

Public Sector Internal Audit Standards - External Quality Assessment

22 July 2020

Introduction

The [Public Sector Internal Audit Standards](#) (the Standards) require the Chief Audit Executive (CAE) to develop and maintain a quality assurance and improvement programme (QAIP). This programme must include both internal and external assessments. The purpose of these assessments is to confirm compliance with the Standards and to provide assurance to all stakeholders that the Internal Audit function is operating efficiently and effectively.

The Standards stipulate that an external assessment must be completed every five years as a minimum.

The last external quality assessment (EQA) of the Dartford and Sevenoaks Audit Partnership was completed in November 2015 and therefore the next should be completed by November 2020 in order to maintain compliance.

In light of the Covid-19 pandemic, the Institute of Internal Auditors (IIA) has indicated that there will be some reasonable leeway on timescales but has also highlighted the importance of an EQA to ensure that the Internal Audit function makes an effective contribution to the overall governance of the organisation.

It is therefore proposed to continue with our plans to procure and complete an EQA in the current financial year.

Purpose

The purpose of this report is to provide Members with an overview of the requirements set out in the Standards in relation to the EQA and to seek Members' agreement to the planned approach.

The Standards

The Standards comprise various elements which Internal Audit functions must adhere to in order to be assessed as operating in compliance with the PSIAS. These include:

- Code of Ethics
- Attribute Standards - purpose, authority & responsibility, independence & objectivity and quality assurance and improvement programme
- Performance Standards – managing the audit activity, audit planning, performing audit engagements, audit reporting and monitoring implementation of agreed actions.

The Standards require the CAE to discuss the format of the external assessment with Audit Committee / Audit Board and encourage their oversight of the process. This minimises any perceived or actual conflict of interest for the CAE.

The assessment should be undertaken by an independent and competent person to avoid any conflict of interest and impairment to objectivity. The assessor should be appropriately qualified to carry out the assessment. “Appropriately qualified” means both in the practice of internal audit and the EQA process.

Options

The following table sets out an overview of the two main options available for the EQA. The table also includes the estimated costs, the advantages of each option and other factors to consider:

	FULL ASSESSMENT	VALIDATION OF SELF-ASSESSMENT
Details	A full independent assessment of the Internal Audit function against the Standards.	The Audit Manager would complete a full self-assessment against the Standards which would then be validated by an external assessor, including review of supporting evidence, audit files and stakeholder interviews.
Estimated cost	£20,000	£5,000 - £10,000
Advantages	<p>Full and independent compliance check against the Standards.</p> <p>Less resource-intensive in the early stages for the IA Team.</p> <p>The assessor may be more able to share best practice from other organisations.</p>	<p>The whole team could contribute to the self assessment, encouraging ownership of quality and opportunities for personal development.</p> <p>Opportunity to remedy gaps in the self-assessment at an early interval and create an early action plan.</p> <p>Budget savings.</p>
Considerations	<p>Budget capacity.</p> <p>Time commitment during the assessment.</p>	<p>Availability of resource to complete the self-assessment.</p> <p>Self-assessment may not accurately represent current position.</p>

The proposed way forward

Following discussions with the Chief Officer - Finance & Trading at Sevenoaks District Council and the Strategic Director (Internal Services) at Dartford Borough Council, it has been agreed that the preferred approach is to commission a self-assessment validation.

As a new Audit Manager, one of my first priorities is to complete a self-assessment to understand where our strengths and areas for development lie. This will inform the EQA to ensure value for money. It will also provide opportunities for the whole team to be involved in the process as part of their learning and development.

The procurement specification will however ask for the assessor to provide strategic and best practice comments. This will enable us to use the assessment to develop a strategy for the partnership and improve our services further.

What will the self-assessment validation involve?

The validation of our self-assessment is likely to include the following:

- A review of key documents and audit file reviews
- Interviews with key personnel / stakeholders (which can take place remotely). This will include the Chair of the Audit Board and Audit Committee but may also include other Members
- A detailed findings report
- Confirmation of compliance with the Standards with an action plan for improvement

What happens next?

In order to progress the EQA process further the following steps need to be completed:

1. Agree a client sponsor for the EQA

Sarah Martin – Strategic Director - Internal Services (Dartford) and Adrian Rowbotham - Chief Officer - Finance and Trading (Sevenoaks) have agreed to be the client sponsors for the EQA.

2. Agree the authority lead for the procurement exercise

The procurement exercise will be completed under Dartford Borough Council's procurement arrangements. Initial discussions have taken place with the Procurement Manager to agree the best approach.

3. Identify potential suppliers to complete the self-assessment validation EQA and seek at least 3 quotes

A number of potential suppliers have already been contacted to request a further discussion about commissioning an EQA and obtaining a quote.

4. Prepare an EQA specification document

An EQA specification document is in the process of being prepared. This will be discussed with the Procurement Manager to agree the terms of the specification and the assessment criteria in respect of price and quality.

Once drafted the specification document will be agreed with the Strategic Director (Internal Services) at Dartford Borough Council and Chief Officer - Finance & Trading at Sevenoaks District Council prior to finalising.

5. Request quotations from at least 3 suppliers

Quotations from suppliers will be formally requested once the approach has been discussed with Members.

6. Evaluation of quotations

All of the quotations received will be assessed against the criteria set out in the specification document. The Chief Officer - Finance & Trading and Strategic Director (Internal Services) will participate in the evaluation process.

7. Appointment of supplier and EQA scope agreed

Before the EQA is completed the scope of the assessment will need to be agreed with the successful supplier. This will include the documents and files to be reviewed and any areas of the Standards requiring more detailed review.

8. The Audit Manager completes the EQA self-assessment including compilation of relevant evidence

The self-assessment exercise is a large body of work which needs to be completed with relevant evidence provided. Whilst this will be led by the Audit Manager, the intention is for the whole team to contribute.

9. EQA self-assessment validation is completed

The successful supplier completes the EQA assessment including interviews with key stakeholders.

10. Reporting of EQA outcomes

The outcomes from the EQA will be reported to all key stakeholders as soon as practically possible, with the full outcomes report being presented to Audit Board / Audit Committee.

11. Prepare an EQA action Plan

Following the EQA an action plan will be prepared to address any areas for improvement identified. This action plan will be regularly reviewed and updated and these updates will be regularly reported to key stakeholders, including Members.

Timeline

It is not currently possible to give a definitive timeline for the EQA as this is dependent on supplier availability which will have been impacted by Covid-19. However the broad intention is that suppliers will be contacted in July / August 2020 with a view to completing the EQA in, or shortly after, November 2020.

Summary

This report has provided Members with an overview of the requirements set out by the Standards for the Internal Audit function to be externally assessed in the 2020/21 financial year. The report has detailed the options available for the assessment to be completed and the proposal to commission an independent validation of the self-assessment.