



Open Report on behalf of Andrew Crookham, Executive Director of Resources

Report to:	Audit Committee
Date:	27 September 2021
Subject:	Internal Audit - External Quality Assessment 2021/22

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 2013 (updated 2017).

The Standards require a periodic self-assessment and an external assessment at least every 5 years as part of Internal Audits Quality Assurance Framework.

The purpose of the external quality assessment is to confirm conformance to the PSIAS - ensuring that the Council maintains an effective internal audit function, supporting continuous improvement.

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

Recommendation(s):

The Committee is asked to:

1. Consider and endorse the proposal to undertake a full external quality assessment of the Council's Internal Audit function in 2021/22.
2. Approve the Chairman of the Audit Committee and the Assistant Director - Financial Strategy to be project sponsors.

Background

1. 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

- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).
2. In local government the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015.
 3. 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 – Resources (the Section 151 officer) with the key assurances he needs in managing the council finances and in producing the annual governance statement. A copy of the PSIAS is attached in Appendix 1.
 4. In April 2019, CIPFA updated its Local Government Application Note for the PSIAS (the Standards) – this has been used to undertake our self-assessment to demonstrate conformance with the Standards.
 5. The Standards require an external assessment at least once every 5 years as part of the Quality Assurance Framework. A summary of Assurance Lincolnshire's Quality Assurance Framework is attached in Appendix 2.

External Assessment – The Requirements

6. The standards require that:
 - external assessments must be conducted by a qualified, independent assessor or assessment team from outside the organisation.
 - the Head of Internal Audit should 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 Assistant Director – Strategic Finance are project sponsors.

External Assessment – Approach

7. There are two options for the format of the assessment – a full assessment and an externally validated self-assessment.
8. 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.

9. 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

10. 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.

11. We propose to undertake a full external quality assessment – approaching 5 external organisations to provide a quote to:

- Assess how we 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.

12. In providing the quote we will request information on:

- Approach
- Deliverables and Outcome
- Timescales - days and span
- Competency, experience and independence to deliver a full assessment
- Price

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

13. The external assessment will involve:

- Project Sponsors approving the appointment of the External Assessor – in consultation with the Head of Internal Audit and Risk Management
- Planning & co-ordinating delivery of the project – with project oversight by the project sponsors and Head of Internal Audit and Risk Management
- Conducting the review of the Internal Audit Arrangements – reviewing resources and delivery, our practice, the self-assessment supporting evidence/documents, discussions with key stakeholders (including the audit committee, senior managers and the internal audit team) and reviewing a sample of audit engagements.
- Benchmarking to self-assessment and best practice
- Draft Report - discussed with Head of Internal Audit and Risk Management and Project Sponsors
- Final Report – presented to Audit Committee and Corporate Leadership Team.

Planning for the External Quality Assessment has commenced.

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 2022.

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 transformation in delivering its Corporate Plan ambitions.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Public Sector Internal Audit Standards - Updated 2017
Appendix B	Assurance Lincolnshire's Quality Assurance Framework

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, Head of Internal Audit and Risk Management, who can be contacted on 075574 98932 or lucy.pledge@lincolnshire.gov.uk