

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

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. The 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.). 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 every 4 years going forward from the next local government elections.

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 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 each Chief Audit Executives discuss this proposal with their line management and also with their Audit Committee or equivalent Chair as a minimum. A response will be required from each Chief Audit Executives 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 development of a scheme, a decision on whether each authority wishes to participate will be required by 31 March 2014.