

Public Sector Internal Audit Standards

External Assessment of Shared Internal Audit Service (North Tyneside Council and Northumberland County Council)

February 2018



South Tyneside Council

Introduction

- 1.1 In April 2013, the Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The standards are intended to reflect that “a professional, independent and objective internal audit service is one of the key elements of good governance”.
- 1.2 The PSIAS introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
- 1.3 Newcastle City Council, North Tyneside Council / Northumberland County Council and South Tyneside Council have established a ‘peer-review’ process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by ‘self-assessment with independent external validation’ and this report presents the summary findings of the review carried out on behalf of the shared Internal Audit service delivering to North Tyneside Council and Northumberland County Council.
- 1.4 The assessment was carried out February 2018.

Purpose

- 2.1 The purpose of the external assessment is to help improve delivery of the Internal Audit Service and establish whether governance requirements relating to provision of the Service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Approach/Methodology

- 3.1 The Chief Audit Executive (Chief Internal Auditor) had completed a self-assessment of the Shared Internal Audit Service, and its compliance with the Standards. The self assessment was used as the basis for the external assessment, which was then evidenced with reference to a range of internal and published documentation.
- 3.2 Operational practices were discussed with the Chief Internal Auditor and Group Assurance Manager and appropriate documentation sighted during the inspection. A meeting was also held with the Head of Commissioning and Investment at North Tyneside Council. The assessment did not review a sample of audit files.

Opinion of External Assessment

- 4.1 This external assessment concludes that the Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards. There are a small number of areas which require action but these do not significantly impact on the overall opinion.

Findings

- 5.1 There were no areas of concern to be reported. The Public Sector Internal Audit Standards include a specific definition of Internal Auditing (expected to be used whenever the function of internal audit is explained, for example in the Audit Charter); a Code of Ethics and eleven specific standards. The standards are divided into attribute standards and performance standards as follows:

Attribute Standards

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

Performance Standards

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

- 5.2 The evidence examined as part of the assessment demonstrated that the Shared Internal Audit Service was compliant with the majority of the Standards.
- 5.3 A small number of recommendations, including those already identified by the service through the self-assessment, were made to further enhance compliance with the standards and are attached at **Appendix 1**.

Conduct of the External Assessment

- 6.1 The external assessment of the Shared Internal Audit Service has been conducted in accordance with Standard 1312 (External Assessments) of the Public Sector Internal Audit Standards and the related CIPFA Local Government Application Note.
- 6.2 Such external assessments must be conducted at least once in every five years by a qualified, independent assessor / assessment team from outside the organisation.
- 6.3 The qualified assessor / assessment team must demonstrate competence in two areas – the professional practice of internal auditing, and the external assessment process.
- 6.4 Regarding competence, 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.
- 6.5 Regarding independence, the independent assessor must not have either a real or an apparent conflict of interest and must not be a part of, or under the control of, the organisation to which the internal audit activity belongs.
- 6.6 I certify that as the external assessor as defined in the PSIAS, I am a qualified Accountant and have 20 years of audit experience. For the last 17 years my experience has been gained in a comparable sector (local government). I have no conflict of interest in performing this assessment in respect of the Shared Internal Audit Service – I am not a part of, or under the control of, North Tyneside Council or Northumberland County Council.

Peter Hunter ACCA

Corporate Assurance Manager
South Tyneside Council
Town Hall & Civic Offices
South Tyneside Council
NE33 2RL

External Assessment Action Plan

No	Observation	Recommendation	Management Response
1	<p>The Chief Executive and Chair of the Audit Committee do not directly feed into the performance appraisal of the CAE. However there is nothing to suggest from the external assessment that the independence of the CAE is affected by her remuneration or performance being inappropriately influenced by those subject to audit. The recommendation suggested would strengthen arrangements but does not impact on compliance with the PSIAS.</p>	<p>The Chief Executive and Chair of Audit Committee be given the opportunity to feed into the performance appraisal of the Chief Internal Auditor.</p>	<p>Agreed. The Chief Executives of both North Tyneside Council and Northumberland County Council, and the Chairs of Audit Committee at both partner organisations, will be invited to provide feedback for consideration as part of the performance appraisal of the Chief Audit Executive (Chief Internal Auditor) from 2018/19 onwards.</p>
2	<p>North Tyneside Internal Audit staff undertake audits under the remit of the Head of Commissioning and Investment. Whilst there is nothing to suggest from the external assessment that this has caused any issues over independence, the working arrangements with Northumberland allow for Northumberland County Council Internal Audit staff to undertake North Tyneside audits.</p>	<p>To further strengthen independence, consideration to be given to Northumberland County Council Internal Audit staff undertaking any potentially sensitive audits under the remit of the Head of Commissioning and Investment at North Tyneside Council.</p>	<p>Agreed in principle. As all Internal Audit providers (in any organisation) are by definition 'internal' to that organisation, there will always be a line management arrangement to consider in terms of independence / objectivity of Internal Audit. Any potential risks to objectivity are however mitigated by the Chief Audit Executive's functional reporting arrangement to the Audit Committee. However it is agreed that delivery of audit services via a shared service model allows the potential for enhanced objectivity, by auditors from the partner organisation undertaking audit assignments on particularly sensitive areas in the other organisation.</p>

External Assessment Action Plan

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3	The Quality Assurance process has not been recorded and incorporated into one overarching document.	A one page diagram of the quality assurance framework to be developed identifying existing arrangements and any actions for improvement. It is suggested this is reported to senior management and Audit Committee through inclusion in the Internal Audit Annual Report.	Agreed. The Quality Assurance and Improvement Programme (QAIP) covering both internal and external quality assurance arrangements will be codified into one diagram in quarter 1 of 2018/19.
4	The Chief Internal Auditor has identified that the inclusion of some additional development time in the audit plan would support the development of the service rather than reacting to emerging strategic risks and priorities.	2018/19 strategic planning process to factor in sufficient development time.	Agreed. Service development targets for 2018/19 have been developed, with a corresponding time budget in the Strategic Audit Plan.
5	An audit of each Council's ethics related objectives, programmes and activities was underway.	The ethics audit to be completed.	Agreed. These audits will be completed in quarter 1 of 2018/19.
6	An audit of risk management arrangements has been undertaken previously however changes to risk management processes are being considered.	An audit of revised risk management processes to be undertaken.	Agreed. Revised responsibilities for Internal Audit and Risk Management within the Service have now been established. This allows a clearer distinction between Internal Audit and Risk Management functions. Audits of Risk Management arrangements within both North Tyneside Council and Northumberland County Council are planned in Quarter 4 of 2018/19.
7	The Internal Audit Service has acknowledged that monitoring the results of consulting engagements could be formalised and improved.	A review of monitoring the results of consulting engagements to be undertaken.	Agreed. A simple process for measuring effectiveness of Internal Audit's involvement in programme assurance work will be developed in 2018/19.