



## **CORPORATE GOVERNANCE COMMITTEE – 27 JANUARY 2023**

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

#### **INTERNAL AUDIT SERVICE – EXTERNAL QUALITY ASSESSMENT**

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

1. The purpose of this report is to inform and seek the views of the Corporate Governance Committee on the arrangements being made to fulfil the requirement for an external assessment of Leicestershire County Council's Internal Audit Service (LCCIAS).

##### **Background**

2. Internal audit in the public sector is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 2013 (updated 2017). Conformance to the standards is mandatory for all principal local authorities.
3. The PSIAS aim to promote continuous improvement in the professionalism, quality and effectiveness of the internal audit function. A key element of this is that as part of the internal audit quality management programme, each internal audit function should be subjected to an external quality assessment (EQA) of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation.
4. An EQA should: -
  - Identify what the internal audit function is doing well or where improvement is required;
  - Support continuous improvement;
  - Emphasise and enhance the standing of the internal audit function;
  - Report findings and recommendations to key stakeholders including audit committees.

##### **External Quality Assessment – Approach**

5. The PSIAS require that: -
  - EQA's must be conducted by a qualified, independent assessor or assessment team from outside the organisation;
  - External assessments may be accomplished through either a full external assessment, or a self-assessment with independent external validation.

- the Head of Internal Audit Service (HoIAS) should discuss with the Corporate Governance Committee the form of the EQA and the qualification of the external assessor or assessment team, including any potential conflicts of interest;
  - The scope of the EQA must be agreed with an appropriate sponsor of the work. In line with advice in the PSIAS, it is recommended that the Director of Corporate Resources and Chairman of the Corporate Governance Committee are nominated as joint sponsors.
6. The approaches to the EQA currently being considered are to either receive a full external quality assessment or an independent validation of a self-assessment. A third approach, a reciprocal peer assessment, has not been considered due to demands this would place on the HoIAS and staff within the internal audit team.
  7. An advantage of a full external quality assessment is that it has potentially greater value and independence. Conformance is assessed by a qualified assessor appointed by the County Council. The assessor determines the approach, the evidence and information to be sought and the people to see as part of the exercise which takes, overall, between 10 – 25 days. They then provide suggestions for improvement against best practice and benchmark data. A disadvantage to this approach would be that the cost of the exercise could require the application of the Council's Contract Procedure Rules for which a minimum of three written quotations will need to be obtained adding to the time required to undertake the assessment.
  8. Alternatively, an independently validated self-assessment can be undertaken. This is likely to be of a shorter duration, (taking between 5 – 8 days), be less disruptive and cost less. This approach also provides development opportunities for internal audit staff and strengthens awareness of quality assurance. Conformance is measured by the external assessor based on the self-assessment with limited benchmarking data and interviews with stakeholders. The assessor provides suggestions for improvement against the standards/best practice.
  9. The previous EQA of the Council's Internal Audit Service was undertaken in March 2018 by Veritau Limited, a large local authority shared internal audit service trading company. Veritau carried out an independent validation of the HoIAS self-assessment. The results were reported to Corporate Governance Committee at its meeting on 23 April 2018. Veritau's overall conclusion was that LCCIAS generally conformed (the top rating) to the PSIAS. Nevertheless, the HoIAS prepared an action plan to improve those areas which Veritau had suggested merited further attention. The EQA cost £3,500 and so there was only a requirement under the Contract Procedure Rules to obtain a minimum of one oral/written quotation.
  10. The HoIAS intends to start the EQA process at the end of March/early April with a proposed timeline of an outcome report being provided in time for his Annual Report which will be presented to the Committee at the end of May. Veritau has confirmed that it will not have capacity to undertake a follow up EQA within the time requirements. The HoIAS will therefore research the market to determine the preferred approach taking account of the points highlighted above.

**Next steps**

11. Beginning immediately, the HoIAS will research the market requesting information on: -
- Approach
  - Deliverables and Outcome
  - Timescales - days and span
  - Competency, experience and independence to deliver the EQA
  - Price – should three quotations be required he will agree an evaluation model with the Commissioning Support Unit and the sponsors.
12. The EQA project will likely involve:
- The sponsors approving the appointment of the External Assessor in consultation with the HoIAS
  - Planning & co-ordinating delivery of the project – with project oversight by the project sponsors and HoIAS
  - Conducting the review of the internal audit arrangements – reviewing resources and delivery, 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 HoIAS and the sponsors
  - Final Report – presented to the Committee and other bodies audit committees with proposals for how recommendations will be actioned.
13. Given the proposal to begin the EQA in time for the final report to be presented to the Committee in May, it is proposed that following market testing the Director of Corporate Resources and the HoIAS liaise with the Chairman and Spokespersons of this Committee before determining the assessment approach to be taken. An update on the preferred approach will be provided to the Committee as appropriate.

**Resources Implications**

14. The EQA project will incur a cost that will be met within the Service's existing budget.

**Human Right Implications**

15. There are no human rights implications arising from the recommendations in this report.

**Equality Implications**

16. There are no discernible equality implications arising from the recommendations in this report.

**Recommendation**

17. The Corporate Governance Committee is asked to note the report and support the proposed approach to determine the preferred method of conducting the EQA of the Internal Audit Service.

**Background Papers**

Report to the Corporate Governance Committee on 23 April 2018 'Internal Audit Outcome of a Peer Review'

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=5477&Ver=4>

**Circulation under the Local Issues Alert Procedure**

None.

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