

PERTH AND KINROSS COUNCIL**Audit Committee****5 February 2014****EXTERNAL QUALITY ASSESSMENT****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report requests the Committee to consider the future provision of the External Quality Assessment of Internal Audit as required by the Public Sector Internal Audit Standards.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that internal audit is subject to an external quality assessment (EQA), to be undertaken at least every 5 years. The form of the EQA can be either a full external assessment or a validated self-assessment.
- 1.2 Preliminary work has been undertaken by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) to identify options for the provision of EQAs for its members.
- 1.3 The SLACIAG committee have developed an outline for a framework for the provision of validated self assessments. This is included within the appendix to this report. Prior to proceeding into the development of a full assessment programme, the SLACIAG committee wish to seek the views of key stakeholders in the audit process. As such, views of the Audit Committees are sought as to the political will for development of such a framework.
- 1.4 The Chief Internal Auditor and the Head of Finance have considered the three options outlined in the appendix and have concluded that Option 3 is the preferred option. This is based on the benefits stated within the attached document and also the opportunities for sharing good practice across the local authority sector.
- 1.5 A decision is required as to whether the Council wishes to participate in the scheme as outlined in Option 3.

2. CONCLUSION AND RECOMMENDATION

- 2.1 It is recommended that the Committee considers the attached proposals and instructs the Chief Internal Auditor to submit appropriate representations to the SLACIAG Committee.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

The undernoted table should be completed for all reports. Where the answer is 'yes', the relevant section(s) should also be completed

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1 Corporate Plan

- 1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.1.2 This report relates to all of these objectives.

2. Assessments

2.1 Equality Impact Assessment

- 2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. Consultation

3.1 Internal

- 3.1.1 The Chief Executive and Head of Finance have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix – SLACIAG's Compliance with Public Sector Internal Audit Standards requirement for External Quality Assessment

Compliance with Public sector Internal Audit Standards requirement for External Quality Assessment

Reason:

The mandatory Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive develops a Quality Assurance and Improvement Plan (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors apply the Code of Ethics. The QAIP must include both internal and external assessments. This document outlines options for local authorities in Scotland to comply with the requirement for the external quality assessment (EQA).

Standard 1312 of the PSIAS requires that an "external assessment must be carried out at least once every 5 years by a qualified independent assessor or assessment team from **outside** the organisation".

The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has considered compliance with this aspect of the PSIAS in one of two ways:

- The individual procurement of an external team to undertake the review; or
- The development of a framework for external assessments to be undertaken by members authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review pool.

Option 1

Each individual authority would undertake procurement activity at the appropriate time within their own organisation to secure an external organisation to undertake the EQA. The Institute of Internal Auditors conduct EQA's and their fees for the basic service, a validated self assessment, range from £6k to £9k. In addition, there would be the time of appropriate officers to take part in the assessment.

Option 2

It may be possible for SLACIAG to instigate the commissioning through the Consultancy One framework for an external assessor on a "call-off" contract basis. No estimated costs are available for this, however it is anticipated that the costs would be similar to those detailed in Option 1.

Option 3

The second option would be for SLACIAG to develop a framework for undertaking the EQA of member authorities with costs being contained within individual member authorities own budgets. This remainder of this document forms the basis for outlining the proposal for this peer review option.

SLACIAG proposal:

The Committee of SLACIAG, with support from its members, would undertake to oversee the development of a framework which would satisfy the requirements of the PSIAS. The PSIAS states that external assessments can be in the form of a full external assessment, a facilitated self assessment or a self assessment with independent validation. SLACIAG's proposal would take the form of a validated self-assessment for each of the authorities and would be undertaken within the required timetable for compliance (i.e. within the first 5 years of the

PSIAS being in place but subject to the principle that each authority have an EQA to provide assurance to the current council members). The validated self assessment will include reviewing the self assessment checklist completed by the Chief Audit Executive, examining relevant evidence and interviewing key stakeholders, including the Chair of the Audit Committee or equivalent.

Following the development of the framework, the Committee will oversee its implementation and will also provide a level of scrutiny and quality assurance to ensure the adequacy of the process and to arbitrate over any disputed outcomes as required.

Each authority which signs up to the scheme will be allocated another authority to assess as an EQ Assessor. Such allocations will take cognisance of the existing closeness of relationships which already exist between authorities and also of geographical and logistical issues which may be relevant. The arrangements which will be developed will ensure that there is sufficient transparent independence in place to ensure that the assessment is truly an external assessment of conformance.

Each Council may appoint either the Chief Audit Executive, or a team which would be headed by the Chief Audit Executive, to undertake the assessment of the body to whom it has been appointed. All members of any EQA team will be employed directly by the authority in question. A qualified assessor, or assessment team, would need to demonstrate competence in two areas: the professional practice of internal auditing; and the external assessment process and it is for the Chief Audit Executive of the body being assessed to assess whether the assessor or team is sufficiently competent. Where a team is undertaking the inspection, these competencies must be held by the team collectively and not necessarily by all individuals within the team.

Whilst the requirement for EQA is for at least every 5 years, SLACIAG would propose that an EQA should be undertaken in line with each electoral cycle to ensure that each administration receives at least one EQA report. This will mean that an EQA would be undertaken at an appropriate time within each electoral cycle..

Benefits:

The implementation of the proposed framework would minimise the costs to each constituent authority as there would be no direct fee paid for the EQA. Each authority would absorb the time for the EQA, anticipated to be in the region of 5 – 7 days, within their Internal Audit Planning process. Any travel/accommodation costs would be kept to a minimum and charged to the authority being assessed.

There is scope for developing Internal Auditors within teams undertaking the EQA as far as their CPD requirements and gaining an increased level of understanding of Internal Audit within the local government sector outside their own organisation.

Next Steps

The PSIAS requires the Chief Audit Executive to 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; and
- The need for more frequent external assessments.

SLACIAG requests that the Chief Audit Executive discuss this proposal with line management and also with their Audit Committee or equivalent Chair as a minimum. A response will be required from each Chief Audit Executive as to whether their Authority would be involved in such a scheme were it to be established. In the event that this proposal has sufficient backing (a minimum of 20 authorities), a detailed framework will be developed for use across the Group.

To allow for the development of a scheme, a decision on whether each authority wishes to participate will be required by 31 March 2014.

