

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	19 December 2019
Title:	PSIAS – External Assessment
Report From:	Deputy Chief Executive and Director of Corporate Resources

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Purpose of this Report

1. The purpose of this paper is to provide an overview of the alternative options considered in commissioning an external assessor to undertake the pending assessment of the Southern Internal Audit Partnership against the Public Sector Internal Audit Standards / Local Government Application Note.

Recommendation(s)

2. That the Audit Committee notes arrangements for the pending external assessment of the Southern Internal Audit Partnership against the Public Sector Internal Audit Standards.

Contextual Information

3. The Accounts and Audit (England) Regulations 2015 – S5 state:
‘(1) A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’
4. The ‘Public Sector Internal Audit Standards’ and the ‘Local Government Application Note’ together comprise *‘internal auditing standards and guidance’* as referenced in the regulations.
5. The Public Sector Internal Audit Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit service which includes provision for both internal and external quality assessments.

6. An external quality assessment is required to be undertaken every five years. The last external assessment of the Southern Internal Audit Partnership (SIAP) was completed in October 2015 by the Institute of Internal Auditors (IIA).

Form of External Quality Assessment (EQA)

7. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
8. Full External Quality Assessment - incorporates the acquisition and validation of evidence to support compliance with the Standards coupled with, surveys and interviews with stakeholders leading to the completion of an independent report.
9. Validated self-assessment - is initially carried out by the Head of Southern Internal Audit Partnership. The external assessment team will review / validate evidence produced to support the self-assessment and in addition conduct interviews with all key stakeholders including Members, Senior Officers (incl S151's), key audit contacts and staff.
10. A validation report will be produced and appended to the head of internal audit's self-assessment.
11. The sole difference between the two approaches is that the Full EQA will require the assessor to request and compile for themselves a significant proportion of the documentation to support the PSIAS / LGAN checklist, whereas for the validated self-assessment the PSIAS / LGAN checklist will be completed by the Head of the Southern Internal Audit Partnership and the assessors will review the compiled evidence.

External Assessor

12. In accordance with the Standards (A1312) a qualified assessor or assessment team must demonstrate competence in two areas:
 - the professional practice of internal auditing; and
 - the external assessment process.
13. An independent assessor or assessment team means not having either a real or apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

14. There are a number of organisations capable of providing external assessments to meet the requirements of the PSIAS, the most credible being Chartered Institute of Public Finance and Accountancy (CIPFA) and the IIA.
15. Both the IIA and CIPFA are professional institutions and provide similar offerings in respect of a validated self-assessment, however, consensus amongst the profession is that CIPFA have become less prominent in the discipline of internal audit over the last five or so years with the IIA now being the clear market leader for internal audit standards, innovation and best practice. A table is presented at Appendix 1 outlining the respective approaches coupled with the key benefits and risks of both the IIA and CIPFA.
16. Additionally, there is scope within the PSIAS for an external assessment to be undertaken as a peer review. This is a format that has been adopted by some other local Partnerships including:
 - South West Internal Audit Partnership;
 - Devon Audit Partnership; and
 - Orbis
17. Due to their nature there would be no financial outlay in adopting this approach, however, there would be the opportunity costs of the Head of the Southern Internal Audit Partnerships time in reciprocating any peer review requested of the SIAP.
18. The independent status of the external assessment is paramount and there may be a perception that this is diminished as part of the peer review approach and that Partners within the SIAP would gain greater assurance through endorsement from a professional institution. As such the collaborative approach has not been explored further as part of this paper.

Summary

19. The options outlined in the report are all permissible and acceptable sources through which to conform to the requirements of the external assessment.

Assessment

20. Full External Assessment – this would provide a compliant process, however, the additional time and cost required of the Full EQA would be significantly more than the validated self-assessment with no additional benefits gained.

21. Validated self-assessment – this would provide a compliant process with all the benefits of a full external assessment; however, costs are reduced in that the Head of the SIAP will compile all the relevant paperwork for the external assessor to review and validate.

Assessor

22. IIA - are market leaders in the professional discipline of internal audit both in the public and private sector. The IIA have undertaken numerous validated external assessments across local authorities and private industries. As the authors of the Public Sector Internal Audit Standards it is my opinion that they are the most credible source of endorsement for the SIAP and subsequent source of assurance to our partners
23. CIPFA – undertaken validated external assessments across a number of other local authorities, however their presence and focus on internal audit in recent years raises some concerns over the added value they will be able to bring through the assessment process.

Conclusion

24. To accord with the PSIAS / LGAN the Head of the Southern Internal Audit Partnership has put in place arrangements for a validated self-assessment to be conducted by the IIA during autumn 2020. The full scope of the external assessment will be submitted to a future meeting of the Audit Committee for their endorsement.

Appendix 1

Comparison of External Assessment Providers

Assessment Criteria	CIPFA	IIA
Independence	No conflict of interest and is not under the control of, nor does it form a part of any organisation within the Southern Internal Audit Partnership.	No conflict of interest and is not under the control of, nor does it form a part of any organisation within the Southern Internal Audit Partnership.
Qualification	<ul style="list-style-type: none"> ● Undertaken reviews across a range of local authorities; ● Some engagement in the production of the PSIAS & LGAN 	<ul style="list-style-type: none"> ● PSIAS based on IIA International Professional Practices Framework. ● Exclusively focused on the internal audit profession ● Team selected from the EQA review panel with industry experts to suit the Partnerships needs ● Sector Experience ● Extensive experience of private sector
Approach	<ul style="list-style-type: none"> ● Agree project plan to include timetable for completion ● Interviews to be held with stakeholders: <ul style="list-style-type: none"> ○ Chief Executive; ○ Strategic Directors; ○ Chair of Audit Committee ○ Other internal audit clients ● Review all aspects of the internal audit function and compare findings to the self-assessment against attribute and performance standards (will include interviews with CIA, audit managers, audit staff, customers, external audit) ● Review audit reports and working papers ● Prepare and discuss draft report ● Issue final report 	<ul style="list-style-type: none"> ● Prior to on-site visit, evaluate self-assessment. ● Interviews with audit committee members, senior executives for views on performance / impact of internal audit ● Review all aspects of policies, procedures and practices ensuring compliance through review of engagement files ● Executive report to include: <ul style="list-style-type: none"> ● Assessment of the effectiveness of the SIAP against the PSIAS; ● View on the maturity of the audit function; ● Appraisal of how internal audit is perceived by the board, senior management and other stakeholders; ● Suggestions for improvement

Assessment Criteria	CIPFA	IIA
Benefits	<ul style="list-style-type: none"> ● Professional institution. ● Respected across the public sector. 	<ul style="list-style-type: none"> ● Credible source of assessment. ● Industry standard setters. ● Ability to benchmark SIAP against other public / private sector providers ● Professional institution ● Highly respected across the public and private sectors
Risks	<ul style="list-style-type: none"> ● Diminishing focus on internal audit ● Added value beyond accreditation 	

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: 'Board' engagement in relation to the pending external assessment of the SIAP in accordance with the Public Sector Internal Audit Standards and Local Government Application Note.	

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Internal Audit Charter	23 July 2019
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals within this report