



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
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EXTERNAL ASSESSMENT

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1. Summary

The Public Sector Internal Audit Standards (PSIAS), effective from 1st April 2013, contain the requirement for an external assessment of the Internal Audit function once every five years. The Council needs to ensure that the next assessment is undertaken by 31st March 2018. This report sets out the considerations of the Section 151 Officer in agreeing the approach with the Chairman of the Audit Committee and the Audit Service Manager.

2. Recommendations

- a) The Committee is asked to consider and approve, with appropriate comment, the approach adopted for the external assessment and agree that the final details of the assessment are agreed by the Section 151 Officer and Audit Service Manager in consultation with the Chairman of the Audit Committee.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The PSIAS define the nature of internal auditing, set out the basic principles for carrying out internal audit in the public sector and provide a framework for the service. These add value to the Council leading to improved organisational processes and operations. The PSIAS also establish a basis for the evaluation of internal audit performance to drive improvement planning.
- 3.2 An independent external assessment will demonstrate to the Audit Committee compliance with the PSIAS and the improvement plan will show actions to close any gaps.

- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or climate change requirements or consequences of this proposal.

4. Financial Implications

- 4.1 Funding for the assessment will be met from an approved corporate budget.

5 Background

- 5.1 Standard 1310 of the PSIAS sets out the requirement for a Quality Review and Improvement Programme (QAIP) which includes both internal and external assessments of the Internal Audit activity.
- 5.2 Standard 1311 states that the internal assessment should comprise two interrelated parts; on-going monitoring and periodic self-assessment. On-going monitoring covers day to day operational issues such as approval of work programmes, file reviews etc. Periodic self-assessment looks at compliance against the standards as a whole, which is required to be completed by the Chief Audit Executive or a senior audit member with the appropriate/relevant experience.
- 5.3 Standard 1312 states that an external assessment must be conducted at least once every five years. All councils will therefore need to have completed an external review prior to the 31 March 2018. Given the likelihood that demand for external reviews in the financial year 2017/18 is going to be high, it would be prudent to have the external review completed during 2016/17, retaining the option to complete in 2017/18 if this better suits the Council's needs.
- 5.4 The external assessment must be completed by a body independent to the organisation qualified in the practice of internal auditing. Independence for these reviews is critical to ensure an objective external assessment.
- 5.5 A peer review can provide a cost effective approach to external assessment. Independence must be maintained however. The standards advise that an assessor is independent provided they do not report to Audit Manager of the organisation under review.

Option appraisal

- 5.6 Staffordshire Chief Auditors Group (SCAG) is made up of Staffordshire County Council, the shire districts, High Peak BC and Staffordshire Fire and Rescue. The group, led by Newcastle under Lyme Borough Council, has undertaken an exercise to identify how external assessments can be conducted to the levels required by the Standards whilst keeping time and costs down for the participating authorities. They have invited Shropshire Council and Telford & Wrekin to join their arrangements.
- 5.7 SCAG has considered a number of options with regards to the requirements of the external assessment see summary in the table below:

Option	Comments, pros and cons	Estimated costs
1. Peer review	<p>This would involve the participating authorities undertaking a review of another authority.</p> <p>Considerations:</p> <p>(a) Due to the different management arrangements for the audit teams across Staffordshire plus Shropshire and Telford & Wrekin there is a danger of inconsistency.</p> <p>(b) Also, as Midlands authorities (including the ones involved in this arrangement) regularly support each other in the development of documents/processes via networking events, there is a risk that peer review would not be objective.</p> <p>(c) To undertake the reviews in-house would have a significant impact on Shropshire's internal resources. The work would include specification, completion of Shropshire's self-assessment and collating the necessary documentary evidence. This in itself would be a considerable task but would also require at least three days undertaking an assessment at another authority plus additional days for feedback, compiling a report and presentation to the Audit Committee.</p> <p>(d) There is also a strong view by those involved in this arrangement that to undertake the reviews in this way would not give a true independent assessment as required by the Standards.</p>	Minimum six days' time of Audit **
2. Collaborative procurement of an external self-assessment	<p>A collaborative procurement approach to the external assessment by appointing an external independent body/person to undertake the assessment for all the authorities.</p> <p>Benefits:</p> <p>(a) This option provides a true independent assessment.</p> <p>(b) Good practice ideas from other organisations already reviewed.</p> <p>(c) Economies of scale will be achieved by this collaborative procurement approach.</p>	<p>Market testing estimates from £1,500 to £7,500 for three day assessment per authority.</p> <p>Minimal additional Shropshire Council time providing consultation on the tendering, specification and</p>

Option	Comments, pros and cons	Estimated costs
	<p>(d) Limited authority time during the assessment – time only required for feedback, review of the report and response to Audit Committee.</p> <p>A number of providers have been approached to ascertain an indicative cost of this type of assessment being undertaken (separate to the collaboration).</p> <p>A detailed specification has been drawn up by the lead authority from SCAG with comments from participating councils.</p>	<p>procurement exercise which would be led by another authority.</p>
<p>Hybrid – Procure an external independent assessor and combine with a peer review</p>	<p>An additional approach provided by one supplier during market testing was an external assessor to be brought in at the beginning of the process to train member authorities to undertake a peer review to ensure a consistency in the approach undertaken. The assessments would then be completed by member authorities and the results reviewed by the external assessor to ensure that the approaches undertaken have been consistent and fair.</p> <p>This approach should eliminate the potential for an inconsistent approach but would impact on the resources of members</p>	<p>Share of £7,500 - £10,000 (at £2,500 per day) plus estimated eight days (up to two days training and minimum six days as per Peer review option above).</p>

** - excluding time required for the self-assessment which is required by all options.

5.8 The approach preferred by SCAG (and endorsed by their Finance Officers) is to adopt a collaborative approach by procuring an independent external assessor to undertake all the reviews for the Staffordshire authorities plus Shropshire and Telford and Wrekin Council. The benefits for Shropshire would be minimal procurement time, a consistent approach, being able to demonstrate a true independent assessment, and sharing in best practice. The procurement process would demonstrate value for money and assessment costs would be met from within an approved corporate budget.

5.9 After discussion with the Chairman, Section 151 Officer and Audit Service Manager, engagement with the SCAG procurement exercise was agreed. The specification will go out to potential tenderers early this year, the results of which will be reported back to members.

List of Background Papers (This MUST be completed for all reports, but does

not include items containing exempt or confidential information)

Public Sector Internal Audit Standards

CIPFA's Applying the IIA International Standards to the UK Public Sector

Cabinet Member (Portfolio Holder) Malcolm Pate (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member n/a

Appendices - none