

## **Item: 7**

### **Monitoring and Audit Committee: 9 June 2022.**

#### **External Quality Assessment.**

#### **Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the external quality assessment of compliance with the Public Sector Internal Audit Standards (PSIAS).

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That Glasgow City Council's Internal Audit Service has undertaken an external quality assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards.

#### **2.2.**

The findings of the external quality assessment undertaken by Glasgow City Council's Internal Audit Service, attached as Appendix 1 to this report.

#### **It is recommended:**

#### **2.3.**

That the Committee review the findings of the external quality assessment in order to obtain assurance that action has been taken or agreed where necessary.

### **3. Background**

#### **3.1.**

The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both periodic internal self-assessments and five-yearly external assessments.

#### **3.2.**

The Scottish Local Authorities Chief Internal Auditors' Group has established a collaborative peer-review process, accompanied by an External Quality Assessment Framework to assist its members meet the requirement for a five-yearly external assessment.

### **3.3.**

The External Quality Assessment provides a summary of requirements of the PSIAS and the Chartered Institute of Public Finance and Accountancy Local Government Application Note and sets out the findings, conclusions and recommendations from the assessment process.

## **4. Review Findings**

### **4.1.**

Glasgow City Council's Internal Audit Service has undertaken an external quality assessment of Internal Audit's compliance with the PSIAS.

### **4.2.**

The External Quality Assessment, attached as Appendix 1 to this report, provides assurance that the Internal Audit Service conforms with the PSIAS and includes four recommendations within the action plan to address minor issues identified during the review.

### **4.3.**

The Committee is invited to review the findings of the External Quality Assessment in order to obtain assurance that action has been taken or agreed where necessary.

## **5. Corporate Governance**

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

There are no financial implications associated directly with this report.

## **7. Legal Aspects**

There are no legal implications associated directly with this report.

## **8. Contact Officer**

Andrew Paterson, Chief Internal Auditor, extension 2107, email [andrew.paterson@orkney.gov.uk](mailto:andrew.paterson@orkney.gov.uk).

## **9. Appendix**

Appendix 1: External Quality Assessment Report.

**ORKNEY ISLANDS COUNCIL**

**Public Sector Internal Audit  
Standards**

**External Quality Assessment**

**Final Report**

**May 2022**



# 1 Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) apply to Internal Audit in all parts of the public sector in the UK and are mandatory. They seek to secure ‘a professional, independent and objective internal audit’ that makes an effective contribution to governance arrangements. Guidance on the interpretation of the Standards is set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Local Government Application Note (LGAN) 2019.

1.2 The PSIAS sets out the mission and definition of Internal Auditing and the core principles for professional practice, together with a Code of Ethics. These seek to capture the characteristics of effective internal audit functions. The PSIAS also details nineteen specific Attribute Standards and thirty-three specific Performance Standards which provide guidance on how internal auditing should be carried out and how the function is managed. The PSIAS also introduced a requirement for an annual self-assessment of the internal audit function, and an independent external assessment, which must be conducted at least once every five years by a qualified assessor from outside of the organisation.

**Mission of Internal Audit & Core Principles**

**Definition of Internal Auditing**

**Code of Ethics**

**Attribute Standards**

**Performance Standards**

1.3 An effective internal audit service should:

- understand the whole organisation, its needs and objective.
- understand its position with respect to the organisation’s other sources of assurance and plan its work accordingly.
- be seen as a catalyst for improvement at the heart of the organisation.

- add value and assist the organisation in achieving its objectives; and
- be forward-looking, knowing where the organisation wishes to be and aware of the national agenda and its impact.

1.4 To assist its members meet the requirement for a five-yearly external assessment, the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has established a collaborative peer-review process, accompanied by an External Quality Assessment (EQA) framework. This process allows the PSIAS requirement of an external assessment to be met by undertaking an independent external validation of the organisation's own self-assessment. The self-assessment of Orkney Islands Council's Internal Audit service against the requirements of the Standards was completed by the Chief Internal Auditor (CIA).

1.5 This EQA was undertaken by two Senior Audit Managers from Glasgow City Council. Both are senior members of staff; qualified members of CIPFA; hold appropriate experience of internal audit within the public sector; and have an in-depth knowledge of the Definition, Code of Ethics, and the International Standards for Internal Audit. No conflict of interests, that would limit the independence of the review, were identified.

1.6 The self-assessment was independently validated by reviewing the supporting documentation provided; interviewing key stakeholders; and conducting a survey of a sample of directors and service heads to capture an

organisational perspective on the delivery and value of internal audit services. Details of the officers contacted are shown in Appendix 2.

1.7 This EQA was originally scheduled to take place in August 2020 but was postponed due to the COVID-19 pandemic. As a result of continuing restrictions, the assessment was undertaken remotely in the first quarter of 2022, using secure file-sharing software and the use of video conferencing for interviews.

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## 2 Audit Opinion

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- 2.1 Our independent review and sample testing has confirmed that Orkney Islands Council's Internal Audit service conforms with the requirements of the Public Sector Internal Audit Standards.
- 2.2 The service is appropriately positioned within the organisation; independent and objective; trusted; highly regarded by stakeholders; and makes a positive contribution to the systems of governance, risk management and internal control.
- 2.3 A summary of the conformance with the assessment areas of the PSIAS is shown at Appendix 1. Our opinion is consistent with the findings of the self-assessment exercise undertaken by Orkney's CIA.

### 3 Summary of Findings

- 3.1 Orkney Islands Council's Internal Audit service provides a range of assurance and investigation services to the Council and Orkney Health and Social Care Partnership. The 2021/22 audit plan contained approximately 490 audit days.
- 3.2 Orkney Islands Council's first external assessment against the PSIAS took place in May 2016 and was undertaken by the then CIA of Shetland Islands Council. The five recommendations arising from that review have been reported as complete to the Monitoring and Audit Committee. In line with the requirements of the PSIAS, a further independent review has been completed by Glasgow City Council to validate current compliance.
- 3.3 The self-assessment against the standards, completed by the CIA, did not identify any key areas of non-conformance and confirmed that Internal Audit operated in compliance with the requirements of the PSIAS. This position was reported to the Monitoring and Audit Committee in January 2020. Our independent review of the self-assessment and supporting evidence confirmed this conclusion.
- 3.4 At the time of the review, the CIA reported on an administrative basis to the then Executive Director of Corporate Services (as part of an internal restructure, the CIA now reports to the Head of Legal and Governance). The CIA also has unrestricted access and accountability to the Interim Chief Executive, and the Monitoring and Audit Committee as required – this access to Committee also includes the right to private meetings without management present. Based on the requirements of PSIAS and the guidance contained within LGAN, the internal audit activity is sufficiently independent and has the appropriate status within the organisation. This was reinforced from the stakeholder feedback where the independence and objectivity of the service was respected and valued by all.
- 3.5 The stakeholder interviews and surveys confirmed that:
- the advice and assurance provided by the CIA and the wider Internal Audit team is valued and trusted.
  - the Internal Audit team is adaptable and responds well to change and emerging risks.
  - Internal Audit has a positive impact on the systems of governance, risk and internal control.
  - the Internal Audit service is seen as independent and objective, and

- senior managers are consulted and able to feed into the annual audit plan.

3.6 One concern was raised during the feedback, highlighting the current vacancy within the Internal Audit team and the need for robust succession planning. The challenge to maintain sufficient resources is key to ensure an appropriate level of work is undertaken during the year to allow the CIA to provide an opinion on the control environment, and this should be considered in relation to the recruitment and retention of staff going forward.

3.7 We have identified 4 recommendations for consideration that seek to further strengthen the positive position of Internal Audit and help it to continue to drive forward, these include:

- A review of the Internal Audit Charter, with the inclusion of some specific definitions and statements.
- Ensuring the self-assessment against the PSIAS is carried out annually.
- Some additions to the content of the annual Internal Audit Plan and associated Committee report; and
- Some opportunities to improve the content of the Audit Brief document.

3.8 We would like to thank all those involved in this review for their cooperation and assistance.



## Action Plan

No.	Observation	Recommendation	Management Response
<b>PSIAS Requirement:</b> Purpose, Authority and Responsibility – the standard sets out that the purpose, authority and responsibility of the internal audit activity must be defined in an Internal Audit Charter. It should define the nature of assurance services and consulting activities, as well as Internal Audit’s position in the organisation and the relationships between the CIA and the Board.			
1	<p>A detailed Internal Audit Charter is in place which has been communicated to senior management and approved by the Monitoring &amp; Audit Committee.</p> <p>From a review of the Charter, we noted that some minor additions to the content would ensure that the Charter would include all definitions and statements required by the PSIAS.</p> <p>The CIA confirmed that the current version of the Charter was due to be reviewed during the early part of 2022.</p>	<p>The current Internal Audit Charter should be revised to include the following:</p> <ul style="list-style-type: none"> <li>• Definition of the terms ‘Board’ and ‘Senior Management’.</li> <li>• Accountability and reporting relationships between the CIA, the Board and operational management.</li> <li>• Responsibility of the Board and role of statutory officers.</li> <li>• Definition of the role of Internal Audit in fraud related work.</li> <li>• The Council’s arrangements for anti-fraud and anti-corruption/bribery.</li> <li>• Internal Audit to be notified of all suspected or detected fraud, corruption or impropriety.</li> <li>• Definition of the nature of consulting services.</li> <li>• Recognition of the mandatory status of the PSIAS.</li> </ul>	<p><b>Response:</b></p> <p>The Charter has been revised accordingly and will be presented to the Corporate Leadership Team on 12 May and then the M&amp;A Committee on 9 June for approval.</p> <p><b>Officer Responsible for Implementation:</b></p> <p>Chief Internal Auditor</p> <p><b>Timescales for Implementation:</b></p> <p>June 2022</p>

## Action Plan (continued)

No.	Observation	Recommendation	Management Response
	<b>PSIAS Requirement:</b> Quality Assurance and Improvement Programme – The standard sets out the necessary requirements for the internal and external assessment of performance and compliance against the PSIAS. The arrangements for reporting on results and disclosure of non-performance.		
2	<p>The PSIAS state that to ensure the Internal Audit function can demonstrate conformance with the standard, a self-assessment should be undertaken on an annual basis.</p> <p>The latest available self-assessment was dated December 2019. The CIA confirmed that due to the COVID-19 pandemic restrictions (including long periods of home working where hard copy documents were unavailable) and competing priorities resulting from the renewal period, further self-assessments were not formally undertaken for 2020 and 2021.</p> <p>Despite this, the CIA did provide updated responses and document versions to allow the external assessment to proceed.</p>	The CIA should ensure that a self-assessment of compliance with the PSIAS is carried out on an annual basis.	<p><b>Response:</b></p> <p>An internal assessment was not planned for 2020 as this external assessment was originally planned for August 2020. Due to the COVID-19 restrictions this was delayed. Going forward an internal assessment will be performed annually.</p> <p><b>Officer Responsible for Implementation:</b></p> <p>Chief Internal Auditor</p> <p><b>Timescales for Implementation:</b></p> <p>The next internal Assessment is scheduled for February 2023</p>

## Action Plan (continued)

No.	Observation	Recommendation	Management Response
	<p><b>PSIAS Requirement:</b> Managing the Internal Audit Activity – the Standard sets out the overall requirements for the overall management of the internal audit activity, the preparation of risk-based Audit Plan including delivery and reporting of the Audit Plan.</p>		
3	<p>An annual risk-based Internal Audit Plan has been established and has been presented to the Monitoring &amp; Audit Committee. The plan is comprehensive, and the methodology of the plan has considered all expected areas.</p> <p>From a review of the plan and associated Committee report, some minor improvements have been identified which, if added, will ensure full compliance with the content required by the PSIAS.</p>	<p>The CIA should ensure that future audit plans include the following:</p> <ul style="list-style-type: none"> <li>• A statement setting out how Internal Audit’s resourcing requirements have been assessed.</li> <li>• A statement setting out the estimated resources required for the planned work (this could take the form of the CIA stating in the Committee report that the resources have been deemed appropriate to carry out the plan).</li> <li>• The approach to be taken when using other sources of assurance.</li> </ul>	<p><b>Response:</b></p> <p>Statements regarding the assessment of resourcing, the resources required for the planned work and the approach taken when using other sources of assurance will be added to future plans</p> <p><b>Officer Responsible for Implementation:</b></p> <p>Chief Internal Auditor</p> <p><b>Timescales for Implementation:</b></p> <p>Next planning round March 2023</p>

## Action Plan (continued)

No.	Observation	Recommendation	Management Response
<p><b>PSIAS Requirement:</b> Engagement Planning – the Standard sets the requirements necessary to develop and plan for each engagement, including the objectives, scope, timing and resource allocations.</p>			
4	<p>An Audit Brief is prepared as a planning document for all audit engagements, detailing the scope and objectives of the audit and any other key information.</p> <p>While the content of the Audit Brief contains the key elements required by the PSIAS, we have identified some opportunities for improvement which could enhance the content of the document.</p>	<p>As an opportunity for improvement, the CIA should consider amending the Audit Brief document to include the following:</p> <ul style="list-style-type: none"> <li>• The timing of the audit engagement (this could include the specific dates of the work, the quarter the audit is planned for, the expected date of presenting the audit report to Committee, etc.).</li> <li>• The name of the auditor carrying out the work.</li> </ul>	<p><b>Response:</b></p> <p>Audit briefs are compiled at the time of an audit by the auditor who will be carrying out the work, but we can add timings and the name of the auditor to the briefs.</p> <p>The brief template has been updated to include this detail</p> <p><b>Officer Responsible for Implementation:</b></p> <p>Chief Internal Auditor</p> <p><b>Timescales for Implementation:</b></p> <p>Complete</p>

## Appendix One – Summary of Assessment

PSIAS REF	ASSESSMENT AREA	FULLY CONFORMS	GENERALLY CONFORMS	PARTIALLY CONFORMS	DOES NOT CONFORM
Section A	Mission of Internal Audit and Core Principles	X			
Section B	Definition of Internal Auditing	X			
Section C	Code of Ethics	X			
Section D	<b>ATTRIBUTE STANDARDS</b>				
1000	Purpose, Authority and Responsibility		X		
1100	Independence and Objectivity	X			
1200	Proficiency and Due Professional Care	X			
1300	Quality Assurance and Improvement Programme		X		
Section E	<b>PERFORMANCE STANDARDS</b>				
2000	Managing the Internal Audit Activity	X			
2100	Nature of Work	X			
2200	Engagement Planning	X			
2300	Performing the Engagement	X			
2400	Communicating Results	X			
2500	Monitoring Progress	X			
2600	Communicating the Acceptance of Risks	X			

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## Appendix Two – Stakeholder Consultation

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### **Stakeholders Interviewed**

Chief Internal Auditor  
Executive Director of Finance, Regulatory, Marine and Transportation Services  
Chair of the Monitoring and Audit Committee  
Vice Chair of the Monitoring and Audit Committee

### **Stakeholders Surveyed**

Interim Chief Executive  
Executive Director, Neighbourhood Services & Infrastructure  
Executive Director, Strategy, Performance & Business Solutions (previously Corporate Services)  
Executive Director, Education, Leisure & Housing  
Chief Officer, Orkney Health & Social Care Partnership  
Previous Executive Director, Corporate Services  
Previous Executive Director, Development & Infrastructure

From the 7 questionnaires issued, all were returned (100%)