

EAST RENFREWSHIRE COUNCIL  
AUDIT AND SCRUTINY COMMITTEE

29 September 2016

Report by Chief Auditor

PUBLIC 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 to enable the internal audit activity to be assessed against the PSIAS. CIPFA recommends that in order to undertake a self-assessment, the checklist for assessing conformance included within the application note to the PSIAS is used. 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.

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 grid are carried out every two years 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.

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. It is proposed that option 1 is taken and East Renfrewshire Council participate in the SLACIAG reciprocal arrangement to deliver external PSIAS assessments. It is anticipated that the internal audit section will externally assess another council during 2016/17 and be assessed during 2017/18.

## 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. A copy of the 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 269 (or 89%) of all criteria which are applicable and partially compliant with a further 20 (or 6%).

13. The results of this self-assessment show an improvement in compliance compared to the previous one, mainly due to the approval of an Audit Charter.

14. The table below summarises internal audit's self-assessment of conformance against the standards as at September 2016.

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	26		2	7
1200 Proficiency and due professional care	21	18			3
1300 Quality assurance and improvement	31	22	4	3	2
2000 Managing the internal audit activity	47	41	1	1	4
2100 Nature of work	31	28			3
2200 Engagement planning	54	27	14	2	11
2300 Performing the engagement	22	22			
2400 Communicating results	53	43	1	5	4
2500 Monitoring progress	4	3			1
2600 Communicating the acceptance of risks	2	2			
<b>Total</b>	<b>339</b>	<b>269</b>	<b>20</b>	<b>13</b>	<b>37</b>
<b>Total excluding non-applicable standards</b>	<b>305</b>				
<b>% of total</b>	<b>100%</b>	<b>89%</b>	<b>7%</b>	<b>4%</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
Compliance as at August 2014	339	255	27	23	34
Compliance as at September 2016	339	269	20	13	37

16. Non-conformance relates to:

- Agreeing the scope of the PSIAS external assessment
- The results and progress of any actions from the PSIAS quality assurance improvement programme being detailed in the Annual Audit report
- Stating in each audit report that the engagement has been conducted in conformance with the PSIAS
- Prioritising recommendations according to risk

17. The main areas identified as non-applicable relate to:

- Consultancy engagements – internal audit has not undertaken any significant consultancy work in 2016/17 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 conformant 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 89% fully compliant with the relevant standards and partially compliant with a further 7%, it is concluded that the internal audit section operates in general compliance with the Public Sector Internal Audit Standards.

## RECOMMENDATIONS

20. The Committee is asked to note the outcome of the revised self-assessment.

21. The Committee is asked to approve 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.