

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	Audit Committee
Date:	23 November 2015
Subject:	Internal Audit - External Quality Assessment

Summary:

Internal Audit within the Public Sector in the UK is governed by the Public Sector Internal Audit Standards (PSIAS) - which have been in place since April 2013. The Standards require a periodic self-assessment and an external assessment at least once every 5 years as part of Internal Audit's Quality Assurance and Improvement Programme.

This report provides the Committee with the proposed scope for undertaking the external assessment.

Recommendation(s):

The Committee is asked to:

1. Consider and endorse the proposal to undertake a full external assessment of the Council's Internal Audit function in 2016.
2. Approve the Chairman of the Audit Committee and the County Finance Officer to be project sponsors.

Background

1. The County Council's Internal Audit function is part of the Audit Lincolnshire Partnership – a collaboration with the City of Lincoln and East Lindsey District Council's Internal Audit Teams.
2. Each Council delivers its own internal audit service – however under the Audit Lincolnshire ("brand") work in partnership providing internal audit services to other local authority and public sector clients.
3. The aim of the Audit Lincolnshire partnership is to:
 - Share good practice
 - Adopt leading edge methodology

- Pool resources across the 3 Councils to make savings, improve efficiency and offer greater value for money to our clients through streamlining the audit plans in areas of common interest.
4. The Public Sector Internal Audit Standards (PSIAS) – which have been in place since April 2013 consist of the following elements:
 - Definition of Internal Auditing
 - Code of Ethics, and
 - Standards for the Professional Practice of Internal Auditing
 5. In local government the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015.
 6. The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide Executive Director – Finance & Public Protection (the Section 151 officer) with the key assurances he needs in managing the council finances and in producing the annual governance statement.
 7. In April 2013, CIPFA produced a Local Government Application Note for the PSIAS (the Standards) – this has been used to undertake our annual self-assessment to demonstrate conformance with the Standards.
 8. The Standards require an external assessment at least once every 5 years as part of the Quality Assurance & Improvement Programme. A summary of Audit Lincolnshire's Quality Assurance Framework is attached in Appendix A.
 9. At its 20th July 2015 meeting the Committee endorsed the opinion that the County Council had an effective system of internal audit. One of the actions from this review was the completion of an External Quality assessment of the Internal Audit service during early 2016. This report provides the potential scope for such a review.

External Assessment – The Requirements

10. The standards require that:
 - external assessments must be conducted by a qualified, independent assessor or assessment team from outside the organisation.
 - the Audit & Risk Manager discuss with the Audit Committee the form of the External Assessment and the qualification of the external assessor or assessment team, including any potential conflicts of interest.
 - The scope of the external assessment must be agreed with the appropriate sponsor of the project / work. **We are recommending that the Chairman of the Audit Committee and the County Finance Officer are project sponsors.**

External Assessment – Approach

11. There are two options for the format of the assessment – a full assessment and an externally validated self-assessment.
12. The advantage of a full assessment is that it has potentially greater value and independence. Conformance is assessed by a qualified assessor who determines the approach of the assessment, the evidence and information they seek and the people to see. They take between 10 – 25 days. They provide suggestions for improvement against best practice and benchmark data.
13. On the other hand, a validated self-assessment is likely to be of a shorter duration, take less time (5 – 8 days), be less disruptive and cost less. They provide development opportunities for internal audit staff and strengthen awareness of quality assurance. Conformance is assessed based on the self-assessment with limited benchmarking data and interviews with stakeholders. They provide suggestions for improvement against the standards / best practice.

External Assessment – who should undertake the assessment

14. The Standards specify that a qualified assessor / team should undertake the assessment and be able to demonstrate the following:

Competencies – professional practice in internal auditing and the external assessment process.

Experience – gained in organisations of similar size, complexity and sector is considered more valuable than less relevant experience.

Independence – not having either a real or apparent conflict of interest and not being part of; or under the control of, the organisation(s) to which the internal audit activity belongs.

15. As this is the first time we have undertaken an External Quality Assessment we asked other Councils what they had done – it varied. What we found was:
 - Many were not undertaking the External Quality Assessment until the final year e.g. 2018
 - Those who had were through a mixture of peer reviews and external providers – this depended on affordability and availability of Head of Internal Audit
 - Peer reviews were generally a self-assessment with external validation. This included a site visit to talk through the self-assessment, key documents and speak to key stakeholders.
 - Costs varied – although peer reviews tended to be through networking groups and were at a nominal cost.

16. To help us determine the approach to take we requested 5 external organisations to provide a quote to:

- Assess how Audit Lincolnshire and the individual council's conform with the standards
- Evaluate our effectiveness in meeting and exceeding client expectations in light of the Audit Charter
- Identify opportunities / suggestions where we can improve
- Benchmark our activities and practice against best practice and our best performing peers – both in and outside our sector
- Provide a report and suggested action plan as a result of the quality assessment.

17. In providing the quote we requested information on:

- Approach
- Deliverables and Outcome
- Timescales - days and span
- Price (Audit Lincolnshire combined and a separate quote for each Council).

The evaluation model was 60% quality and 40% cost. Quality was assessed on approach to delivery – implementation – added value – output – innovation.

18. Attached in Appendix B is the outcome of the evaluation exercise. Supplier 5 provided the most economically advantageous offer.

19. **Taking into account the above information we are recommending that a full external quality assessment is undertaken.** This involves:

- Planning & co-ordinating delivery of the project – with the project sponsors and Audit and Risk Manager
- Conducting the review of the Internal Audit Arrangements for all 3 councils and the Audit Lincolnshire partnership
- Benchmarking to self-assessment and best practice
- Draft Report - discussions with Audit and Risk Manager and Project Sponsors
- Final Report – presented to Audit Committee and / or Corporate Management Board.

The timing of the External Assessment will be spring / summer 2016.

Conclusion

The external quality assessment of Internal Audit is a requirement under the Public Sector Internal Audit Standards. The deadline for completion is 31st March 2018. It is considered that undertaking an external assessment now would be better than waiting. It helps the Councils Internal Audit function to continually improve and demonstrate how it adds value to the organisation as a key assurance provider –

particularly important as the Council continues to go through major change and needing to deliver significant financial savings.

There are various alternatives on who can undertake an external quality assessment and how they should be provided. Appointing supplier 5 best meets our requirements. They have the competency, experience and independence to deliver a full assessment at a cost that the Audit Lincolnshire partnership can afford.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Quality Assurance Framework
Appendix B	External Assessment - Evaluation Results

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522553692 or lucy.pledge@lincolnshire.gov.uk.

This page is intentionally left blank