

**To:** Audit and Risk Committee

**For meeting on:** 20 November 2013

**Agenda item:** 10

**Report by:** Philippa Harding, Board Secretary  
Jason Dorsett, Director of Finance, Reporting and Risk

**Report for:** Decision

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**TITLE:** Internal Audit service provision in 2014/15

**Summary:**

This report provides the Audit and Risk Committee with information about Monitor's participation in the Health Group Internal Audit Service which has been established by the Department of Health and the proposed approach to the appointment of the organisation's Head of Internal Audit.

**Recommendation:**

The Audit and Risk Committee is asked to note the report and confirm that it is content with the proposed approach to the appointment of the organisation's Head of Internal Audit.

**Public Sector Equality Duty:**

*Monitor has a duty under the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people from different groups. In relation to the issues set out in this paper, consideration has been given to the impact that the recommendations might have on these requirements and on the nine protected groups identified by the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief, gender and sexual orientation).*

*It is anticipated that the recommendations of this paper are not likely to have any particular impact upon the requirements of or the protected groups identified by the Equality Act.*

**Exempt information:**

*None of this report is exempt under the Freedom of Information Act 2000.*

## **Background**

1. The Health Group Internal Audit Service (HGIAS) was set up in line with the HM Treasury Internal Audit Transformation Project, with the stated intention of strengthening internal audit arrangements across central government. Since April 2013, the shared service has been hosted by the Department of Health (DH). It provides the assurance function for DH as well as most of its Arm's Length Bodies (ALBs) under a 'Health Group Internal Audit Operating Model'. The adopted model is described as "a co-source arrangement" and PricewaterhouseCoopers LLP (PwC) has been appointed as co-source partner organisation to supplement the in-house provision.
2. HGIAS is currently delivering internal audit services to 12 ALBs. Some ALBs, including Monitor, have continued to deliver their own assurance function after April 2013 due to existing contracts. However, they are due to become part of the Health Group Internal Audit Operating Model when their existing contracts expire.

## **Implications of the HGIAS for Monitor**

### Audit planning

3. Monitor's audit plans will continue to be risk based and aligned with the key strategic risks faced by the organisation, as well as with areas identified by management as being of concern. In addition to this there will be core audits of systems such as payroll and procurement and it is also envisaged that there will also be cross cutting pieces of work. For instance, work is underway to consolidate Information Governance Reviews in order to identify common themes and spread best practice across the Group.

### Relationship

4. Each ALB has been assigned a Head of Audit (from either DH's in-house team or PwC) to oversee the service within the organisation and to highlight any emerging issues or themes relevant to the Group as a whole. Monitor has been assigned a Head of Audit from PwC.
5. The relationship between Monitor and the HGIAS will be governed by a Service Level Agreement (SLA). We are currently reviewing the proposed terms of the MoU which will need some modification, but are broadly acceptable.
6. Individual reports produced by the HGIAS for Monitor will not be routinely seen by the Group Chief Internal Auditor (GCIA), but the GCIA will be aware of all on-going work. The GCIA has right of direct access to the Accounting Officer for each ALB. Escalation will be to the Accounting Officer and/or Finance Director for that ALB in the first instance. Each ALB's Head of Audit will meet regularly with the GCIA, with a view to ensuring an oversight of any inherent and emerging risks across the Group.

### Appointment of the Head of Audit

7. The GCIA has identified a longlist of potential candidates for appointment as Monitor's Head of Internal Audit. It is proposed that the shortlisting and interviewing of candidates takes place before the end of 2013.
8. The Terms of Reference of the Audit and Risk Committee state that the Committee shall agree the appointment of Monitor's internal audit service. In light of this it is proposed that the Committee is involved in the appointment of the Head of Internal Audit as follows:

- Shortlisting: Stephen Hay (Managing Director of Provider Regulation), Jason Dorsett (Director of Finance, Reporting and Risk) and Philippa Harding (Board Secretary)
- Interviewing: Audit and Risk Committee members together with David Bennett (Chief Executive and Accounting Officer)
- Appointment: Audit and Risk Committee meets to confirm the appointment of the preferred candidate. This will require a brief special meeting of the Committee.

### Costs

9. We have provided details of our current internal audit plan to the GCIA who estimates that if the HGIAS delivered the same plan it would cost 85%-90% of the current KPMG, cost if the service was entirely provided by PwC. If delivery of the plan was split between DH internal audit staff (for the simpler elements) and PwC staff for the more complex elements, the GCIA estimates costs would be 75%-80% of current costs.
10. This estimate is in 2013/14 prices and therefore costs could rise because of inflation. DH has also made a general commitment that ALBs will not have to pay any increase in costs arising from shared services.

### **Next Steps**

11. Monitor and the GCIA will meet jointly with the PwC engagement partner in order to ensure that the broader team supporting the Head of Internal Audit (once appointed) has the appropriate skills mix. An initial consideration of the Head of Internal Audit candidates is due to take place before the end of November.
12. Work will continue on the finalisation of the SLA and anticipated costs. This work should be complete in time for the Audit and Risk Committee to take a final decision on the appointment of the Head of Internal Audit before the end of 2013.

**Philippa Harding**  
Board Secretary

**Jason Dorsett**  
Director of Finance, Reporting and Risk