
External Review of Internal Audit - Summary Report

Committee considering report:	Governance and Ethics Committee on 24 April 2017
Portfolio Member:	Councillor James Fredrickson
Date Portfolio Member agreed report:	2 nd March 2017
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1. Purpose of the Report

- 1.1 The report outlines the options for commissioning an external review of Internal Audit.
- 1.2 The Accounts and Audit Regulations require internal audit to follow Public Sector Internal Audit Standards. These standards are in turn based on the Institute of Internal Auditors (based in the USA) International Standards. The requirement to follow these standards was introduced from 1 April 2013.
- 1.3 Standard 1312 requires that an external (from outside the organisation) assessment of the internal audit service must be carried out once every five years. An external assessment must therefore be carried out by 31 March 2018.

2. Recommendation

- 2.1 In order to minimise the cost of this exercise a self assessment will be carried out that will be validated by the Chief Audit Executive of one of the neighbouring Berkshire Council's.

3. Implications

- 3.1 **Financial:** none
- 3.2 **Policy:** none
- 3.3 **Personnel:** none
- 3.4 **Legal:** none
- 3.5 **Risk Management:** none
- 3.6 **Property:** none
- 3.7 **Other:** none

4. Other options considered

- 4.1 A number of national accountancy firms offer a service that is designed to meet the requirement for an external review. No quotations have been sought by this Council,

but when the new standards were introduced other Berkshire Authorities did obtain quotes in the region of £3,000 to £5,000 for the work. Given the Council's financial position such expense is not justified.

5. Executive Summary

5.1 The PSIAS states

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

The form of external assessments;

The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

5.2 There are two ways of delivering this assessment:

- (1) Commissioning an accountancy firm, who have relevant local authority experience, to carry out the assessment.
- (2) Enter an arrangement with neighbouring Berkshire Councils whereby, for example, this council carries out the assessment for Reading; Reading assess the shared Windsor and Maidenhead / Wokingham service; and Windsor and Maidenhead / Wokingham assess West Berkshire.

5.3 The second option is preferred, for a number of reasons:

- (1) There will not be any direct cost to the Council, only the time spent assessing a neighbour.
- (2) There will be a learning opportunity for the auditor who carries out the review for the neighbour

- (3) There will be an opportunity to share ideas / processes / methods that may lead to closer working across internal audit in Berkshire.
- 5.4 The form of assessment also needs to be agreed. As noted above it can be either:
 - (1) in the form of a full external assessment,
 - (2) or a self-assessment with independent external validation.
- 5.5 I recommend that we opt for the second approach. This will minimise the time required to be spent on the process, and allow each Council to propose their own improvement plan.
- 5.6 The aim will be to carry out the self assessment over the late summer and have the external validation carried out in the autumn.
- 5.7 The assessment will be carried out by the Audit Manager
- 5.8 The results of the assessment, once validated, along with any improvement plan will be brought to the G&E Committee for review and approval.
- 5.9 The proposal to share the process with neighbours has been discussed and agreed informally. However, the "Audit" Committees of each contributor will need to sign off the proposal.

6. Conclusion

- 6.1 The PSIAS require that the Council arranges an external review of the internal audit service. This review needs to be carried out by 31 March 2018. The most cost effective way of arranging this is to share the process with neighbouring councils.

7. Appendices

- 7.1 None