



## **CORPORATE GOVERNANCE COMMITTEE**

**20 MAY 2024**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **INDEPENDENT EXTERNAL QUALITY ASSESSMENT (EQA) REVIEW OF THE COUNCIL'S INTERNAL AUDIT SERVICE**

##### **Purpose of Report**

1. The purpose of this report is to inform the Committee of the outcome of the recently conducted independent external quality assessment (EQA) review of the Council's Internal Audit Service.

##### **Background**

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the internal audit function, which is provided by Leicestershire County Council's Internal Audit Service (LCCIAS).
3. The Committee was informed at its meeting on 27 January 2023 that a routine External Quality Assessment (EQA) of the Internal Audit Service was due. The previous EQA of the Council's Internal Audit Service was undertaken in March 2018 and was an independent validation of the HoIAS' self-assessment. The results were reported to the Committee at its meeting on 23 April 2018 with the overall conclusion that the Service generally conformed (the top rating) to the PSIAS.
4. The undertaking of an EQA is a requirement of the Public Sector Internal Audit Standards (PSIAS), in conjunction with CIPFA's Local Government Advisory Notice (LGAN - 2019), which aim to promote continued improvement in the professionalism, quality and effectiveness of the internal audit function. As part of the internal audit quality management programme, each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation.
5. As agreed at the 27 January 2023 meeting, the Director of Corporate Resources and the HoIAS liaised with the Chairman and Spokespersons of the Committee before determining the assessment approach to be taken. In early October 2023, the Council commissioned Robin Pritchard of Business Risk Solutions a very experienced internal audit and risk professional with a career spanning 40 years, to undertake an EQA by March 2024.

6. The Business Risk Solutions' full proposal and approach to undertaking the EQA was presented previously to this Committee on 26 January 2024. Business Risk Solutions is independent of Leicestershire County Council and has had no previous involvement with the provision of internal audit services at the Council.
7. It was agreed that an assessment would be based upon a review (validation) of an evidenced internal self-assessment exercise using the standard template of LGAN. This was the same methodology applied in 2018. The EQA provided for the review to be undertaken remotely, which proved to be an efficient and effective means of conducting such reviews and enabled electronic files to be provided to the reviewer to evaluate consistency and diligence in processes.

### **Scope and methodology of the review**

8. The HoIAS and his team compiled a self-assessment against the PSIAS and submitted it along with extensive supporting evidence to the reviewer.
9. The evidence provided covered the following key areas:

<b><u>Part</u></b>	<b><u>Title</u></b>	<b><u>Subcomponents</u></b>
Part One	Governance	10
Part Two	Planning	4
Part Three	Methodology	3
Part Four	Files	24
Part Five	Reporting	5
<b>TOTAL</b>		<b>46</b>

10. In addition to interviews with both the Head of Internal Audit and the Audit Manager responsible for EQA submission, eleven other key stakeholders from a range of clients were also requested to provide feedback in relation to the service.

### **Outcome of the review**

11. The final report states:

*“The Leicestershire County Council internal audit service is delivering to a standard that **generally conforms** with the Public Sector Internal Audit Standards.”*

12. It should be noted that ‘*Generally Conforms*’ is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards’.

13. The covering email supplementing the report also positively stated:

*'In terms of benchmarking contained in the report, an overall assessment of 2.69 was achieved which compares favourably with the sector; where a range between 2.19 and 2.71 has been recorded in the 2023/24 reviews within local government'.*

14. The above assessment was further substantiated by the following two comparator graphs which are shown in full in the appendices:

Benchmarking Sector – Sector Analysis - Appendix 1  
 Benchmarking Industry Analysis – Appendix 2

Benchmarking Sector Analysis

15. This analysis compared resources, competency, and delivery of Leicestershire County Council Internal Audit Service against the following three sectors:

- Local Government
- Housing
- Private

The service was deemed to be well above the '*established*' rating and close to the '*excelling*' rating in all three component areas and was highest in all the industry sectors for both competency and delivery.

Benchmarking Industry Analysis

16. This analysis compared Leicestershire County Council Internal Audit Service to other Local Government Providers across the following areas:

<u>Type of Standard</u>	<u>Definition</u>	<u>Areas covered</u>
Attribute Standards	Addressing the characteristics of organisations and parties performing internal audit activities.	2
Performance Standards	Describing the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.	10

17. Again, the service was deemed to be well above the '*established*' rating and close to the '*excelling*' rating in all of the twelve areas measured (actually reaching '*excelling*' in two of them). Importantly though, the service was also deemed to be higher achieving than other local government assessments made by Business Risk Solutions in ten of the areas and equal in the other two areas.

**Good Practice identified during the review.**

18. The report also cited an additional six areas of good practice in the overall summary:
- *An Internal Audit Charter setting out the role and responsibilities of Internal Audit is supported by a detailed Internal Audit Manual which guides delivery and establishes the basis of Internal Audit recommendations and opinions.*
  - *The service has developed a documented internal audit methodology and supporting templates that delivers and evidences a consistent service in line with client requirements.*
  - *Robust communication protocols exist throughout internal audit delivery.*
  - *Self-assessment identifies areas in which future development will be beneficial and is based upon the development of job descriptions, performance appraisals, the establishment of a training matrix and client feedback.*
  - *Routine reporting informs clients and the Corporate Governance Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations.*
  - *The Internal Audit service receives favourable feedback from clients who are appreciative of the approachable, flexible and client focused support that is provided.*

**Key matters arising from the review:**

19. The report cited four key matters arising from the review:
- *Increasing integration of the use by internal audit of risk-based techniques with the risk impact definitions of each client Council particularly in terms of planning at a strategic and engagement level would be mutually beneficial.*
  - *Enhance focus on identifying Managements Objectives within the scope of the engagement in order to identify the significant risks upon which an engagement should focus for assurance purposes.*
  - *Consideration should be given to the revision of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by clients within risk management policies.*
  - *Review the narrative used within the Audit Charter and Annual Opinion in the Head of Internal Audit Annual Report to ensure consistency and reflect the use of continuous planning and knowledge of both significant risks and other*

*sources of assurance that are available and upon which reliance has been placed*

20. It is extremely pleasing to have received excellent comparator scores and the top rating, which will now be able to be quoted in internal audit documentation and communication. Nevertheless, the HoIAS will determine an action plan to improve those areas which Business Risk Solutions has suggested merit further attention. This action plan will be approved by the Assistant Director Finance, Strategic Property & Commissioning. Further timely updates on progress against the action plan will be made to this Committee.
21. A copy of the final report is shown in Appendix 3

### **Resources Implications**

22. The cost of the review was £3,750 (2018 £3,500). The cost was within budget and satisfied Leicestershire County Council Contract Procedure Rules

### **Equal Opportunities Implications**

23. There are no discernible equal opportunities implications resulting from the independent review undertaken.

### **Recommendation**

24. That the outcome of the independent review be noted.

### **Background Papers**

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 27 January 2023 - Internal Audit Service - External Quality Assessment

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7128&Ver=4>

Report to the Corporate Governance Committee on 26 January 2024 – External Quality Assessment of the Internal Audit Service and the Revised Internal Audit Charter.

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7410&Ver=4>

The Public Sector Internal Audit Standards

### **Circulation under the Local Issues Alert Procedure**

None.

**Officer to Contact**

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**Appendices**

Appendix 1	Benchmarking Sector – Sector Analysis
Appendix 2	Benchmarking Industry Analysis
Appendix 3	Final Report: External Quality Assessment