

Gloucester City Council

Meeting:	Audit and Governance Committee	Date:	22nd July 2019
Subject:	Provision of an Internal Audit External Quality Assessment (EQA)		
Report Of:	Head of Policy and Resources Head of Audit Risk Assurance (Chief Internal Auditor)		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Theresa Mortimer - Head of Audit Risk Assurance		
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Appendices:	1. The Chartered Institute of Internal Auditors Review Team		

1.0 Purpose of Report

- 1.1 To provide the Committee with a recommended way forward in relation to the provision of the independent quality assessment of Internal Audit.

2.0 Recommendations

- 2.1 Audit and Governance Committee is asked to **RESOLVE TO NOTE** that the Chartered Institute of Internal Auditors (CIIA) is engaged to carry out an independent assessment of the Internal Audit function.

3.0 Background and Key Issues

- 3.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit (England) Regulations 2015. The latter states that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control, comprising risk management, control and governance, in accordance with the proper practices in relation to internal control”.
- 3.2 Audit Risk Assurance (ARA) under a s101 shared service agreement, fulfils the internal audit function for Gloucester City Council, Stroud District Council and Gloucestershire County Council (host authority) and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to the partner organisations’ Audit Committees and Board of Directors for Ubico Ltd, a Local Authority owned Environmental Services Company (external client).
The guidance accompanying the Regulations recognises that with effect from 1st April 2013, the Public Sector Internal Audit Standards (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit service should be established and undertakes its functions.

3.3 **Attribute Standard 1300 - Quality Assurance and Improvement Programme (QAIP)**

The Chief Internal Auditor must develop and maintain a QAIP that covers all aspects of the internal audit activity. A QAIP is designed to enable an evaluation of internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The Chief Internal Auditor should encourage Audit and Governance Committee oversight in the QAIP.

External Assessments

In addition to annual internal self assessments, to conform to the standards, external assessments must be conducted at least once every five years, by a qualified, independent assessor or assessment team from outside the organisation. The Chief Internal Auditor must discuss the following with the Audit Committee(s):

- The form of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards. The external assessment may also include operational or strategic comments.

A qualified assessor or assessment team must demonstrate competence in two areas:

- the professional practice of internal auditing; and
- the external assessment process.

Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The Chief Internal Auditor should use her professional judgement when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

In addition, an independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation(s) to which the internal audit activity belongs.

The previous EQA was undertaken during May 2015 by the Chartered Institute of Internal Auditors, which verified that the internal audit function conformed to the International Standards for the Professional Practice of Internal Auditing. Therefore in line with the Standards, the next EQA is due to take place during May 2020.

3.4 **Provider Options Appraisal**

In order to conform to the external assessment standard, the Chief Internal Auditor requested quotations and service assessment specifications from the following

competent organisations, which were identified following consultation with other Chief Internal Auditors, feedback from EQA providers' clients and her own professional judgement:

- Chartered Institute of Internal Auditors (CIIA);
- Chartered Institute of Public Finance and Accountancy (CIPFA); and
- A peer review was also considered with neighbouring authorities, however was not developed further due to this form of review not deemed to be truly independent.

3.5 Proposal

Following a full assessment of competence, quality and value for money, it is proposed that a self assessment with independent validation is undertaken by the CIIA for the following key reasons:

- The CIIA is the only professional body dedicated exclusively to training, supporting and representing internal auditors in the UK and Ireland. They represent the profession of internal auditing and they deliver services to internal auditors.
- They are the authors of the International Professional Practices Framework (IPPF) of which the Public Sector Internal Audit Standards (PSIAS) adopts the mandatory elements.
- The Institute has over 10,000 members in all sectors of the economy including private companies, government departments, utilities, voluntary sector organisations, local authorities and public service organisations.
- Members of the CIIA are part of a global network of over 180,000 members in 170 countries and are part of the Global IIA which has 180,000 members in 190 countries. All members across the globe work to the same International Standards and Code of Ethics.
- Broad range of both large public and private sector clients which include Department of Foreign Affairs and Trade, Home Office, National Audit Office, Southern Internal Audit Partnership (Hampshire Councils), Kent and Lancashire County Councils, West Norfolk Borough Council, Barnardo's, University of Kent, National Grid, Civil Aviation Authority, Rural Payments Agency, BT Group and Santander – UK. This enables benchmarking and sharing good practice across all sectors and introducing good practice principles to ARA where relevant.
- They are independent of any other organisation and because they set the standards, they thoroughly understand them.
- They have no interest beyond promoting and developing the profession, so they never try to sell additional services that we do not require or offer alternative suggestions for the delivery of internal audits.
- Fully qualified and experienced EQA review panel, including industry experts (Please see Appendix 1 below which provides details on the CIIA Review Team).

4.0 Asset Based Community Development (ABCD) Considerations

4.1 There are no ABCD implications as a result of the recommendation made in this report.

5.0 Alternative Options Considered

5.1 There are no alternative options that are relevant to this matter.

6.0 Reasons for Recommendations

6.1 The Public Sector Internal Audit Standards (as per paragraph 3.3 above) require an External Quality Assessment of the internal audit service at least every 5 years.

7.0 Future Work and Conclusions

7.1 The ClIA to report the key findings and recommendations to the Audit and Governance Committee. Any improvement actions identified as part of the assessment will be monitored by the ARA Shared Services Board and the partners' Audit Committees.

8.0 Financial Implications

8.1 There are no additional costs associated with this review as they will be met from within the existing 2019/20 ARA Shared Service budget.

(Financial Services have been consulted in the preparation this report).

9.0 Legal Implications

9.1 Nothing specific arising from the report recommendations.

(One Legal have been consulted in the preparation this report).

10.0 Risk and Opportunity Management Implications

10.1 Non compliance with the PSIAS and the inability of the Head of ARA to evidence that the internal audit service "Conforms to the International Standards for the Professional Practice of Internal Auditing." It is important to recognise that the purpose of the review is not just to be 'compliant', but also to provide an accurate representation of the internal audit arrangements in place during the year and to highlight those areas where improvement is required.

11.0 People Impact Assessment (PIA):

11.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

12.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

Sustainability

12.2 There are no 'Sustainability' implications arising out of the recommendations in this report.

Staffing & Trade Union

12.3 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents:

None

The reviewers are experienced heads of internal audit, have passed the CIIA's assessment process and are members of the CIIA, thereby ensuring they abide by their Code of Professional Conduct.

John Chesshire CFIIA

John is a Chartered Fellow of the Chartered Institute of Internal Auditors. He has recently been a member of the Institute's Professional Development Committee and is chairman for the southwest region. He is also a member of Information Systems Audit and Control Association (ISACA) and the Institute of Risk Management (IRM). John has over 20 years' experience in internal audit, risk management and governance roles and is the Independent Chair of a local authority Audit Committee.

John has undertaken internal audit roles in a number of organisations and currently works as Head of Assurance, covering internal audit and risk management, in the public sector. He also leads external quality assessments of internal audit functions in private, public and third sector organisations, reviewing both the effectiveness of internal audit and its adherence to the international standards for the professional practice of internal auditing. John has a valuable perspective on the quality of internal audit and assurance because of his extensive experience as a freelance internal audit consultant, delivering a variety of training and internal audit engagements for a range of clients.

As well as his demanding day job, he continues to undertake a number of roles for the CIIA as a trainer, facilitator, tutor, author and examiner. This breadth of knowledge gives him a unique range of practical and theoretical insight into good practice internal auditing.

Liz Sandwith CFIIA

Liz has nearly 30 years' experience in internal audit and risk management. Liz's most recent role was at Bupa where she held a number of roles in her 5 years there from Head of Assurance, Risk and Compliance to Head of Internal Audit - Operations. Liz is responsible for advising and representing the Institute on all matters relating to the professional practice of internal audit; on ensuring quality standards; and on technical issues. She is also technical advisor to the Institute's EQA service.

Liz's background is firmly embedded in internal audit and risk management. She has worked for a number of private and public sector organisations, helping to develop risk management and control awareness and has delivered training to internal auditors in the UK and internationally.

Liz is a non-executive director and chair of an Audit Committee for a Leeds based Housing Association and is also an independent board member and a member of the Remuneration Committee. Prior to joining Bupa, she spent thirteen years as Head of Internal Audit at Channel 5. She has also worked with the Information Commissioner's Office and the Electoral Commission, as well as advising a number of local authorities on internal audit and risk management issues. Liz served as President of the Institute of Internal Auditors between 2000 and 2001.