

Audit & Standards Committee

6 September 2017

Internal Audit – External Quality Assessment

Recommendation

That the Committee notes the appointment of Gateway Assure Limited to undertake an external quality assessment of internal audit during 2017/18 in accordance with the Public Sector Internal Audit Standards.

1 Background

- 1.1 Internal audit within the public sector is governed by the Public Sector Internal Audit standards (PSAIS) which have been in place since 2013 but were significantly updated from April 2017. Compliance with the standards, which build upon the Institute of Internal Auditors global standards, are mandatory for all principal local authorities.
- 1.2 PSIAS aims to promote continued improvement in the professionalism, quality and effectiveness of internal audit services and a key element of this is to require audit services to have a periodic external assessment of compliance with the standards once every five years as part of the internal audit quality management programme.
- 1.3 The assessments aim to
 - Identify what internal audit are doing well
 - Support continuous improvement
 - Emphasise and enhance the standing of internal audit
- 1.4 The assessment will cover all of the service's clients consequently this report and the outcome of the EQA will also be shared with the audit committees of those clients.
- 1.5 This report seeks the Committee's endorsement of the arrangements for an EQA during Quarter 4 2017/2018.

2.0 Approach

- 2.1 PSIAS requires that the assessment team can demonstrate competence in two areas: the professional practice of internal auditing and the external assessment process. In addition, the assessor must not have either an actual

or perceived conflict of interest and must not be part of, or under the control of, the organisation to which the internal audit activity belongs.

- 2.2 Proposals have been received from three organisations who meet these criteria all having very experienced assessors who have conducted a number of EQAs.
- 2.3 All three proposals unsurprisingly adopt a similar approach involving:
- Reviewing a self-assessment and background information provided by the head of audit. This will include review of the Audit Charter, terms of reference for the Committee, audit manual, job descriptions, audit committee papers.
 - Discussion with key stakeholders including audit committee chairs, chief financial officers and customers. This may be by face to face interviews, by telephone or by electronic survey depending on the availability and number of people to be interviewed which will be determined by the assessor following the initial review of documentation.
 - Detailed review of a sample of audit “files” to give an in-depth view of quality and performance of internal auditors.
 - An “exit” meeting with the head of audit and project sponsor to discuss interim findings.
 - Production and discussion with the head of audit and project sponsor of a draft report.
 - Presentation of the findings to the Committee(s).
- 2.4 Similarly all three proposals demonstrate a high level of practical and theoretical knowledge and experience of internal audit and all are well qualified to undertake the work.
- 2.5 Since the proposals are similar in terms of approach and assessor expertise, officers have accepted the lowest priced proposal which is from Gateway Assure Limited. The assessor will be a very experienced ex-head of internal audit at a county council who has also been a national partner for internal audit at a number of accountancy / audit practices and professor of internal audit at a leading academic provider of training and research to the internal audit and risk management professions. He has personally conducted over 20 EQAs in both the private and public sectors. The assessor will be one site for a week.
- 2.6 PSIAS also requires that a project sponsor is agreed between the assessor and the head of audit. It is recommended that the Head of Law and Governance is the project sponsor.
- 2.7 The Committee will appreciate that preparation for such an intensive and important process requires good preparation. This work is being supported by an experienced EQA assessor but to ensure no conflict of interests he will play no part in the assessment.
- 2.8 The Committee will recall that to comply with changes to the PSIAS from April 2017 the format of the 2017/8 audit plan and the content of the Audit Charter

have been updated and further work is in progress to, for example, update the audit manual and self-assessment checklist. A high level assessment by the consultant of the level of compliance that will be achieved, which shows that the service is well placed for a good outcome, is attached (Appendix A). In summary the main themes are to stabilise the staffing structure, improve consistency and continue to work on focussing plans and audits on key risks. The Committee will note that there are also a number of topics which are challenging for all audit services and which are commonly flagged as areas for improvement during assessments. We will of course continue to work on these.

3.0 Timescales associated with the decision and next steps

- 3.1 This report will be shared with the audit committees of our other clients at their September meetings.

Background papers

1. None

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The report was circulated to the following members prior to publication:

Local Member(s): Not applicable

Other members: Not applicable