



Agenda Item 11

JOINT AUDIT COMMITTEE
29 September 2021

**PUBLIC SECTOR INTERNAL AUDIT
STANDARDS – EXTERNAL ASSESSMENT OPTIONS**

1. **PURPOSE OF REPORT**

- 1.1 To ascertain from the Committee the preferred form of external assessment and the proposed approach for evaluating providers.

2. **BACKGROUND**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) adopted a common set of Public Sector Internal Audit Standards (PSIAS) from April 2013 (revised 2017). These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 2.2 The objectives of the PSIAS are to:
- define the nature of Internal Auditing within the UK public sector;
 - set basic principles for carrying out Internal Audit in the UK public sector;
 - establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations;
 - establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.
- 2.1 The PSIAS sets out the requirement for a Quality Assurance and Improvement Programme (QAIP). As part of this, it is a requirement that an external assessment of an organisation's internal audit function is conducted once every five years by a qualified, independent assessor or assessment team from outside the organisation. The previous external assessment was undertaken in October 2017 and therefore the service must have a further external review prior to October 2022.
- 2.2 Since the previous assessment in 2017 the internal audit team has worked hard to develop the audit approach to ensure compliance with the standards as well as establishing a risk-based audit approach. The team continually look to improve the way they work and identify improvement activity that goes beyond the requirements of the Standards. The Committee have continued to monitor progress with the recommendations and action arising from the previous External Quality Assessment and any additional improvement activity identified by the internal audit team with the latest update reported to the Committee in June 2021. The latest annual self-assessment against the Standards was also reported to the June 2021 meeting which showed full compliance.

- 2.3 Under the PSIAS, the Chief Audit Executive (the Head of Internal Audit) must discuss with the Board (Joint Audit Committee):
- The form of external assessments; and
 - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

- 2.4 There are two main options to consider in determining the form of the external assessment, i.e. via an external provider or a peer review process:
- An external provider would be commissioned which has experience in undertaking External Quality Assessments, e.g. accountancy firm or professional institute. This option would require obtaining a minimum of two quotations to comply with Contract Standing Orders.
 - To be considered independent, a peer review requires three or more Police audit teams to be involved, we would therefore need commitment from at least two other forces for this to happen. Assuring appropriate composition of the peer review teams is imperative. If a peer review is the preferred choice for the assessment, contact would need to be made with other similar forces to determine interest. A consideration of the peer review option is the internal audit resource commitment that will be required to conduct reviews of the two other forces who form part of the assessment team. No other forces have approached the internal audit team regarding peer reviews to date.

- 2.5 External assessments can be in the form of a full external assessment, or a self-assessment with independent validation:
- Full assessment involves the assessment team undertaking a full review against each of the PSIAS attributes.
 - Validated self-assessment requires the Chief Audit Executive (Head of internal Audit) to prepare a self-assessment against the PSIAS attributes, which the assessment team independently validate.

The external assessment undertaken in 2017 was a validated self-assessment.

- 2.6 Whilst the assessment process itself involves reviewing the Internal Audit Service against a set of attributes that form the PSIAS, a qualified assessor or assessment team must demonstrate competence in two areas:
- The professional practice of internal audit; and
 - The external assessment process.

These minimum criteria have been extended to provide a formal assessment criteria against which the assessor/assessment team will be evaluated, as outlined in Appendix A.

- 2.7 Following consultation with the Senior Management team it is proposed that the approach for the forthcoming External Quality Assessment should be to commission a self-assessment validation, using an independent and experienced assessor through an external provider. The Standards have been in place since 2013 and annual self-assessments have been completed by the internal audit team since the Standards were introduced which has allowed the team to assess and gather evidence of their compliance against the standards. This evidence can be presented to the assessor to supplement the assessors own testing and interviews with the team, senior management, customers and Joint Audit Committee members. The self-assessed validation route has benefits over other options because a large amount of the field work and evidence gathering has been undertaken internally. Also, using an external provider would be better than a peer review because it would not be dependent on other organisations giving up their time to complete the assessment.
- 2.8 If the Committee are happy to progress with an external assessment through an external provider a procurement exercise would need to be undertaken early next year with a view to completing the assessment over the summer months. To comply with the organisations Contract Standing Orders, a minimum of two quotations must be obtained. At this stage, quotations have not been

sought pending the Committee's approval of the draft specification and the form of assessment, i.e. full assessment, validated self-assessment.

3 RECOMMENDATIONS

- 3.1 To agree the proposed form of external assessment, i.e. validated self-assessment by external provider.
- 3.2 To agree the specification against which external assessors will be evaluated.

CONTACT OFFICER

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BACKGROUND DOCUMENTS

Public Sector Internal Audit Standards

External Assessment Evaluation Criteria

A qualified assessor or assessment team must demonstrate competence in two areas:

- The professional practice of internal audit; and
- The external assessment process.

These minimum criteria have been extended to provide a formal assessment criteria against which providers will be evaluated, as outlined below. This follows the same criteria used for the 2017 selection exercise.

Criteria	Detail
Experience of Lead Assessor and Team who will be involved in the assessment, including: <ul style="list-style-type: none"> • Experience; • Competency; and • Qualifications. 	Full assessment team has experience to at least managerial level
	Person leading the assessment has experience comparable to that of a Head of Internal Audit
	Team have appropriate professional qualifications, e.g. Certified Internal Audit profession
Teams understanding of current Internal Audit Practices and experience of conducting external assessments	Thorough understanding of current internal audit practices and the International Professional Practices Framework and its application; Able to demonstrate competence in conducting external assessment. Competence can be demonstrated through a mixture of experience and theoretical learning. The criteria should consider the competency of the team as a whole.
Experience of internal audit across similar sectors Provide examples/testimonials from similar engagements	Assessment team has necessary technical expertise and knowledge or experience of organisations of a similar size, complexity, etc. Testimonials demonstrate sound judgement and good communication skills
Able to demonstrate independence from the internal audit team	No conflicts of interest with the PCC or Force. Not being a part of, or under the control of, the PCC or Force.
Proposed approach to conducting the assessment; including: <ul style="list-style-type: none"> • timescales for planning, conducting and reporting; • how results will be communicated; and • price For both full assessment and validated self-assessment	Assessment to include: <ul style="list-style-type: none"> • Preparation and planning • Visit • Discussions or survey with: <ul style="list-style-type: none"> ➢ Senior Management (PCC and Force), ➢ Head of Internal Audit, ➢ Audit Team, ➢ Members of Joint Audit Committee etc. • Verbal Feedback of findings • Formal written report • Action Plan/recommendations for improvement