointment of the Chartered Institute of Public Finance and Accountancy to carry out an External Assessment of the Internal Audit service be noted;
- (2) The action taken to date and proposed method of assessment and scope of the proposed external assessment be approved; and
- (3) This Committee will receive the review report at its meeting on 29 November 2018.

3 Report Details

- 3.1 Paragraph 7.16 of the Council's Accounting and Audit Rules state:

"External Assessments of the Internal Audit service must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the Council. This assessment may take the form of a full external assessment, or a self-assessment with independent external validation."

- 3.2 Paragraph 1312 of the PSIAS confirms this requirement and states that the Chief Audit Executive (the Director of Finance) must discuss with the Board the form of external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. To comply, the Chief Audit Executive must agree the scope of external assessments with an appropriate sponsor. In this Council's case, this is the Chairman of this Committee, as well as the external assessor or assessment team.
- 3.3 When considering the Internal Audit Charter (Ref: F40/18) at the meeting of this Committee on 28 June 2018, this was raised. No external assessment has taken place since the introduction of the PSIAS in 2013. Therefore, this exercise will take place in 2018. To ensure this requirement, the actions detailed in the paragraphs below were undertaken.

- 3.4 The Director of Finance has consulted with colleagues in other Councils in Cumbria and ascertained there are two main suppliers of the reviews required. One of these is the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA is the recognised public sector accounting and auditing institute. There may be other bodies who can undertake such a review, but to secure the necessary work within the required timeframe, the Director of Finance made a direct appointment to CIPFA to undertake the work.
- 3.5 CIPFA has confirmed that it can undertake the work within the required timeframe. CIPFA is willing to include in the assignment a review of the Council's compliance with the recent CIPFA Statement on the Role of Audit Committees in Local Government.
- 3.6 CIPFA will undertake a full on-site review of the Council's service against the PSIAS and issue a detailed report with any recommendations included. CIPFA provided a list of reference sites and the Director of Finance two by telephone. The two organisations considered the output satisfactory. CIPFA has considered that the resource requirement in carrying out the work required would be no more than seven days to visit the Council and draft and submit the final report.
- 3.7 The following timeline, agreed provisionally with CIPFA to undertake the work, is:
- The Director of Finance and Senior Internal Auditor will undertake an introductory telephone call with the CIPFA representative who will undertake the work. It is expected that this will have taken place by the date of this Committee;
 - Following this telephone call, the consultant will visit the Council during week commencing 8 October 2018 and, after this, will draft the report the following week; and
 - Following agreement of the consultant's report, this Committee will receive a full report at its meeting on 29 November 2018.
- 3.8 Officers have reviewed the requirements. When undertaking the external assessment, the PSIAS requires that stakeholders discuss the proposed assessment. Stakeholders are senior management, including the Chief Executive and the Chairman of this Committee. At Appendix 1, is the assessor's proposed method of assessment, scope, qualifications and experience for approval by this Committee.

4 Policy Framework

- 4.1 The Council has four corporate priorities which are:

- Decent Homes for All;
- Strong Economy, Rich Environment;
- Thriving Communities; and
- Quality Council.

- 4.2 This report meets the Quality Council corporate priority.

5 Consultation

- 5.1 The Council's Management Team, at its meeting on 14 August 2018, considered this report and, therefore, consultation has been undertaken. The Chairman of this Committee has agreed to the work to in connection with this assignment.

6 Implications

6.1 Financial and Resources

- 6.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2015-2019, as agreed at Council on 17 September 2015.

- 6.1.2 The Internal Audit budget can meet the anticipated maximum cost of the assignment of £7,000. The 2018-2019 revised estimate will assess and include the extra cost when compiling the annual budget cycle.

6.2 Legal

- 6.2.1 The Council's Procurement Rules have been complied with in identifying CIPFA as a suitable provider of the assignment. Paragraph 3.4 of the Procurement Rules states that less than three quotations may be sought in special circumstances where it is not practicable to do otherwise. In such cases, the relevant Senior Manager shall keep a written record detailing the reasons for waiving the rules. This has been done. The work also meets the requirements of the PSIAS.

6.3 Human Resources

- 6.3.1 There are no Human Resources implications.

6.4 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	There are no implications
Health, Social Environmental and Economic Impact	There are no implications
Crime and Disorder	There are no implications
Children and Safeguarding	There are no implications

6.5 Risk Management

Risk	Consequence	Controls Required
No external review of the Internal Audit service takes place within the five-year timeframe.	External Audit criticism; substandard Internal Audit service provided; audits delivered of a low quality.	The planned review will ensure that the risks and consequences mitigate this.

7 Other Options Considered

- 7.1 The Council did consider a competitive exercise in procuring the work. However, due to the time constraint and reputation of CIPFA, it was unnecessary and would result in unnecessary delays.

8 Reasons for the Decision/Recommendation

- 8.1 To allow the requirements of the PSIAS to be met in undertaking an external assessment of the Council's Internal Audit service.

Tracking Information

Governance Check	Date Considered
Chief Finance Officer (or Deputy)	7 August 2018
Monitoring Officer (or Deputy)	15 August 2018
Assistant Director	Not Applicable

Background Papers: Accounting and Audit Rules
Public Sector Internal Audit Standards
Appendices: Appendix 1 – Letter from CIPFA
Contact Officer: Clive Howey, Director of Finance, 01768 212213

Mr Clive Howey

Appendix 1

Eden District Council

Finance

Town Hall

Corney Square

Penrith

CA11 7QF

16th July 2018

Dear Clive,

Public Sector Audit Standards

Further to our telephone conversation on 13th July 2018 CIPFA understands that Eden District Council is currently seeking to establish viable options for the completion of their external assessment in late 2018, early 2019 in accordance with the Public Sector Internal Audit Standards (PSIAS).

The assessment will include a full on-site review against the PSIAS and a detailed report with recommendations. This document outlines the experience CIPFA has and the approach we would take to support the council in a project of this nature.

CIPFA is ideally placed to carry out this review. Through the various facets of our Institute and commercial operations we champion high performance in public services. CIPFA is recognised as the leading independent commentator on managing and accounting for public money.

CIPFA is one of the professional bodies who sets internal audit standards for public bodies and provides professional guidance on the standards as well as other aspects of internal audit. CIPFA is therefore very familiar with internal audit standards in policy and in practice. The PSIAS were developed by CIPFA during a two year collaboration with the CIIA and were published in April 2013.



Review of Internal Audit and external assessments

CIPFA has conducted a number of assessments of Internal Audit services. In March 2013, ahead of the formal introduction of PSIAS, we completed the first review of Internal Audit against the new standards in the UK when we reviewed the service in Surrey County Council. In 2012, CIPFA also reviewed the Internal Audit service provided by KPMG as part of their quality control for a large public sector client. Other recent case studies include:

- External assessment of North West Leicestershire & Blaby District Council's shared audit function against the PSIAS
- External assessment of Suffolk County Council's internal audit function against the PSIAS
- External assessment of Central Bedfordshire Council's internal audit function against the PSIAS
- We have been commissioned to carry out the external assessment reviews of the following organisations in 2016: Warwick District Council, Bedford Borough Council and Audit Lincolnshire Partnership
- We have been awarded the contract to carry out the EQA's for 9 authorities in the Staffordshire region in 2017/18. This procurement process was managed by Staffordshire County Council
- A review of the internal audit function in Craigavon Borough Council
- A review of financial management in Armagh City and District Council
- A review of the internal audit function in Armagh City and District Council
- A review of the Internal Audit service unit in Cherwell District Council
- A review of the EU's Internal Audit Service against Professional Standards
- The external review of performance against standards in the Government Internal Audit Manual (GIAM) for the internal audit branch of the Department for Social Development in 2007
- In 2018 we completed over 12 PISAS assessment across England.



Our approach

The methodology set out below describes how CIPFA would deliver this external assessment. It is an approach that has been used successfully many times before:

Stage 1 Initiate Project

Before the assessment starts, the consultant will meet the project sponsor to:

- Scope and initiate the project.
- Clarify that our understanding of the requirements is correct, in particular, the nature and format of the expected interim and final outputs.
- Agree an outline project plan.
- Discuss the likely format of the final report and how you would like this to be presented, so that this can be taken into account throughout the review.
- Agree arrangements for liaison between the project team and each authority's

main



nominated contact.

Stage 2 Plan for Fieldwork Stage

Following the initiation meeting, we will plan the fieldwork stage. This will include:

- Arranging interview times with the Head of Internal Audit and staff as well as key internal audit stakeholders, including but not limited to:
 - Chair and Members of Audit Committee
 - Senior officers with responsibility for finance
 - Senior officers with responsibility for commissioning and receiving audits



- Officers with responsibility for risk and governance
- A selection of internal audit clients (as evidenced by audit files)
- External auditors

Interviews should ideally be carried out face to face, although it is appreciated that this may not be possible in all circumstances. We would require the assistance of the council's sponsors in organising this process for maximum efficiency.

Stage 3 Conduct Review of Internal Audit Arrangements

To reach an opinion on the overall level of **compliance** with PSIAS, we will assess and compare the work and practices of Internal Audit with the PSIAS in each of the following areas:

Attribute Standards

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement

Performance Standards

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

To come to an opinion on the **adherence** to standards, it is envisaged that the assessment will encompass the following:

- Fact finding interviews with the Chief Audit Executive, managers and staff
- Interviews with some of Internal Audit's customers
- Interview with the Chair of the Audit Committee for each organisation
- Interview with external auditors where possible – a sample across the organisations would suffice
- Review of any feedback given by the external auditor on the standards and working practices of Internal Audit



- Review of audit reports and a sample of audit files against best practice identified in PSIAS – if the 'group' acts as a single service and all documentation is the same, we could cross-apply to all organisations
- Any emerging findings will be discussed with you at appropriate points during the review

In addition to compliance with the PSIAS, CIPFA can call upon its other key best practice publications for internal audit in local government, as required.

We feel that using the process outlined above will provide the most reliable information on which to base our conclusions. Once we conclude our assessment, we will compare our findings and conclusions with the Council's own self-assessment to identify similarities and differences. Our fieldwork and this analysis will recognise good practice and identify potential areas for improvement.

Stage 4 Preparation of draft report

In this stage, we will bring together all aspects of the review into a draft report setting out the findings and conclusions together with recommendations for improvement. This report will cover each of the standards. The draft report will be presented to the Council's project sponsors within the agreed timescales. At this stage, the report becomes the property of the Council. We will discuss the format of the report with you at the planning stage to ensure that it meets your needs.

Stage 5 Discussion of draft report

There should be no surprises in the draft report as at the end of the fieldwork stage; we will discuss with the Council's project sponsors the overall findings prior to reporting. The purpose of producing a draft report is to allow the Council to identify any inaccuracies or misinterpretations. Following issue of the draft report, we will discuss its findings, revisit the original requirement and have an in-depth discussion on the conclusions and recommendations if necessary.

Stage 6 Issue final report

Following the clearance process, a final report incorporating any amendments that were discussed and agreed with the Council will be prepared and issued. If required, CIPFA will be pleased to meet with senior officers/members, e.g. the Audit Committee to discuss and present the assessment findings.



Personnel

CIPFA proposes using a very experienced and professionally competent team for an external review of this nature. All members of our team currently hold, or have held, senior positions at Council and/or Audit Committee level and who regularly work with Chief Executives and senior personnel.

Our consultants have been hand-picked from a panel of specialists with the best set of skills to provide your organisation's clients with an ideal mix of internal audit and consulting experience from central government, but also local government, the NHS and the private sector, both in the UK and internationally.

With thorough knowledge of the IPPF, this ensures that we will be able to add value to the assessment process when identifying good practice already existing within the council, but also bringing examples of best practice from other sectors. I have attached the CV of one of our lead consultants on PSIAS EQA projects. The consultant used will be the same throughout for consistency. We would then ensure another consultant is utilised for CIPFA's quality assurance processes.

Resources and cost

CIPFA considers the resource requirement of carrying out the described work to be **5 days** at a day rate of **£950** (plus VAT, plus consultant's reasonable travel, accommodation and subsistence). We will also take assurances from the completed self-assessment when undertaking the review. Please take into account our discussion regarding time span since last review, and an additional 2 days work may be required.

The interviews and on-site review days should take no longer than 3-4 days (as above, this may be expanded due to review of internal documents), including file reviews and interviews. There will also be an additional 1-2 days to write up detailed notes, report and for CIPFA's quality assurance process. Our Consultant will want to interview the Chair of the Audit Committees and S151 Officers for each organisation and Head of Internal Audit, as well as a select few stakeholders responsible for Risk and Governance from all sites. The Consultant will also review the Audit files and attend the Audit Committee meeting on-site, if required, in order to help finalise the report.

The above estimate is based on our understanding of your requirements and based on our previous experience. We will advise you on actual time spent as the work progresses but we do not foresee the total project taking more than 5 days.



- Optional: presentation to Committee – 1 day consultancy at £950 plus VAT/ expenses

Next Steps

Please confirm at your earliest convenience if you would like to proceed with either of the assessments as outlined above and we can arrange to meet to initiate the next steps and plan the project and introduce you to the consultant. As discussed, dates that match Sefton Council for the implementation for the PSIAS process would be circa. March 2018.

The central point of contact for all aspects of this project will be:

Amie Hall

Business Development Manager

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Yours sincerely,

Amie Hall

