

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	18 February 2014
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Public Sector Internal Audit Standards (PSIAS)
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Provide an overview of the new Internal Audit standards applicable from 1 April 2013
- ◆ Update the existing action plan to address areas of non-compliance with these new Standards
- ◆ Advise how the periodic external inspection of Internal Audit, now required under the Public Sector Internal Audit Standards, will be delivered

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the new Internal Audit standards, applicable from 1 April 2013, are noted
- (2) that the action plan to address areas of non-compliance is noted
- (3) that the method for obtaining a periodic external inspection of Internal Audit is noted

3. Background

- 3.1. On an annual basis, Internal Audit assesses the level of compliance with the CIPFA Internal Audit 'Code of Practice' that sets out a series of standards to ensure a professional, independent and objective internal audit service is delivered. On 1 April 2013, a new set of standards, the Public Sector Internal Audit Standards (PSIAS) were issued, compliance with which is now mandatory under Section 95 of the Local Government (Scotland Act) 1973 and includes a specific requirement that any areas of non-compliance are considered when preparing the Council's annual governance statement.
- 3.2. In preparation for these new standards, an action plan was presented to the Forum in November 2012 that sought to close gaps in compliance with the existing Code of Practice. The purpose of this report is to provide an overview of the new PSIAS and update the existing action plan to address new areas of non-compliance.
- 3.3. The extent of compliance with the new Standards will remain an annual self-assessment exercise, albeit more formal moving forward, with an external, independent inspection required once every five years.

4. Public Sector Internal Audit Standards

- 4.1. The new PSIAS were applicable from 1 April 2013 and are now mandatory as opposed to the suggested best practice of the old Code of Practice. These standards apply to all public sector organisations and, whilst based on the same principles as the old Code of Practice, are now much more detailed and prescriptive aligned to the binding nature of these new requirements.
- 4.2. There are some differences between the new Standards and previous Code of Practice. However, all significant areas relate to a more formal approach to existing practice and do not represent a fundamental change to the way the internal audit service is delivered within South Lanarkshire Council (SLC).
- 4.3. PSIAS assesses compliance against four main areas; Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards. Within these four areas, there are thirteen separate sub-sections and three hundred and forty eight separate 'areas of conformance'.
- 4.4. An interim assessment of compliance suggests that the Council's Internal Audit Service is fully compliant in 83.9% of these areas and partially compliant in a further 9.7%.
- 4.5. For each area, where the internal audit function within the Council is deemed to be partially or non-compliant with the new PSIAS, an action is noted in the action plan attached at Appendix 1 to this report, together with a proposed response as to how compliance will be achieved. For some areas, multiple actions have been subsumed within one single joint action. Progress with the delivery of this action plan will be reported within the 2013/2014 Annual Assurance report and include information on the revised level of compliance as it is assessed at 31 March 2014.
- 4.6. The most significant area of non-compliance is within Attribute Standards and relates primarily to the requirement for the internal audit function to be assessed externally once every five years. As 2013/2014 is the first year of application, the first external assessment must be completed by 2017/2018. The scope of the assessment will require to be agreed with the appropriate internal sponsors as well as with the external assessor. The external inspection will extend to a discussion with the Chair of the Risk and Audit Scrutiny Forum as part of evidence gathered during the inspection.
- 4.7. To satisfy the requirement for an external review, the Scottish Local Authority Chief Internal Auditors Group (SLACIAG) have developed a reciprocal arrangement solution whereby each Authority would undertake a self-assessment exercise that would then be externally validated by a SLACIAG member. The intention is to invite CIPFA to review this scheme and a formal brief has been prepared by the Chair of SLACIAG for member Councils. Following the development of the framework, SLACIAG's Committee intends to oversee implementation and also provide a level of scrutiny and quality assurance to ensure the adequacy of the process and to arbitrate over any disputed outcomes if required.
- 4.8. This is considered to be a cost-effective solution to the new requirement for a periodic external inspection. The cost to the Council of participating in the SLACIAG validated assessment is estimated to be in time only, given that there is an expectation that, should the Council participate in this arrangement, its Internal Audit

Manager will be released to be an assessor for one other contributing Authority. This time is estimated as being between 5 – 7 days (over a four year period), with some additional time required at the outset for training to ensure a consistent application of the review process across all participating Councils. Based on current charge out rates to external clients, the notional cost of this time is estimated to be £3k. The Chair of SLACIAG has indicated that the reciprocal arrangement will cover a rolling programme of four year's duration, rather than the five year's duration required under PSIAS, to align to the administrative term to which Local Authorities adhere. The requirement for cross-working will provide an opportunity to share areas of best practice. This option will be kept under review and reassessed once the first external inspection review has been completed.

- 4.9. Informal discussions within SLACIAG have indicated a good degree of interest across Local Authorities in the SLACIAG validated assessment. Assurances have been provided by the Chair of SLACIAG (in relation to the arrangement proposed by the Group) that the process would involve appropriately qualified individuals, that work would be done remotely, where possible, to minimise time and costs and that steps would be taken to ensure assessors were adequately trained.
- 4.10. The Forum is asked to note that the new Internal Audit standards were applicable from 1 April 2013, to note the action plan to address areas of partial and non-compliance and to note the method of obtaining external validation in the future.

5. Financial Implications

- 5.1. A notional time cost of approximately £3k is likely to accrue from participating in the external validation process developed by SLACIAG together with, on an annual basis, time to comply with PSIAS (within South Lanarkshire Council). Time to prepare for annual compliance will now be incorporated within the Section Plan as an area of administrative work.

6. Other Implications

- 6.1. There are no implications for risk or sustainability in terms of the information contained in this report.

7. Equality Impact Assessments and Consultation Arrangements

- 7.1. There is no requirement to carry out an impact assessment in terms of the information contained within this report.

Paul Manning

Executive Director Finance and Corporate Resources

29 January 2014

Link(s) to Council Values/Objectives

- ◆ Objective – Governance and Accountability

Previous References

- ◆ Compliance with CIPFA Code of Practice and best practice guidance for audit committees – RASF 13 November 2012

List of Background Papers

- ◆ Public Sector Internal Audit Standards
- ◆ Compliance with PSIAS requirement for External Quality Assessment (SLACIAG)

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Action Plan – Areas of Partial Compliance

Appendix One

Point	Area	PSAIS Requirement	Proposed Action	Completion Date
1	Attribute Standards	Chief Audit Executive (CAE – for SLC this is Internal Audit Manager) has free and unfettered access to, and can communicate effectively with, the chief executive or equivalent and the chair of the audit committee.	Changed reporting lines from January 2014 to address requirement. Direct access to Chair of RASF already exists.	Complete
2	Attribute Standards	The board (for SLC this is the Risk and Audit Scrutiny Forum) approves the Internal Audit Charter, the Audit Plan and the internal audit budget.	Internal Audit Charter, the Audit Plan (including the internal audit budget) will be presented first to the RASF and then to Executive Committee for approval.	February 2014
3	Attribute Standards	Internal Auditors exercise due professional care by considering the cost of assurance/cost of the consulting engagement in relation to potential benefits.	Assessed when annual Audit Plan is prepared and days allocated to each audit assignment. Staff will be briefed at annual audit planning meeting and developed for all special investigation assignments.	March 2014
4	Attribute Standards	CAE has developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and that enables conformance with all aspects of the PSIAS to be evaluated. QAIP includes both internal and external assessments.	A formal review of the existing QA process will be undertaken to ensure adequate coverage and compliance with PSIAS. The method of external assessment will be incorporated within the QAIP.	March 2014
5	Attribute Standards	Efficiency and effectiveness of the internal audit activity assessed via QAIP and opportunities for improvement identified.	To be reviewed at each financial year end and reported as part of the annual assurance report.	May 2014
6	Attribute Standards	CAE maintains the QAIP.	Time will be allocated within the section plan to review the QAIP on an annual basis.	March 2014
7	Attribute Standards	Internal assessments to monitor internal audit activity include periodic assessments for evaluating conformance with the PSIAS.	Monitoring will be undertaken twice per annum. A mid-year report on compliance will be presented to the RASF as part of the routine audit activity report and will be included in the year end annual assurance report.	May 2014
8	Performance Standards	The audit plan explains how Internal Audit's resource requirements have been assessed.	Statement in the current Audit Plan report will be developed to link more directly to the capacity planning exercise that is undertaken in conjunction with the planning process.	February 2014
9	Performance Standards	The Internal Audit policies and procedures are reviewed regularly and updated to reflect changes in working practices and standards.	A formal review of these will now be included as a task within the section plan for completion by Audit Advisers on a six monthly basis.	March 2014
10	Performance Standards	The Audit Plan includes the approach to using other sources of assurance and any work required to place reliance upon those sources.	This is considered as part of the consultation process for audit planning and will now be formally included within the audit planning strategy.	March 2014
11	Performance	The CAE carries out an assurance mapping exercise as	This is considered as part of the consultation process	March 2014

Point	Area	PSAIS Requirement	Proposed Action	Completion Date
	Standards	part of identifying and determining the approach to using other sources of assurance.	for audit planning and will now be formally included within the audit planning strategy.	
12	Performance Standards	The CAE regularly meets with the nominated external audit representative to consult on and coordinate their respective audit plans.	Schedule meetings on a quarterly basis to discuss audit plans, mid-year updates and year end opinion.	March 2014 – for 2014/15
13	Performance Standards	The frequency and content of reporting to the board is determined in discussion with senior management (for SLC this is the Corporate Management Team) and the board. These are dependent on the importance of the information communicated and the urgency of the related actions to be taken by senior management or the board.	Reports are presented to CMT as required. Review frequency of reporting to the RASF.	March 2014
14	Performance Standards	Internal audit activity ensures effective organisational performance management and accountability.	Audit of IMPROVE included in 2014/15 plan and will now be an ongoing requirement to have audit activity in this area each year.	Complete
15	Performance Standards	Internal audit activity coordinates the activities of the board, external and internal auditors and management and communicates information between these parties.	Reports to the RASF and reference to work of External Audit where appropriate. Quarterly meetings to be arranged with External Audit to co-ordinate activities more effectively.	March 2014 – for 2014/15
16	Performance Standards	Internal Audit activity has assessed whether information technology governance supports the organisations strategies and objectives.	Computer audit plan incorporated within annual audit plan. In addition, annual assurance report will now formally report on information technology governance within SLC.	May 2014.
17	Performance Standards	Internal Audit activity has evaluated the effectiveness of the organisations risk management process (i.e. organisational objectives support and align with mission; significant risks are identified and assessed; risk responses align risks with the organisations risk appetite; and, risk information is captured and communicated timely, enabling staff, management and the board to carry out their duties).	Each of these elements is in place. Some time will be allocated as part of the self-assessment process to formally evaluate and will be included in annual Audit Plans on a periodic basis.	March 2014
18	Performance Standards	Engagement work programmes include procedures for identifying, analysing, evaluating and documenting information.	Audit programmes are based on these principles although the terminology is not used. Audit manual to be updated to link these principles to the methodology currently applied.	March 2014
19	Performance Standards	Engagement work programmes are approved prior to implementation for each engagement.	Audit programmes are approved prior to implementation as required. These will now be signed off by an Audit Adviser prior to the start of each assignment.	March 2014 – for 2014/15
20	Performance	Internal auditors remain alert to the possibility of poor	The identification of efficiencies is key to each audit	March 2014

Point	Area	PSAIS Requirement	Proposed Action	Completion Date
	Standards	value for money.	but will be formally briefed to team at the annual planning meeting.	
21	Performance Standards	CAE has developed and implemented retention requirements for all types of engagement records.	Being developed as part of the information audit led by Administration Services and the Information Governance Board.	March 2014
22	Performance Standards	The annual report includes a statement on conformance with the PSIAS, the results of the QAIP and progress against any improvement plans resulting from the QAIP.	To be included within the 2013/2014 annual assurance report and moving forward.	May 2014

Action Plan – Areas of Non Compliance

Appendix One

Point	Area	PSAIS Requirement	Proposed Action	Completion Date
1	Attribute Standards	The board approves decisions relating to the appointment and removal of the CAE.	The appointment and removal of the Internal Audit Manager be delegated to the Executive Director of Finance and Corporate Resources in line with internal personnel policy and procedures.	Complete
2	Attribute Standards	The Chief Executive, or equivalent, undertakes, countersigns, contributes feedback or reviews the performance appraisal of the CAE.	Changed reporting lines from January 2014 to address requirement.	Complete
3	Attribute Standards	Feedback is sought from the Chair of the audit committee for the CAE's performance appraisal.	Formal feedback will be sought from the chair of the RASF on an annual basis to coincide with the year end PDR.	March 2014
4	Attribute Standards	Self-assessment and external assessments of internal audit activity are carried out by those with a sufficient knowledge of internal audit practices.	The self-assessment exercises will be carried out by the Internal Audit Manager and independently reviewed by one of three Audit Advisers on a rotational basis. External assessments will be carried out by those with a sufficient knowledge of internal audit practices.	March 2014
5	Attribute Standards	Assessment of internal audit activity reviews the achievement of audit plan aims and objectives.	The self-assessment exercise will extend to a review of objectives; reported as part of the mid-year activity report and year end annual assurance report.	May 2014
6	Attribute Standards	Proposed form of external assessment, the qualifications and independence of assessor/assessment team discussed by CAE and board.	A report on external assessment will be presented to the RASF in advance of the assessment.	TBC – dependent on year of assessment
7	Attribute Standards	Scope of external assessment agreed by appropriate sponsor, such as the chair of the audit committee, the CFO or the Chief Executive.	The initial scope of the external assessment will be agreed with appropriate sponsors and reported to the RASF.	TBC – dependent on year of assessment
8	Attribute Standards	Scope of external assessment agreed with the external assessor/assessment team.	The scope will be agreed with the external assessor in advance of the assessment.	TBC – dependent on year of assessment
9	Attribute Standards	The competence of the external assessor/assessment team can be demonstrated and the CAE has exercised professional judgement in deciding whether the assessor is competent to carry out the assessment and confirming that there are no conflicts of interest.	To be determined and reported to the Executive Director Finance and Corporate Resources and to the RASF.	TBC – dependent on year of assessment
10	Performance Standards	The Audit Plan sets out how Internal Audit's work will identify and address local and national issues and risks.	The 2014/15 plan allows time to react to emerging fraud risks and contingency time is available to address any new local/national issues and risks.	Complete
11	Performance Standards	The CAE reviews the audit plan on a regular basis and adjusts the plan in response to changes in the	The current informal review will now be documented and assurances included within audit activity reports	February 2014

Point	Area	PSAIS Requirement	Proposed Action	Completion Date
		organisations business, risks, operations, programmes, systems and controls.	presented to each meeting of the RASF.	
12	Performance Standards	Where CAE has been required to provide assurance to other partnership organisations, fundamental responsibility to the management of the organisation to which internal audit service provided is demonstrated.	SLLC and LVJB annual reports will be amended for 2013/2014 to include this statement.	May/June 2014
13	Performance Standards	Internal Auditors report that engagements are 'conducted in conformance with the PSIAS and the results of the QAIP support such a statement.	Standard wording on audit reports to be amended to include this statement and quality assurance procedures formalised to validate the inclusion of such a statement.	March 2014
14	Performance Standards	Internal Audit activity monitors the result of consulting engagements.	Such engagements to be identified and client will be required to produce formal feedback as part of standard follow-up process.	March 2014