

# Quality Assurance and Improvement Programmes for multi-client service providers

## Briefing from the Internal Audit Standards Advisory Board

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### **Introduction**

Issues specific to multi-client service providers are not addressed in detail in international guidance, which tends to set out requirements within the “norm” of a single client and single (in-house) provider. However, the position in the UK Public Sector is that multi-client service providers are more common than they are internationally. In fact, in many parts of the Public Sector, such arrangements are the norm rather than the exception.

Multi-client audit services can range in scale from a unit which provides services to two similar, perhaps even related bodies, through large consortia and smaller companies to the large multi-national professional services firms.

Client organisations require their service organisation to provide the tailored internal audit activity they would expect from an in-house activity.

Practitioners within multi-client service providers expect to provide this individualised service. However, they are concerned about the risk of duplication and inefficiency which could arise if individual clients impose very different styles or timings on the provider, through the contract or other agreement, in respect of the Quality Assurance and Improvement Programme and, specifically, the self-assessment and external assessment requirements within it. Different considerations will apply in each case but the principles and examples set out below may be helpful to practitioners and, through them, their clients.

This guidance has been written in response to practitioner concerns, with input from client representative members of the IASAB, and focuses on the self-assessment process and external quality assessment.

### **Self-assessment**

For multi-client providers, the periodic self-assessment process could be time-consuming if varied between clients served and therefore the provider will want to develop the most practical and efficient means of conducting and reporting it and encourage clients to support this. Provided that their proposals are technically appropriate (seen for example in the context of this guidance), it would not be unreasonable for the client to agree to the internal auditor’s preference as to assessment processes, as a process that varies for each client is inevitably less efficient for the provider. This is particularly the case for relatively small contracts; the larger the contract, the more reasonable it will be for the internal audit activity (the client) to request variations.

Efficiencies the larger provider may wish to consider include:

1. Using a questionnaire and dividing the questions between those that apply to all clients of the provider, those that apply in a certain location or sector and those that apply only to that client. Certain answers can then be generated for all clients once only.

2. Considering whether any assurance can be provided at individual client level from the whole-firm regulatory processes applicable to professional services firms that provide auditing services, or from independent, but internal, hot or cold peer review processes; and if so, how the assurance derived from those processes can be translated to client level.
3. Where a partial service is provided and the CAE remains in-house, the CAE will generally agree the provider's contribution to the self-assessment in advance and negotiate an involvement that is consistent with professional requirements and also commensurate with the scale of the contract. As contracts develop to include the self-assessment and independent review processes, time will be built in, but in the short term, several additional days may need to be made available for the senior team member's contribution.

For a small supplier, shared service or consortium arrangement, there is unlikely to be a framework of external regulation and there may not be a rigorous peer review process for the client to rely on. However, such a supplier may have a connected or related group of clients. If so, the supplier may wish to agree with a group of related clients that a single self-assessment should be undertaken. Where clients are not related, the supplier could propose that individual assessments in a common form are prepared by each relevant team. The assessments could be performed using one of the questionnaires available that is based on the PSIAS. The client could draw some comfort where the questionnaire is drawn from a recognised source.

### **External assessment (the EQA)**

The issues of regulation, competition and market testing (see below) are especially relevant for the external assessment and significant complexities may be experienced. It will be helpful for the service provider of a fully outsourced service to discuss the regulatory environment applicable to its internal auditing services with the client. This will then enable the client to understand any assurance provided by the regulatory environment or any independent assessment voluntarily undergone by the provider, and consequently determine jointly the form of independent review that will be most relevant.

Scenarios that might apply individually or in combination could be:

1. The review could be based on the annual self-assessment (a positive, evidence-based validation).
2. A large supplier with a large fully-outsourced contract may agree that a full external assessment or validation will be undertaken at the contract's internal review point and used to determine whether the extension should be granted and whether any service changes should be made. In this scenario, where an independent party is involved, a qualifying review is performed and is efficient as it is performed for a dual purpose (the extension).

There are aspects of the service, such as governance and delivery by the team, that are unique to each client and which need to be considered separately. However, the risks of duplication and inefficiency are at their greatest here and the provider will wish to ensure that the requirements can be satisfied in the most efficient way possible.

These are the circumstances in which some providers will seek their clients' agreement to the selection of an independent external assessor who will assess the provider aspects of the internal audit services provided for as many clients as possible, at one time and in one process. The supplier will then seek to have the common assessment accepted as the basis of a qualifying assessment for all clients or a related group of clients.

For this to be accepted as a qualifying assessment, tailoring and “connection” of the findings of the common EQA to each individual client in some form is essential, remembering that the purpose of assessment is to consider each standard in relation to each client.

How might this be done? It would not be unreasonable to expect controls to be in place where there are many and varied clients, to provide audit management with assurance on the application of the standards to client work. Common controls might include availability of an up to date audit manual and supervision and review arrangements within the team, for example.

In these circumstances, a tailored and frank report (a self-assessment) could be prepared for each client (as part of the annual report) setting out adherence to these controls over the period, in order to provide the necessary connection to the external report, and also assessing any specific client-side aspects of the internal audit activity not covered in the general report. Whilst this assessment, together with a copy of the common EQA report, or summary thereof, might be a practical way to provide local context and achieve the global and PSIAS requirement, it does not fully meet the EQA requirement as the client-facing aspect of the internal audit service may not have been externally assessed or validated as part of the external assessment. This therefore needs to be arranged separately and need not be unduly onerous.

An independent expert i.e. another “qualified, independent assessor or assessment team from outside the organisation” (PSIAS 1312) could perform a validation of the provider’s self-assessment of the client-facing arrangements and comment on their report of their own compliance with the controls reported on in the external assessment. Although this sounds complicated, it could actually be a much shorter exercise than a full review and is of course a periodic rather than annual requirement. The independent expert could be asked to comment on specific points as a separate letter.

A medium-sized provider, serving a diverse group of clients, is rather caught in the middle and features of the examples above will need to be adapted according to the circumstances.

The important principles in designing an external assessment process for multi-client service providers are that both client governance and audit aspects of the service are considered; that a validation-based approach is suitably rigorous; that the reviewer is independent and suitably qualified in accordance with the PSIAS and that where possible groups of clients are invited to agree to a common review date and method.

It should be noted that for Central Government in England, HM Treasury requires that external assessments are to be performed by an independent party and should not be undertaken as part of a group peer review arrangement.

## **Market-testing**

Most audit contracts are for periods of three or five years, with a three-year contract often having an opportunity for extension for a further two years. The proposed service offerings of a number of providers are evaluated and compared at the appointment stage and the incumbent’s performance in the expiring contract is likely to be taken into account if it is invited to reapply when the contract is re-let.

Most appointment processes require detail on methods, quality assurance and team structure from the auditors tendering. They also generally require the bidders to undertake to comply with certain standards (the PSIAS from 1 April 2013). The tender document may add to the core requirements of PSIAS and if so will form a useful

starting point for the CAE's annual self-assessment, whether the CAE is internal to the client or the contractor. The set-up and management of the contract is an important part of the internal audit arrangements in a fully or partially outsourced service as it reflects the organisations approach to internal audit.

The requirement for periodic external assessment is on the internal audit activity *of the organisation* and not on the provider per se. Therefore, if a client was to offer successive 4 year contracts and not undergo an external assessment within a 5 year period, its internal audit activity would not be compliant with the PSIAS.

Openness is essential to continuous improvement and instances of non-conformance should not be seen as an automatic contract termination event. The important factors are how the non-conformance arose and the arrangements or plans in place to mitigate or correct it.

As noted above, it may be possible and efficient to bring together contract and EQA requirements in some respects.

### **Partial Outsourcing**

The comments above are relevant to a fully contracted-out service and may be relevant to a partial service, but the following also applies in the case of a partial outsourcing, or internal audit support service.

Where the ultimate responsibility for delivery of the internal audit service remains with the host organisation and the outsourced work is in support of a programme led and directed by an internal CAE with or without a directly employed team, the weight of the self-assessment and EQA obligation falls on the internal CAE and team. The assessment is likely to cover an appropriate proportion of the outsourced work, the appropriateness of the contract requirements and the management and review arrangements within the host organisation. Similar considerations will apply where the team itself is employed by the organisation but the CAE role is outsourced.

The contracted provider would be expected to facilitate the assessment process as necessary, but may not be heavily engaged by it. This follows naturally from the requirement to review the internal audit activity as a whole, top down. Delivery of individual assignments is only one element of that whole.