

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 11 MARCH 2014**

**EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT**

**REPORT BY SERVICE MANAGER - GOVERNANCE**

**ABSTRACT**

This report presents the External Quality Assessment (EQA) peer review proposal from the Scottish Local Authority Chief Internal Auditors Group (SLACIAG) and proposes Angus Council join this for the EQA in the next electoral cycle.

**1. RECOMMENDATIONS**

It is recommended that the Scrutiny and Audit Committee:-

- (i) Consider the peer review proposal presented.
- (ii) Agree participation in the peer review process for the EQA within the next electoral cycle.

**2. INTRODUCTION**

Reference is made to report 51/14 to the Scrutiny and Audit Committee on 28 January 2014 where it was noted that a procurement exercise would be undertaken for the first EQA of Internal Audit, to give assurance on the operation of the current co-sourcing arrangements and to inform decisions around the further contract.

That report also indicated that there were proposals under consideration through SLACIAG for a peer review process for EQA's. The final proposal in relation to this is attached at Appendix 1.

**3. PEER REVIEW PROPOSAL**

The proposal outlines the options for EQA's and the principles under which SLACIAG would develop a peer review process. The peer review process would be a validated self-assessment through a peer review pool set up in a way to ensure independence of review and to deliver one peer review within each electoral cycle. The main benefits of the peer review are around cost minimisation and personal development for internal audit teams.

Due to the timing of this and the need for Angus to have an early EQA, it is already agreed that the council procure an EQA for this electoral cycle.

Notwithstanding the above, it is considered that the principle of the peer review assessment is a pragmatic way forward and it is therefore recommended that the Committee agree that Angus Council sign up to participation in the pool for the EQA within the next electoral cycle.

**4. FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report. There will be a commitment of existing internal audit staff time to support the review pool but this approach is still likely to represent good value for the Council compared to procuring external assessment.

**5. HUMAN RIGHTS IMPLICATIONS**

There are no Human Rights implications arising directly from this report.

**6. EQUALITIES IMPLICATIONS**

The issues contained in the report fall within an approved category that has been confirmed as exempt from an equalities perspective.

## **7. CONSULTATION**

The Chief Executive, Strategic Directors of Communities, People and Resources, Head of Legal & Democratic Services and Head of Corporate Improvement & Finance have been consulted in the preparation of this report.

**JANINE WILSON**  
**SERVICE MANAGER - GOVERNANCE**

**NOTE:** No background papers, as defined by Sections 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 this report.

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List of Appendices  
Compliance with PSIAS requirement for EQA – Appendix 1



## **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 EQAs 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). 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's Chief Audit Executive may appoint a team to undertake the assessment of the body to whom it has been appointed, with the Chief Audit Executive being responsible for authorising the final report on the EQA. 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 determine 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 the relevant sponsors, 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.