

**Committee Name and Date of Committee Meeting**

Audit Committee – 11 March 2025

**Report Title**

External Quality Assessment of Internal Audit against the Global Internal Audit Standards (UK public sector)

**Is this a Key Decision and has it been included on the Forward Plan?**

No

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director of Finance and Customer Services

**Report Author(s)**

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**Ward(s) Affected**

Borough-Wide

**Report Summary**

The Public Sector Internal Audit Standards (PSIAS), and the Global Internal Audit Standards (UK public sector) set out that Internal Audit service providers must be externally assessed against the standards at least every five years. Rotherham MBC Internal Audit was last externally assessed at the end of 2020. The report was received at the Audit Committee meeting in March 2021. An external assessment is therefore required during the 2025/26 financial year.

GIAS (UK public sector) state that 'The Chief Audit Executive (Head of Internal Audit) must develop a plan for an external quality assessment and discuss the plan with the board (the Audit Committee). The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.

This paper sets out the options for the assessment, the relevant costs and the preferred option, for discussion and agreement by the Audit Committee.

**Recommendations**

The Audit Committee is asked to:

- Approve Option 1 presented in this paper (CIPFA validation of a self assessment).

**List of Appendices Included**

Appendix 1 Exempt Quoted Cost of Options 1 & 2

**Background Papers**

Review of Internal Audit – Audit Committee 23<sup>rd</sup> March 2021

Internal Audit Self-Assessment against the Public Sector Internal Audit Standards –  
Audit Committee 12<sup>th</sup> March 2024.

Global Internal Audit Standards

Application Note Global Internal Audit Standards in the UK Public Sector

Code of Practice for the Governance of Internal Audit in UK Local Government

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No

**Council Approval Required**

No

**Exempt from the Press and Public**

In Part (Appendix 1).

That, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (information relating to the financial or business affairs of any particular person (including the Council)).

## External Quality Assessment of Internal Audit against the Global Internal Audit Standards (UK public sector).

### 1. Background

- 1.1 From the 1<sup>st</sup> April 2025 all Internal Audit functions in Local Government must comply with the Global Internal Audit Standards and the Local Government Application Note. This is known as GIAS (UK public sector). The standards require the existence of a Quality Assurance and Improvement Programme (QAIP). The QAIP must include internal and external assessments against the standards. Internal assessments include ongoing monitoring of the performance of the service and periodic self-assessments, in practice carried out annually. In addition, at least every five years there must be an external assessment against the standards. RMBC was last externally assessed against the standards by the Head of Internal Audit at Calderdale Council during 2020/21. The outcome was reported to the Audit Committee at its meeting on the 23<sup>rd</sup> March 2021.

### 2. Key Issues

- 2.1 The table below sets out the essential conditions of the board (the Audit Committee) for meeting the requirements of Standard 8.4 'External Quality Assessment' and how this is anticipated to be accomplished at RMBC.

<b>Essential Condition</b>	<b>Proposal for RMBC compliance</b>
Discuss with the Chief Audit Executive (CAE) the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.	This is met through the provision of this paper that will be discussed during the meeting.
Collaborate with senior management (SLT) and the CAE to determine the scope and frequency of the external quality assessment.	This is met through the previous agenda item which includes the Quality Assurance and Improvement Plan. There are no current reasons for undertaking an external review more frequently than every 5 years, but this can be requested by senior management or the Audit Committee if this is considered necessary. A detailed scope of work will be confirmed once the decision has been made regarding the external assessor.
Consider the responsibilities and regulatory requirements of the internal audit function and the CAE, as described in the internal audit charter, when defining the scope of the external quality assessment.	It is expected that a detailed scope of work/Terms of Reference will be produced by the external assessor prior to commencement which will be shared/agreed with the sponsors (Strategic Director of Finance and Customer Services and the Chair of the Audit Committee).

<p>Review and approve the CAE's plan for the performance of an external quality assessment. Such approval should cover as a minimum:-</p> <ul style="list-style-type: none"> <li>• The scope and frequency of assessments</li> <li>• The competencies and independence of the external assessor or assessment team</li> <li>• The rationale for choosing to conduct a self assessment with independent validation instead of an external quality assessment</li> </ul>	<ul style="list-style-type: none"> <li>• The scope/frequency is set out in the Quality Assurance and Improvement Plan</li> <li>• The competencies, independence and experience are set out in the options appraisal in this paper at Appendix 1</li> <li>• The rationale has been included within the exempt appendix.</li> </ul>
<p>Require receipt of the complete results of the external quality assessment or self-assessment with independent validation directly from the assessor.</p>	<p>The results will be reported to the next Audit Committee following the report's receipt.</p>
<p>Review and approve the CAE's action plans to address identified deficiencies and opportunities for improvement, if applicable.</p>	<p>Recommendations for improvement will be included in the Quality Assurance and Improvement Plan which is reported to the Audit Committee on a quarterly basis. This includes timelines and updates on action taken during the previous quarter.</p>
<p>Approve a timeline for completion of the action plans and monitor the CAE's progress.</p>	<p>As above.</p>

2.2 The standards state that the External Quality Assessment should include a comprehensive review of the adequacy of the internal audit's function's:

- Conformance with the Global Internal Audit Standards (and the UK Public Sector Application Note and Code of Practice for the Governance of Internal Audit in UK Local Government)
- Mandate, charter, strategy, methodologies, processes, risk assessment, and internal audit plan
- Compliance with applicable laws and/or regulations
- Performance criteria and measures as well as assessment results
- Competencies and due professional care, including the sufficient use of tools and techniques, and focus on continual development
- Qualifications and competencies, including those of the CAE role, as defined by the organisation's job description and hiring profile
- Integration into the organisation's governance processes, including the relationships among those involved in positioning the internal audit function to operate independently

- Contribution to the organisation's governance, risk management, and control processes
- Contribution to the improvement of the organisation's operations and ability to attain its objectives
- Ability to meet expectations articulated by the board, senior management and stakeholders.

### 2.3 **Selecting independent assessors.**

The Relevant Internal Audit Standard Setter (RIASS) i.e. CIPFA have determined that the qualification requirement (in GIAS) should be replaced by a different qualification requirement. GIAS 8.4 sets out a requirement that when selecting the independent assessor or assessment team, the CAE must ensure at least one person holds an active Certified Internal Auditor designation. The RIASS have determined that this is replaced by a requirement that at least one person have the characteristics outlined for a CAE qualification. The RIASS consider that such a person would normally have an understanding of the GIAS commensurate with the Certified Internal Auditor designation, including internal audit relevant continuing professional development and an understanding of how the GIAS are applied in the UK public sector. The CAE must consider these matters as part of the selection process.

### 2.4 The CAE qualifications in accordance with the Local Government Application Note are as follows:-

- CMIIA, or a CCAB qualification
- Or an equivalent professional qualification which includes training on the practice of internal audit and,
- Suitable internal audit experience.

### 2.5 Past practice within Local Government, has been that external assessments were carried out by a Head of Internal Audit from another local authority (also known as a peer review), by accountancy or audit bodies, or by other qualified individuals. All have been considered in the preparation of this paper.

## 3. **Options considered and recommended proposal.**

### 3.1 It is the Head of Internal Audit's opinion that a validation of an internal assessment is sufficient. A self-assessment with independent validation typically includes:-

- A comprehensive and fully documented internal assessment that emulates the external quality assessment process in terms of evaluating the internal audit function's conformance with the Standards
- Validation by a qualified, independent external quality assessor or assessment team. The independent validation should determine that the internal assessment was conducted completely and accurately

- Benchmarking leading practices, and interviews with key stakeholders, such as board members, senior management, and operational management.

3.2 This is considered appropriate for the following reasons:-

- Well established internal audit team with considerable knowledge and experience within the local government sector (and of the council itself)
- A current self-assessment of 'Generally Conforms' against the Public Sector Internal Audit Standards (in place until 31 March 2025)
- An initial self-assessment against the GIAS and the (UK public sector Application Note) has been undertaken. This identifies a number of actions to be taken, and work is underway in addressing these
- Cost saving to the council from using an internal self-assessment as identified between the quotes obtained from the two external assessors

### **Option 1. The Chartered Institute of Public Finance and Accountancy (CIPFA).**

3.3 CIPFA are the Relevant Internal Audit Standard Setter for local government. They were a contributor to the Global Internal Audit Standards in the UK public sector (Application note) on behalf of local government. They have also produced the Code of Practice for the Governance of Internal Audit in UK Local Government. They are therefore considered to have the most relevant knowledge of the sector.

3.4 The assessment team have confirmed that they have the relevant professional qualifications as required to undertake an external assessment. They have experience of conducting assessments against the Public Sector Internal Audit Standards (PSIAS) within Local Government. The estimated fees are included in the exempt Appendix 1.

### **Option 2. The Chartered Institute of Internal Auditors (CIIA).**

3.5 The Chartered Institute of Internal Auditors is the only professional association for internal auditors in the UK and Ireland.

3.6 They have given assurance that experienced local government assessors would undertake the review, and that the assessment team provided would have the relevant professional qualifications. The estimated fees are included in the exempt Appendix 1.

### **Option 3. Head of Internal Audit of another Authority.**

3.7 This has been the option followed by most local authorities over the last few assessment cycles. It is normally arranged through a local group of Heads of Internal Audit. It complies with the requirements as long as the arrangement is not reciprocal – Heads of Internal Audit cannot assess each other's services. It means that the assessor is competent and experienced within the

sector, and is from a similar organisation. Cost is minimal, as each Head of Internal Audit completes an assessment and receives one, with no exchange of fees. The previous assessment was undertaken by this method. This option has not been considered to be the most favourable, due to the following reasons:-

- A potential Head of Audit has not been found within the South and West Yorkshire Group. The timing of other authorities' assessments do not correlate to Rotherham and most have stated their intention to go with external organisations when they are next due.
- The Heads of Audit are learning the standards and associated documentation themselves at the current time
- Due to the number of changes with the standards, the new Application Note and Code of Practice, it is considered that a professional body offering this service would be the best approach.

### **Recommendation**

3.8 It is proposed that Option 1 CIPFA (validated self-assessment) should be used for the external assessment.

3.9 This is because the body concerned meets the requirements for an external assessor, they have relevant local government knowledge and experience, and they offer the best price. They are the relevant standard setter for internal audit in local government and would offer an objective, independent review.

## **4. Consultation on proposal.**

4.1 This paper constitutes consultation with the Audit Committee.

## **5. Timetable and Accountability for Implementing this Decision.**

5.1 It is intended that the external assessment should be undertaken in quarter 3 or 4, with the full report brought to the next Audit Committee following its issue.

## **6. Financial and Procurement Advice and Implications.**

6.1 Financial costs are included within Appendix 1 to the report. Any costs would be charged against the Internal Audit budget. This item is not specifically provided for within the budget, but any shortfall will be managed within the overall directorate budget.

## **7. Legal Advice and Implications**

7.1 The provision of Internal Audit is a statutory requirement for all local authorities that is set out in the Accounts and Audit (England) Regulations 2015. These state:

*“A relevant authority 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.”*

Internal Audit also has a role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are:

*“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”*

**8. Human Resources Advice and Implications.**

8.1 There are no Human Resources implications arising from the report.

**9. Implications for Children and Young People and Vulnerable Adults.**

9.1 There are no direct implications for Children, Young People and Vulnerable Adults arising from this report.

**10. Equalities and Human Rights Advice and Implications.**

10.1 There are no direct Equalities and Human Rights implications arising from this report.

**11. Implications for CO<sub>2</sub> Emissions and Climate Change.**

11.1 There are no direct CO<sub>2</sub> and Climate Change implications arising from the report.

**12. Implications for Partners.**

12.1 Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives, including those set out in the Council Plan.

**13. Risks and Mitigation.**

13.1 An effective Internal Audit Department helps to minimise the Council's exposure to risk.

**Accountable Officer(s)**

Louise Ivens (*Head of Internal Audit*)

*Report Author: **Error! Reference source not found.***

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