

Public Sector Internal Audit Standards – External Assessment Proposal Report by Graham Herbert, Internal Audit Manager

1 Purpose of Report

One of the requirements within the Public Sector Internal Audit Standards (PSIAS) requires that the Internal Audit function be independently assessed against the PSIAS at least every five years.

The purpose of this report is to notify the Audit Committee of a proposal to allow compliance against this standard.

2 Background

2.1 In April 2013, the new United Kingdom PSIAS came into force and the standards apply across the whole of the public sector. The PSIAS are based on the IIA Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adapted for the public sector. The PSIAS replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom which was last revised in 2006.

2.2 A report explaining the key differences between PSIAS and the previous Code of Practice was presented to the Audit Committee on 18 June 2013. A revised audit charter setting out how the Internal Audit Service would comply with PSIAS was also presented to the committee and approved. Compliance with PSIAS is mandatory and any non-compliance must be reported to the Audit Committee.

2.3 One of the more significant differences between the CIPFA Code of Practice and PSIAS is that an *“external assessment of internal audit must be carried out at least once every five years by a qualified independent assessor or assessment team from outside the organisation”*. An independent assessor or assessment team means not having either a real or apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

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

3 Proposals

3.1 Scottish Local Authorities Chief Internal Auditors’ Group (SLACIAG) have reviewed the PSIAS in detail and have noted that compliance with the code can be achieved in two ways:

- local authorities each procuring their own external team to undertake the review once every five years; or

- establishing a framework for external assessments and for member authorities to undertake the external assessments of other Scottish Local Authorities' Internal Audit Sections.
- 3.2 The Institute of Internal Auditors carry out validated self-assessments and full external assessments and have indicated that the fee for this service ranges from £6,000 to £9,000 (Grant Thornton have also indicated that this is also their likely cost).
- 3.3 SLACIAG have prepared a proposal for the development of a framework for self assessments with the external validation being undertaken by member authorities of SLACIAG. Following the development of the framework, the SLACIAG committee will oversee its implementation and will also provide a level of scrutiny and quality assurance over the adequacy of the process. The arrangements will be developed to ensure that the process is transparent and independent. Full details of SLACIAG's proposal can be found in Appendix 1. There would be an opportunity cost since Midlothian Council would not have the services of one of the Internal Audit team for approximately 5 days. This would equate to a cost of approximately £900 (although this would not actually be charged).
- 3.4 In order for SLACIAG to proceed with this proposal, a sufficient number of authorities need to indicate whether their authority would be willing to become involved in such a scheme should it be established.
- 3.5 PSIAS requires that the Audit Manager must discuss with the Audit Committee:
- the form of external assessments;
 - the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest; and
 - the frequency of the external assessments.

This report meets the above requirements.

- 3.6 The Internal Audit Manager has already discussed the options with the Chief Executive and Chair of the Audit Committee who are in favour of the SLACIAG assessments.

4 Report Implications

4.1 Resource

By participating in SLACIAG's proposed quality assurance framework there will be no direct fee paid for the external assessment. There would be an opportunity cost since Midlothian Council would lose the services of one of the Internal Audit team for approximately 5 days.

The Internal Audit Service's involvement and contribution to the framework can be accommodated by existing staffing resources.

4.2 Risk

PSIAS specify that an external quality assessment is mandatory for all public sector internal audit teams once every five years. In order for the Council's audit team to be compliant with PSIAS, an external assessment must be carried out before 31 March 2018.

If insufficient authorities indicate willingness to be involved in the framework then SLACIAG's proposal will not be able to proceed.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

4.4 Key Priorities within the Single Midlothian Plan

This report does not relate directly to the key priorities within the Single Midlothian Plan.

4.5 Impact on Performance and Outcomes

SLACIAG's proposal would ensure that there is an independent and transparent arrangement in place to externally assess the Internal Audit Service at no expense to the Council.

4.6 Adopting a Preventative Approach

Adoption of this proposal would prevent non-compliance with PSIAS.

4.7 Involving Communities and Other Stakeholders

There are no communities or other stakeholder issues with regard to this report.

4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.10 IT Issues

There are no IT issues with regard to this report.

5 Summary

PSIAS require that the Internal Audit Service should be externally assessed once every five years. SLACIAG have prepared a proposal for the development of a framework for self assessments once every four years (to ensure that a report is presented to each administration) with the external validation being undertaken by member authorities of SLACIAG. By participating in SLACIAG's proposed quality assurance framework, there will be no direct fee paid for the external assessment.

6 Recommendations

To note the proposal to participate in SLACIAG's validated self-assessment framework, should it be established, for the external assessment of the Internal Audit Service.

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Report Contacts:

Graham Herbert	Tel No 0131 271 3517
James Polanski	Tel No 0131 271 5646

Graham.Herbert@midlothian.gov.uk
James.Polanski@midlothian.gov.uk

Appendices:

Appendix 1 – Scottish Local Authorities Chief Internal Auditors' Group – Compliance with Public Sector Internal Audit Standards Requirement for External Quality Assessment

Declaration Box

Instructions: This box must be completed by the author of the report. The box will be copied and saved by the Council Secretariat who will delete it from the report prior to photocopying the agenda.

Title of Report:

Meeting Presented to:

Author of Report:

I confirm that I have undertaken the following actions before submitting this report to the Council Secretariat (Check boxes to confirm):-

- All resource implications have been addressed. Any financial and HR implications have been approved by the Head of Finance and Human Resources.*
- All risk implications have been addressed.*
- All other report implications have been addressed.*
- My Director has endorsed the report for submission to the Council Secretariat.*

For Cabinet reports, please advise the Council Secretariat if the report has an education interest. This will allow the report to be located on the Cabinet agenda among the items in which the Religious Representatives are entitled to participate.

Likewise, please advise the Council Secretariat if any report for Midlothian Council has an education interest. The Religious Representatives are currently entitled to attend meetings of the Council in a non-voting observer capacity, but with the right to speak (but not vote) on any education matter under consideration, subject always to observing the authority of the Chair.