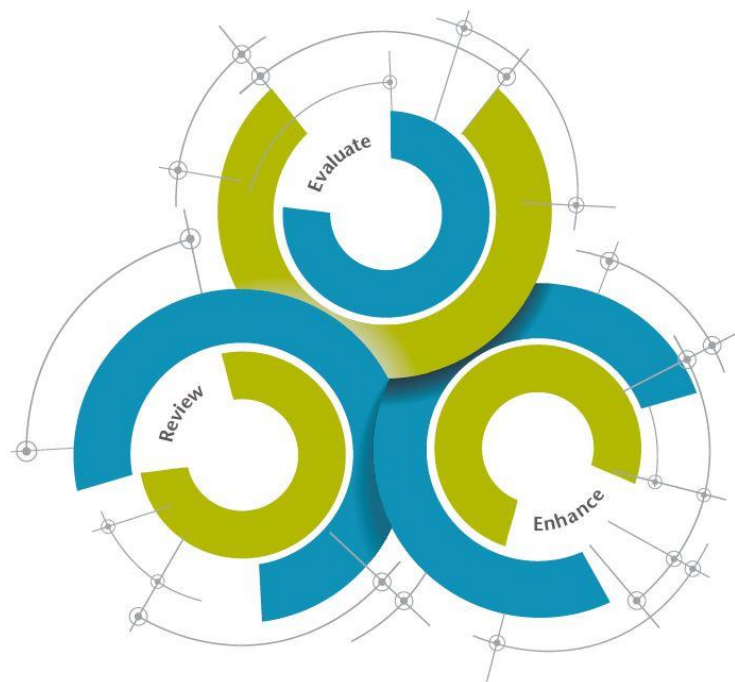




Chartered Institute of  
Internal Auditors

## Proposal

An external quality assessment on the effectiveness of  
the internal audit function at Southern Internal Audit Partnership



Chartered Institute of Internal Auditors

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## Introduction

The Chartered Institute of Internal Auditors (IIA) is focused exclusively on internal auditing. We support, promote and train 8,500 members in the UK and Ireland. In 2010 we were granted a Royal Charter in recognition of our pre-eminence and permanence in the profession.

We are the authors of the International Professional Practices Framework (IPPF), which includes the International Standards. As such we believe an external quality assessment (EQA) from the Institute will provide a review of substance and value to you and your stakeholders.

Our ownership, understanding and input into the Standards means:

- We speak with authority on conformance with the Standards.
- We know how internal audit supports effective governance so we will explore how you do that, emphasising the value of your role and the internal audit function.
- We are committed to promoting internal audit as a profession and we will work with you to raise your profile.
- We understand the pressures and demands upon internal auditors so we will offer you ideas and suggestions that will further improve your effectiveness.
- We have experience and expertise in your sector meaning we can offer you an effective and challenging review.

We know that every organisation is different in its strategic aims, its business model and the regulatory environment in which it operates and we also know that organisations need to get the best out of their resources. As a result:

- We will provide a flexible tailored review to fit your requirements.
- We will offer a team from our EQA review panel including industry experts with specialist knowledge to suit your needs.
- We will apply the highest standards through our consistent tried and tested methodology.
- We will benchmark your activities against best practice.
- We will offer ideas and suggestions for continuous improvement.

## Background

Southern Internal Audit Partnership has expressed their wish to commission an independent internal audit effectiveness review in accordance with best practice and to receive an assessment of their conformance to the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN).

The review is to be performed on the basis of a validation of the internal audit function's own self-assessment and Southern Internal Audit Partnership should complete the self-assessment check list and compile evidence prior to the commencement of the EQA.

Although the partnership works from a variety of locations the on-site part of the review will take place at their offices in Winchester during August/September 2015.

Prior to the standard EQA process, as laid out in this proposal, the IIA will conduct a survey of key personnel from Southern Internal Audit Partnership's client base to ensure adequate feedback and that all stakeholders feel included in the review process. The IIA will consult with the Head of Partnership to draft a list of relevant questions.

Southern Internal Audit Partnership has 2 Strategic Partners (Hampshire County Council and Southampton City Council), 3 Key Stakeholder Partners (Havant Borough Council, East Hampshire District Council and Winchester City Council) and approximately 16 External Clients.

The IIA will place 3 highly qualified members of the review panel on this project. David Finch has considerable experience and was recently involved with an EQA of Research Councils UK and understands the nuances of shared service audit functions. David will lead the review and be assisted by another member of our review panel who will be assigned nearer the time of the review. Biographies of the review panel can be found at [www.iiia.org.uk/eqapanel](http://www.iiia.org.uk/eqapanel).

Chris Baker, the IIA's technical manager, will also be involved with the review. As the guardian of the IIA's guidance and with his knowledge of the International Standards he will not only act as a sounding board for David and his colleague but will also ensure the quality of the EQA process.

David and Chris's biographies are on page 9 of this proposal.

## The IIA approach

Our structured approach will assess how well you are performing against the International Standards. We will review the internal audit methodology, compare it to IIA recognised good practice and make practical recommendations.

We appreciate that many organisations want to know the extent to which their internal audit activity conforms to the International Standards. We will carry out such an assessment and include an opinion in our executive report along with a summary of results similar in style to the table below:

Summary of Conformance to the IPPF	Standards	Does not Conform	Partially Conforms	Generally Conforms	Total
Definition and Code of Ethics	Rules of conduct	0	0	5	5
Purpose	1000 - 1130	0	1	6	7
People	1200 - 1230	0	0	4	4
Performance	1300 - 1322	0	1	6	7
Planning	2000 - 2130	0	0	12	12
Process	2200 - 2600	0	0	21	21
<b>Total</b>		<b>0</b>	<b>2</b>	<b>54</b>	<b>56</b>

Throughout the review our team will carry out one to one interviews with audit committee members and senior executives to invite their views on the performance and impact of internal audit.

On completion we will provide a detailed executive report with recommendations within your defined timescale. This will include our assessment of your conformance to the Standards and our view on the maturity of internal audit using the IIA's EQA Best Practice Report, see table on the following page. We will also include examples and suggestions on how excellence can be achieved.

Assessment	Conformance to the IIA standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement programme
<b>Excellent</b>	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally conforms in all areas.	Excellent IA alignment to the organisation's objectives, risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as a 3 <sup>rd</sup> line of defence. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise and produced promptly.	Ongoing efforts by whole IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
<b>Good</b>	The IIA Standards are fully integrated into the methodology – mainly generally conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagement are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC
<b>Satisfactory</b>	Most of the IIA Standards are found in the methodology with scope to increase conformance from partially to generally conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change but criteria and role require clarity.	The 3 lines of defence model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness but further consistency is needed. Reports are informative and valued but are considered a little wordy	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is. Wider QA&IP may need formalising
<b>Needs improvement</b>	Gaps in the methodology with a combination of non-conformances and partial conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagement go beyond deadline and a number are deferred	QC not consistently embedded across the function. QA is limited / late or does not address root causes
<b>Poor</b>	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are adhoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

Using the Checklist for Assessing Conformance with the PSIAS and LGAN Southern Internal Audit Partnership will first give their opinion on their conformance to the standards and gather evidence. We will then use the checklist to work with you to systematically review the way you deliver internal audit according to recognised professional practice and identify potential scope for development. This will involve examination and assessment of:

- The internal audit charter: the scope of internal audit activities, policies, reporting lines, independence and objectivity.
- Related governance structures, policies and relationships in action: the terms of reference for the audit committee, the three lines of defence model, key interactions with the senior executive team and other stakeholders.
- The internal audit strategy and annual plans; how risk based plans are designed, resourced and updated to satisfy the organisations expectations.
- The way assurance is coordinated for the audit committee to avoid duplication and gaps in order to optimise the use of assurance resources within the three lines of defence model.
- Quality assurance arrangements: processes and performance measurement.
- Processes: including the use of internal audit technology.
- Engagement files and reports: a cross section from your audit plan.
- Reporting and follow-up arrangements.

# The EQA process

Within the EQA process are five interrelated stages of evaluation to ensure full coverage of the Standards, a comprehensive review of internal audit practice and extensive feedback to stakeholders and staff.

## Stage 1

Evaluating the effectiveness of the internal audit function within Southern Internal Audit Partnership using our knowledge of professional practice, including a review of the following documents:

- Audit committee Terms of Reference.
- Audit committee papers and minutes.
- Internal audit Charter and strategy.
- Internal audit procedures manual.
- Internal audit planning with links to business strategy, operating model and key risks.
- Resource plans and annual budgets.
- Job descriptions, CPD and training records.
- Assurance mapping and arrangements for co-ordination of assurance.
- Quality assessment - reports and KPIs.
- Annual reporting and opinion.

## Stage 2

Evaluating the delivery of Southern Internal Audit Partnership's internal audit function and their approach to audit assignments based upon the definition within your internal audit manual with emphasis upon:

- Assignment scoping, objective setting and resourcing.
- Assignment supervision and management – quality control.
- Reporting writing and review.
- Arrangements in relation to follow-up of internal audit recommendations.

### **Stage 3**

Review a cross section of audit assignments from the audit plan to give an in-depth view of key subject matter and the performance of internal audit staff.

*Due to the size and complexity of your internal audit function we would suggest that we assess 8 to 10 assignments, the scope of which to be agreed beforehand, although as a minimum these should cover at least 1 from each of the strategic partners, key stakeholders partners and major external clients.*

### **Stage 4**

Meetings to discuss internal audit's performance with key stakeholders and staff during stages 1 to 3 as agreed, including:

- Chair of the Partnership Board and other non-executive members.
- CEO, Director of Corporate Resources, and other senior managers.
- Other service providers and stakeholders.
- The Head of Partnership.
- Members of the internal audit function.

*Interviews with members of the audit committee and key stakeholders of internal audit usually take around 30 to 40 minutes and can be conducted in person or via telephone.*

### **Stage 5**

Analysis and Report – Aggregating the evaluations and discussing conclusions

- Close out meeting with the Head of Partnership to discuss initial findings and refine proposals.
- Gather and evaluate comments to the draft report.
- Benchmark against the IIA's EQA assessment tool and EQA best practice report.
- Agree draft report with the Head of Partnership.
- Finalise report, with reference to the IIA's EQA checklist and EQA best practice report.
- Produce and circulate the final report as required.



## Reviewer profiles

All our reviewers are current or former heads of internal audit, have passed the IIA's stringent assessment process and are members of the IIA, thereby ensuring they abide by our Code of Professional Conduct.

- Mr David Finch, CMIIA

David is a Chartered member of the Chartered Institute of Internal Auditors. He was a legal director and Member of Council for 3 years as well as a member of the Business & Finance Committee. He is also a fellow of the Chartered Institute of Management Accountants.

David has held Heads of Audit and Director of Risk & Assurance roles within 4 businesses (Superdrug plc, Dairy Crest plc, Alders Department Stores Ltd and Travis Perkins plc) during an internal audit career spanning 17 years. He has had specific responsibility for Internal Audit, Group Security, corporate governance, risk management strategy, and business continuity. Prior to this he held various accounting & Financial Controller roles at companies including Myson Group plc, Tesco plc, and Woolworths plc. David has also held the roles of Treasurer, Secretary to the directors, and Finance Director for a private property management company.

David has managed a variety of large and small audit functions, covering both national and global remits with budgets ranging from thousands to millions. Through working with the executive directors in sometimes difficult circumstances, David understands the practical challenges, trials and tribulations that face a Head of Internal Audit.

David will be responsible for interviewing all stakeholders, reviewing Southern Internal Audit Partnership's methodology and audit engagements, collating and benchmarking the results and reporting on the findings of the review.

- Chris Baker, CMIIA

Chris Baker, the IIAs technical manager, will also be involved with the review. As the guardian of the IIA's guidance and with his knowledge of the *International Standards* he will not only act as a sounding board for the review team but will also ensure the quality of the EQA process.

In 2011 Chris created the IIA approach to EQA including creating the self-assessment checklist, designing the process and recruiting the review team. He has been involved the majority of IIA EQA reviews as a coordinator and reviewer enabling him to see a wide range of practice to complement his detailed understanding of the IPPF.

Chris has over 30 years' experience in internal audit at a senior level across a diverse range of sectors, including local government, education, housing and an employee owned partnership that became a publically listed limited company. He managed one of the first consortium arrangements in higher education and was Director of Risk, Internal Audit, Quality and H&S at eaga Partnership leading up to and after their listing on the stock market.

## Client list

A J Gallagher International  
Alliance Boots  
Atomic Weapons Establishment  
Barnardo's  
BT Group  
BUPA  
Circle Housing Group  
Civil Aviation Authority  
Department of Foreign Affairs & Trade  
East Thames Group  
Enstar Insurance  
Guinness Partnership (Housing)  
Historic Royal Palaces  
Imperial Tobacco Group PLC  
Irish Courts Service  
Kerry Group (Ireland)  
Mid Kent IA local government consortium  
Paragon Bank  
Progress Housing Group  
QinetiQ Group PLC  
RPMI pensions  
Research Council UK  
Rural Payments Agency  
Santander - UK  
Save The Children International  
Scrutton Bland  
Students Loan Company  
TalkTalk  
UNIAC Higher Education IA consortium  
Vanquis Bank  
West Norfolk Borough Council

References available on request

## Schedule, cost and deliverables

Prior to the onsite visit our review panel will evaluate documentation so as to minimise disruption to your employees.

We estimate that David and his colleague will require 4 days onsite to fully review audit engagements and carry out interviews with stakeholders. Dates will need to be agreed beforehand but can be either consecutive or not, again so as to cause minimal disruption to your staff.

As internal auditors we recognise the importance and value of effective communication. We will discuss issues and ideas with the senior managers of the internal audit function as the review proceeds and conclude our site visit with a close out meeting highlighting our key findings and ideas for development.

A draft report will contain our assessment of conformance with the PSIAS and LGAN. The draft report will also include suggestions for improvement and development and we will invite you to provide responses for inclusion within the final report.

We will produce a final executive report that will include

- Our assessment of the effectiveness of your internal audit function, evaluated against PSIAS and LGAN.
- Our view on the maturity of your internal audit function using the EQA Best Practice report.
- Our appraisal of how internal audit is perceived by the board, executive management and other stakeholders
- Suggestions as to how the internal audit function can continue to develop.

**Fee: £18,900 including reviewer expenses**

**VAT @ 20% of total cost**

**If the extent of the review deviates considerably from the scope of this proposal the IIA reserves the right to renegotiate the fee.**

**Payment terms: 30 days from date of invoice**

## Contact details

For any enquiries concerning this proposal please contact

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