

By: Jonathan Idle, Head of Internal Audit
To: Governance and Audit Committee – 8th October 2020
Subject: **INTERNAL AUDIT EXTERNAL QUALITY
ASSESSMENT PROCESS**
Classification: Unrestricted

Summary: This report provides Members with an overview of the requirements set out in the Public Sector Internal Audit Standards in relation to an External Quality Assessment (EQA) of the Council's Internal Audit service and to inform Members of the planned approach to ensure an EQA is procured and completed by 31 March 2021.

FOR DECISION

Introduction and Background

1. The Public Sector Internal Audit Standards (Standards) require that the Chief Audit Executive (CAE – Head of Internal Audit) develop and maintain a quality assurance and improvement programme (QAIP). The Standards demand that this programme includes a process whereby the Internal Audit function is the subject of regular 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.
2. The Standards stipulate that an internal assessment must be completed periodically, and an external assessment, by an independent body, must be completed (as a minimum requirement) at least every five years.
3. The last external quality assessment (EQA) of the Kent County Council Internal Audit service was completed in April 2015. In order to satisfy the Standards, the next EQA should have been completed by April 2020. Due to Covid-19, however, a decision was made, after seeking advice from the Institute of Internal Auditors, to delay the EQA for later in the year.
4. Failure of not having an EQA completed at least every 5 years, by a qualified, competent and independent person will mean the Internal Audit function is no longer operating in compliance with the Standards and stakeholders may no longer have assurance that the function is operating efficiently and effectively.
5. The following document provides an overview of an approach which could be taken in relation to progressing with and commissioning the Internal Audit External Quality Assessment.

The Standards

6. The Standards cover 14 components which Internal Audit functions must adhere to in order to be assessed as operating in compliance with the Public Sector Internal Audit Standards. The sections covered in the Standards are as follows:
 - 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.
7. The Standards require that the CAE must discuss the format of the external assessments with the Audit Committee / Audit Board and this discussion should encompass the following:
 - The costs of the different approaches
 - The potential advantages of an external viewpoint
 - Whether there are any factors to be considered to warrant an independent assessment.
8. The Standards require that an independent and competent person must be sourced to avoid any conflict of interest and impairment to objectivity. The assessor should also be appropriately qualified to carry out the assessment.
9. The Standards also require that an appropriate sponsor must be sourced for the EQA.

Proposed Assessment / Review Process

10. Table 1 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:

Table 1 – Options for EQA:

	FULL ASSESSMENT	VALIDATION OF SELF-ASSESSMENT
Details	This would be a full independent assessment of the Internal Audit function against the Standards	This would require the Audit Team to complete a full self-assessment of the service to check for compliance against the Standards. The self-assessment would be completed using a standard checklist, which is provided as an appendix to the Standards and the supporting Local Government Application Note. The self-assessment document and supporting evidence would then be reviewed and evaluated by an independent person to determine the level of compliance with the Standards
Estimated cost	£20,000	£5,000 - £10,000
Advantages	<p>Full and independent compliance check against the Standards</p> <p>Assessor sharing best practice from other recent EQA's</p>	<p>Whole Team involvement in the self-assessment exercise to increase knowledge and accountability of the Standards and to contribute to Team members continuing professional development</p> <p>Opportunity to remedy gaps in the self-assessment at an early interval</p> <p>Budget savings</p>
Considerations	<p>Budget capacity</p> <p>Assessor availability</p> <p>Time commitment during the assessment</p>	<p>Team resources to complete the self-assessment and compile relevant evidence</p> <p>Self-assessment may not accurately represent current position</p> <p>Availability of suitably competent and qualified person to carry out assessment</p>

11. Following discussions with the Head of Paid Service, the S.151 Officer and the Chair of the Governance and Audit Committee, it is proposed that the approach for the forthcoming EQA should be to commission a **self-assessment validation**, using an independent and experienced assessor.
12. The justification for this is because the Council and the Internal Audit Team, based on previous self-assessments, already have a detailed understanding and appreciation of where the audit service is in respect of compliance with the Standards.

What will the self-assessment validation involve?

13. The validation of our self-assessment is likely to include the following:
 - A review of key documents and audit file reviews
 - On-site interviews with key personnel / stakeholders
 - A detailed findings report, with recommendations / actions
 - Confirmation of compliance with the Standards
 - Potential areas for improvement and best practice.

What happens Next?

14. In order to progress the EQA process further the following steps set out in Table 2 need to be completed:

Table 2 – EQA Actions:

	Action	Notes
1	Agree a client sponsor for the EQA	The Sponsor is Zena Cooke, Corporate Director, Finance & s.151 Officer.
2	Agree the authority lead for the procurement exercise	The procurement exercise will be completed under Kent County Council's procurement arrangements. An initial discussion has already been had with the Procurement Team to agree the best way to approach the procurement exercise.
3	Identify potential suppliers to complete the self-assessment validation EQA and seek at least 3 quotes	A number of potential suppliers can be contacted to request a further discussion about commissioning an EQA and obtaining a quote.
4	Prepare an EQA specification document	An EQA specification document has been prepared and will be discussed and agreed with the Project Sponsor, the Head of Paid Service and the Chair of the Governance and Audit Committee to agree the terms of the specification and the quotation evaluation criteria in respect of price and quality.
5	Request quotations from at least 3 suppliers	It is anticipated that suppliers will be approached for quotations during October 2020.
6	Evaluation of quotations	All of the quotations received will be assessed against the criteria set out in the specification document. It is intended for a number of key stakeholders to be involved in the evaluation of quotations exercise, including the Corporate Director of Finance, The Head of Paid Service and the Chair of the Governance and Audit Committee.
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 Team complete the EQA self-assessment and compile relevant evidence	The self-assessment exercise is a large body of work which needs to be completed in advance of the EQA. The aim is that the whole Team is involved in the self-assessment exercise. The aim is for the self-assessment exercise to be completed before 31 December 2020.
9	EQA self-assessment validation is completed	The successful supplier completes the EQA assessment by 28 February 2021. The assessors will want to speak to key stakeholders as part of their assessment process.
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 reported to Governance and Audit Committee in April 2021.

Reporting Arrangements

15. Following the EQA, a detailed report on the findings will be initially be discussed with the Internal Audit service and the Project Sponsor. When this report is finalised, it will then be presented to the Governance and Audit Committee together with an action plan prepared to address any areas for improvement identified.
16. This action plan will be reviewed and updated at regular intervals and updates provided to Members to monitor improvements required as part of our standard progress reports.

Timeline

17. The following timeline is proposed for the EQA exercise:

Table 3 – EQA Timeline:

Date	Activity
October 2020	Quotations obtained and evaluation process completed
October – December 2020	Self-assessment completed and evidence collated by Internal Audit Team
February 2021	Completion of External Quality Assessment
April 2021	EQA outcomes and draft action plan reported to GAC

Summary

18. 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 by an independent and competent body. The report has detailed the options available for the assessment to be completed and a proposal that this be done through an independent validation of the self-assessment. The report has also provided an overview of the suggested timeline and an overview of the 'next steps'.
19. The report identifies a nominated sponsor for the exercise, as detailed in Table 2.
20. Reporting and monitoring arrangements are detailed at paragraphs 15-16.

Recommendations

21. It is recommended that Members:
 - Endorse the approach for the External Quality Assessment of the Council's Internal Audit function.
 - Approve the nominated Sponsor for the exercise.

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