

**24 July 2019**

**Agenda Item: 11**

## **REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT**





### **INSTITUTE OF INTERNAL AUDITORS' GUIDANCE FOR AUDIT COMMITTEES**









#### **Purpose of the Report**







1. To bring to Committee's attention guidance issued by the Chartered Institute of Internal Auditors (IIA) for audit committees, and to consider any implications for the arrangements and practices at Nottinghamshire County Council.

#### **Information**

2. The IIA is the only professional association for internal auditors in the UK and Ireland and promotes effective internal auditing in both the private and public sectors. The IIA guidance, titled '*Harnessing the power of internal audit*', was published in February 2019. Its focus is on the benefits that Internal audit can deliver to an organisation and to help audit committees, and other stakeholders, harness that potential.
3. This is the latest in a series of best practice guidance the Governance & Ethics Committee has received, as the Committee continues to encourage a continuous improvement approach. A self-assessment of the arrangements at this Council against the guidance is set out below. This largely confirms that effective arrangements are already operating..

<b>Key question &amp; key guidance</b>		<b>Self-assessment</b>
<b>1. Internal Audit's Role &amp; Mandate</b> - Covers full portfolio of risk – cultural, strategic, operational, reporting, compliance - Delivered through formal assurance audits and advisory activities - Head of Internal Audit is a trusted advisor to the Chair of the Audit Committee - Role mandated in a formal Audit Charter		Audit plans cover a range of risks
		Blend of formal assurance reviews and advice
		The Group Manager – Assurance has a good working relationship with the Committee
		

Key question & key guidance		Self-assessment
		Formal Internal Audit Charter in place - updated annually
<b>2. Internal Audit's Scope</b> <ul style="list-style-type: none"> <li>- Coverage extends beyond traditional remit of financial reporting</li> <li>- Formulated in a risk-based strategic plan (3-5 years) and an annual plan with contingency to respond to emerging risks</li> <li>- Specific areas for recommended coverage: <ul style="list-style-type: none"> <li>➤ Workplace culture</li> <li>➤ Communications risk &amp; reputation</li> <li>➤ Data privacy &amp; cybersecurity</li> <li>➤ Political uncertainty</li> <li>➤ Automation &amp; digitalisation</li> </ul> </li> </ul>	    	<p>As above, broad range of risks covered</p> <p>Responsive risk-based termly planning Could helpfully be set in context of longer-term, audit strategy</p> <p>Most of these factors feature to a greater or lesser extent in audit plans</p>
<b>3. Internal Audit's resources</b> <ul style="list-style-type: none"> <li>- Sufficient capacity</li> <li>- Sufficient capability</li> <li>- Sufficiently qualified</li> </ul> <p>Assess against risk-based plan &amp; flag up any deficiencies to Audit Committee with proposal on how to address</p>	  	<p>Identified scope in Governance &amp; Ethics Committee report on the role of the Head of Internal Audit to be more explicit about resources</p> <p>Flagged up capacity issues and actions to address</p>
<b>4. Relationship between Audit Committee &amp; Internal Audit</b> <ul style="list-style-type: none"> <li>- Both formal and informal liaison</li> <li>- Internal Audit to work with data analysts around 'big data' and with internal assurance providers to maximise assurance</li> <li>- Embrace areas where there is less hard evidence and more opinion-based evidence</li> <li>- Audit Committee involved in hiring/firing Head of Internal Audit</li> </ul>	      Not applicable	<p>In place</p> <p>Recent work with Business Services Centre on payroll Assurance Group – closer working with Performance Team Use of assurance mapping in place</p> <p>Eg. ethics – scope for more</p> <p>The Public Sector Internal Audit Standards recognise that it is generally not appropriate for this to be applied in the local government setting</p>

Key question & key guidance		Self-assessment
		Of relevance is that the Chairman, Vice-Chairman and Opposition Spokesperson contribute to the Group Manager – Assurance's annual performance review
<b>5. Risk management</b> <ul style="list-style-type: none"> <li>- Develop assurance map</li> <li>- Links to industry/sector regulators</li> <li>- Review operation of all lines of defence</li> </ul>	  	Assurance mapping trialled, approved, being extended and applied  Strong links to national & regional groups  Feature of audit plans
<b>6. Monitoring Internal Audit's recommendations</b> <ul style="list-style-type: none"> <li>- follow-up by Internal Audit</li> <li>- Failure/delayed implementation brought to attention of Audit Committee</li> <li>- Audit Committee invites relevant managers to attend meeting to explain</li> </ul>		NCC process meets all these expectations
<b>7. Liaison between Internal &amp; External Audit</b> <ul style="list-style-type: none"> <li>- Include External Audit's work in assurance map</li> <li>- External Audit place reliance on work of Internal Audit</li> </ul>		Quarterly liaison & assurance map incorporates assurance from External Audit
<b>8. Quality of Internal Audit's work</b> <ul style="list-style-type: none"> <li>- Quality Assurance &amp; Improvement Programme</li> </ul>		Annual QAIP based on external & internal assessments. Monitored and refreshed.

8. The findings from the above have been fed in to the Quality Assurance & Improvement Programme for the service in 2019/20, which is featured on today's agenda as part of the Group Manager – Assurance's Annual Report. The actions arising from the above concern:
- Implementation of a revised structure for Internal Audit as a longer-term action to address recruitment difficulties
  - Development of an Internal Audit Strategy within which the 4-monthly Term Plans would be framed.

### Other Options Considered

9. The Governance & Ethics Committee is committed to self-assessing relevant best practice guidance from a wide range of sources..

## **Reason for Recommendation**

10. To enable the Committee to assess whether any changes to the Council's arrangements for internal audit should be made in light of the IIA guidance.

## **Statutory and Policy Implications**

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION**

- 1) That Committee: notes the intention to bring a proposed restructure of the Internal Audit Section to Committee after the summer; and approves the development of a longer-term internal audit strategy.

**Nigel Stevenson**

**Service Director for Finance, Infrastructure & Improvement**

**For any enquiries about this report please contact:**

Rob Disney

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### **Constitutional Comments (KK 01/07/2019)**

The proposal in this report is within the remit of the Governance & Ethics Committee.

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### **Financial Comments (RWK 01/07/2019)**

There are no specific financial implications arising directly from the report.

## **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

## **Electoral Division(s) and Member(s) Affected**

- All