

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE20 JUNE 2019Report by Chief AuditorPUBLIC SECTOR INTERNAL AUDIT STANDARDS INTERNAL SELF ASSESSMENT**PURPOSE OF REPORT**

1. The purpose of this report is to advise members of progress in relation to compliance with the Public Sector Internal Audit Standards (PSIAS).

**BACKGROUND**

2. The Public Sector Internal Audit Standards came into force on 1 April 2013 and includes a requirement that the Head of Internal Audit develops and maintains a quality assurance and improvement programme (QAIP) to enable the internal audit activity to be assessed against the PSIAS. CIPFA recommends that in order to undertake a self-assessment, the recommended checklist for assessing conformance included within the application note to the PSIAS is used which contains 339 criteria. Additionally, there is a requirement for an external assessment to be carried out at least once every 5 years by an independent assessor.

3. For internal auditors in the public sector, compliance with PSIAS is mandatory and any areas of non-conformance should be reported to the audit and scrutiny committee.

**QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)**

4. The standards require that the QAIP includes both internal and external assessments. The recommendations and actions resulting from these assessments are contained within the QAIP which is included in the appendix. All recommendations from the external assessment which was submitted to the Audit and Scrutiny Committee in June 2018 have now been implemented.

5. The internal assessments must include ongoing monitoring of the internal audit activity and periodic self-assessments. This is achieved as follows:

- review of all internal audit files by the Chief Auditor
- monitoring of internal audit activity by the Audit and Scrutiny Committee through quarterly progress reports and the annual report
- performance measurement framework in place which includes reporting on performance indicators approved by the Audit and Scrutiny Committee, national Director of Finance indicators and Council corporate indicators
- annual review by the Council's external auditors of internal audit activity and feedback on whether they can place reliance on the work carried out by Internal Audit
- feedback via the use of annual customer satisfaction surveys on the work carried out by internal audit

- self-assessments using the recommended checklist are carried out periodically (except for years where there has been an external assessment) and the results submitted to the Audit and Scrutiny Committee.

6. External assessments are required to be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation.

## OPTIONS APPRAISAL FOR EXTERNAL ASSESSMENT

7. **Option 1 – Reciprocal Independent Self-Assessment Validation:** The Scottish Local Authority Chief Internal Auditors Group (SLACIAG) have set up a reciprocal arrangement for councils who wish to participate in providing PSIAS compliant external assessments for each other. The benefit of this arrangement is that it is essentially cost neutral as each participating council will provide and receive one external assessment. There would however be an audit time commitment in both the years of assessing and being assessed. East Renfrewshire took this option for the first external assessment. The results of this assessment were submitted to the Audit and Scrutiny Committee in June 2018.

8. **Option 2 – Full Independent External Assessment:** An alternative approach to this would be to appoint an independent external body to carry out a full assessment of compliance against the standards but this would incur unnecessary expenditure and does not necessarily represent value for money.

9. **Option 3 – Do Nothing:** A further alternative would be to continue to complete periodic self-assessments and ignore the requirement to have external assessments carried out. It is unclear what penalty if any would result from this approach as the council's external auditors already carry out a separate annual assessment of internal audit to determine whether they can place reliance on the work of internal audit.

10. In the first 5 year cycle, option 1 was selected. It is proposed that option 1 is again taken for the next 5 year cycle and East Renfrewshire Council participate in the SLACIAG reciprocal arrangement to deliver external PSIAS assessments.

## SELF ASSESSMENT

11. In August 2014, a report detailing the full results of the first self-assessment of PSIAS was submitted and noted by the Audit and Scrutiny Committee. The self-assessment was carried out by using the recommended checklist which contains four columns to indicate full, partial or non-compliance and non-applicable. The self assessment was repeated again in 2016 and May 2019. A copy of the latest full self-assessment is available on request but the results are summarised below.

12. The Standards require that the assessment must include an evaluation with regard to the degree of internal audit's compliance. Internal audit's self-assessment indicates that the service is currently fully compliant with 286 (or 95%) of all criteria which are applicable and partially compliant with a further 12 (or 4%).

13. The results of this self-assessment show an improvement in compliance compared to the previous one, mainly due an expansion of information included in the quarterly progress

reports, inclusion of the QAIP in the Annual Report and implementation of risk assessed recommendations within all audit reports.

14. The table below summarises internal audit's self-assessment of conformance against the standards as at May 2019.

Standards	No. of criteria	IA assessment of conformance			
		Yes	Partial	No	N/A
1 Definition of internal audit	3	3			
2 Code of Ethics	13	13			
1000 Purpose, authority and responsibility	23	21			2
1100 Independence and objectivity	35	27		1	7
1200 Proficiency and due professional care	21	18			3
1300 Quality assurance and improvement programme	31	29			2
2000 Managing the internal audit activity	47	41	1	1	4
2100 Nature of work	31	28			3
2200 Engagement planning	54	32	10	1	11
2300 Performing the engagement	22	22			
2400 Communicating results	53	47	1	1	4
2500 Monitoring progress	4	3			1
2600 Communicating the acceptance of risks	2	2			
<b>Total</b>	<b>339</b>	<b>286</b>	<b>12</b>	<b>4</b>	<b>37</b>
<b>Total excluding non-applicable</b>	<b>305</b>				
<b>% of total</b>	<b>100%</b>	<b>95%</b>	<b>4%</b>	<b>1%</b>	

15. This shows an improvement in compliance compared to the previous self-assessment submitted to the Audit and Scrutiny Committee as follows:

Standards	No. of criteria	IA assessment of conformance			
		Yes	Partial	No	N/A
<b>Compliance as at August 2014</b>	<b>339</b>	<b>255</b>	<b>27</b>	<b>23</b>	<b>34</b>
<b>Compliance as at Sept 2016</b>	<b>339</b>	<b>269</b>	<b>20</b>	<b>13</b>	<b>37</b>
<b>Compliance as at May 2019</b>	<b>339</b>	<b>286</b>	<b>12</b>	<b>4</b>	<b>37</b>

16. There are few areas of non compliance however two of these are addressed in the QAIP and relate to:

- The audit and scrutiny committee seeking assurance on whether there have been any scope or resource limitations
- Stating in each audit report that the engagement has been conducted in conformance with the PSIAS.

17. The main areas identified as non-applicable relate to:
- Consultancy engagements – internal audit has not undertaken any significant consultancy work in 2018/19 to date or in the years prior to this.
  - Internal audit does not carry out any non-audit duties or have any operational duties outwith the internal audit function.
18. The main area assessed as being partially compliant is in relation to:
- The issues which are routinely considered when planning each audit assignment but are not always formally documented.
19. On the basis that the self-assessment indicates that the internal audit team are 95% fully compliant with the relevant standards and partially compliant with a further 4%, it is concluded that the internal audit section operates in general compliance with the Public Sector Internal Audit Standards. This result was reflected in the external assessment which concluded that the internal audit service was fully compliant in 11 out of 13 sections and generally compliant in the remaining two.

## **RECOMMENDATIONS**

20. The Committee is asked to note the outcome of the revised self-assessment.
21. The Committee is again asked to approve continuing participation in the reciprocal SLACIAG independent self-assessment validation process (Option 1).

Further information is available from Michelle Blair, Chief Auditor, telephone 0141 577 3067.

## QUALITY ASSURANCE IMPROVEMENT PLAN (QAIP) AS AT MAY 2019

Ref	Source (SA – Self Assessment EA – External Assessment)	Finding	Proposed action/recommendation	Progress	Target Date
1	EA 2018	<b>Reporting of PSIAS Self Assessment</b> A self-assessment against PSIAS was undertaken by the Chief Internal Auditor and this was reported to the Audit and Scrutiny Committee in September 2016. However, the results of this were not included in the Annual Report.	It is recommended that compliance is enhanced by completing the self assessment against PSIAS annually and reporting on it in the Annual Report as part of a statement on the internal audit function's Quality Assurance and Improvement Programme.	Implemented. PSIAS self assessments carried out June 2019 and QAIP included within the Annual Report.	N/A
2	EA 2018	<b>Reporting to the Audit and Scrutiny Committee</b> The Audit Plan is formally approved by committee and progress against the annual audit plan is reported on a quarterly basis to the Audit and Scrutiny Committee and adjusted if required. The process for allocating resources against the plan appears reasonable. Verbal updates are given by the Chief Auditor on significant risks identified but these updates are not provided in writing ahead of the committee meetings.	Consideration should be given to, as a minimum, providing some written detail to the Audit and Scrutiny Committee on the nature and number of High risk issues raised, including those not accepted by management, with the aim of enhancing visibility and scrutiny.	Implemented. The quarterly progress reports provided to audit and scrutiny members were expanded to include more information about findings/recommendations from 2018/19 quarter 1 onwards.	N/A
3	EA 2018	<b>Retention of audit evidence</b> Procedures are in place to identify, document, analyse, and evaluate evidence gathered during the audit engagement. Paper audit files are maintained and these are generally well organised and clear to follow. The quality and quantity of evidence retained is generally deemed sufficient but minor instances have been noted	It should be ensured that sufficient detail is retained on file to enable a third party to fully understand the detail of the work undertaken.	Implemented. The Chief Auditor ensures that cross referencing within files is adequate to allow a third party to understand the detail of the work undertaken.	N/A

Ref	Source (SA – Self Assessment EA – External Assessment)	Finding	Proposed action/recommendation	Progress	Target Date
		where the quality could be improved to enable a third party to understand the detail of the work undertaken.			
4	EA 2018	<b>Annual Audit Opinion</b> The overall audit opinion on internal controls is provided in the annual report. Significant areas of concern are highlighted in the audit opinion. However, an opinion is not provided on governance and risk management.	Compliance with PSIAS could be further enhanced by concluding on the overall effectiveness of the council's framework of governance and risk management.	Implemented. This was addressed in the assurance statement included within the Annual Report for 2017/18.	N/A
5	SA 2019	<b>Standard 2430</b> Use of "Conducted in Conformance with the PSIAS" only if the results of the QAIP support such a statement	Include a statement in all audit reports that the audit has been conducted in conformance with PSIAS.		Sept 2019
6	SA 2019	<b>Standard 1110</b> – the internal audit service must be free from interference in determining the scope of internal auditing, performing work and communicating results. The Chief Auditor must disclose such interference to the Audit and Scrutiny Committee and discuss the implications.	A statement will be included in the 2018/19 Annual Report.	Implemented June 2019.	N/A