SCOTTISH LOCAL AUTHORITIES
Chief Internal Auditors' Group

External Quality Assessment Framework 2

Guidance

December 2019

Contents

1. Introduction

1.1. The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE) develops a Quality Assurance and Improvement Programme (QAIP). The QAIP is designed to enable evaluation of the Internal Audit activities conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors comply with the Code of Ethics.

1.2 The PSIAS requires that the QAIP must include both internal and external assessments. Internal self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practice should be undertaken periodically. An external assessment must be carried out at least once every 5 years by a qualified independent assessor or assessment team from outside the organisation.

1.3 The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has developed this External Quality Assessment Framework to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the QAIP. It incorporates the requirements of the PSIAS as well as the Local Government Application Note in order to give comprehensive coverage of both documents.

2. EQA Framework - General

2.1 This EQA framework comprises the processes and tools which have been developed to ensure that participating organisations undertake the assessment in a systematic and consistent way and to facilitate the identification of actions for continuous improvement. The framework can be used where internal audit is provided by an in-house team, external provider, co-sourced or any combination thereof.

2.2 The tools developed as part of this EQA Framework include:

- This Guidance document;
- Annual declaration of interests pro-forma;
- Pre-review declaration of interests and confidentiality agreement;
- EQA Checklist;
- Stakeholder Questionnaire;
- Template Report; and
- Continuous Improvement Feedback Template

2.3 The SLACIAG Management Committee (or sub-committee) will develop a recommended programme of reviews each year to ensure that all participating organisations comply with the requirement to undertake an EQA once every 5 years. SLACIAG have agreed

that an external assessment will, wherever possible, be undertaken once during each administration i.e once every four/five years. The framework can be used at any time by any member of SLACIAG to undertake periodic self-assessments.

3. Conflicts of Interest

3.1 Each participating authority's CAE, will be required to complete a periodic declaration for conflicts of interest. The returned declarations will be considered by the SLACIAG Management Committee when developing the programme of reviews for the following year.

3.2 It is the responsibility of the CAE of the assessment team to confirm any potential conflicts of interest within that team in respect of the assessment they have been allocated to undertake. To facilitate this, the pre-review declaration of interests and confidentiality agreement should be completed and signed by the members of the assessment team and discussed with the CAE of the Authority being assessed, prior to commencement of the assessment. Any difficulties arising, which cannot be resolved from within the assessment team, will be remitted to the SLACIAG Management Committee for consideration.

3.3 Wherever practical, the following criteria will be used in developing the annual programme of assessments:

- Each participating authority will be required to undertake one assessment and be assessed by another participating authority once every 4 years;
- Assessments will not be undertaken by neighbouring authorities;
- Authorities will not undertake an assessment and be subject to an assessment in the same year;
- Each CAE must declare any conflict of interest to the EQA Co-ordinator prior to any work being undertaken.

4. Moderation

4.1 A moderation panel will be elected annually from those participating authorities that are not included in that year's programme of assessments. Changes to the programme of assessments which happen during the year will require a change of membership of the moderation panel.

4.2 The responsibility and remit of the moderation panel will include the following:

- Review individual, or a sample of assessments undertaken during the year to ensure consistency of the process. A formal post review of EQA2 will be undertaken as in previous exercises in order to promote quality, consistency and added value to the process.
- Consider any disputes or other issues between the assessment team and the authority being assessed and make recommendations to resolve the matter. Should the recommendations of the moderation panel not be accepted by either party, the matter will be referred to the SLACIAG Management Committee for consideration. The participating authorities agree to abide by the final decision of the SLACIAG Management Committee.
- Make recommendations, where appropriate, which will improve this framework.

5. Assessment Team

5.1 It is part of the ethos of SLACIAG that opportunities should be exploited to develop our teams, and it is recognised that participation in the EQA assessments is a valuable way of doing this. As such it is encouraged that there is a mix of qualified and unqualified team members. Wherever possible at least one member of the assessment team will be qualified, subject to the resources available to the assessment team.

5.2 In all assessments the CAE of the authority undertaking the assessment will be the team lead, although this will not necessarily mean that they will participate in all stages of the assessment process.

5.3 The collective competency of the assessment team should be discussed in advance with the CAE of the Authority being assessed, who should use their judgement to assess whether the proposed team demonstrates sufficient competence. Any difficulties in agreeing the assessment team should be referred to the moderation panel.

5.4 The CAE undertaking the assessment may wish to seek advice from their professional indemnity insurers regarding participation in the external assessment process.

5.5 The CAE undertaking the review must take cognisance of the need that a formal visit to the Authority being assessed will be required, together with discussions with appropriate individuals including, but not limited to, the local audit team in order to obtain suitable assurance and then providing an informed opinion in the final report.

6. Assessment Process

6.1 The specific timing of the EQA assessment within the assessment year will be agreed between the CAE of the assessment team and the CAE of the authority being assessed. There will be no charge between authorities for undertaking the assessment. However,

a payment in respect of reasonable expenses could be agreed between the authorities, depending on proximity and anticipated duration of the assessment.

6.2 The authority being assessed will have undertaken a self-assessment either against the EQA Checklist Tool or the Local Government Application Note. The self-assessment will be cross-referenced to appropriate supporting evidence and submitted electronically to the assessment team's CAE. The EQA Checklist includes suggested evidence as an aid to completion of the checklist. The CAE of the authority being assessed is not required to submit all or any of this suggested evidence and may submit whatever evidence and explanations they consider are relevant.

6.3 The authority being assessed will compile a portfolio of evidence to be submitted to the assessment team's CAE, wherever possible, in electronic format. It is recognised that it may not be appropriate to release all supporting evidence for reasons of confidentiality, where this is the case a list of such evidence will be submitted along with the other evidence.

6.4 The assessment team will decide which key stakeholders they would like to survey, by way of the Stakeholder Questionnaire. It is recommended that the CAE of the authority being assessed is advised of the stakeholders being requested to complete the questionnaire.

6.5 The assessment team will review the completed self-assessment, the responses to the Stakeholder Questionnaires and the portfolio of evidence. The assessment team will, thereafter, undertake a site visit. During the site visit the assessment team will undertake whatever investigations they require in order to conclude on the assessment. It is anticipated that this would include:

- Discussion with the CAE;
- Discussion with team members;
- Review of any 'confidential' evidence;
- Discussions with key stakeholders.

6.6 The assessment team will review the evidence available for each test on the EQA Checklist and complete the assessment section of each test. At the end of each assessment section, the assessment team should conclude whether the authority being reviewed fully conforms, generally conforms, partially conforms or does not conform with the requirements of that section of the PSIAS. The definitions below should be used to conclude on the assessment of each section:

Fully conforms – The assessment team concludes that the internal audit activity fully complies with all aspects of the PSIAS and the Application Note. All tests have been concluded as satisfactory and areas of good practice are likely to have been identified.

Generally conforms – The assessment team concludes that the internal audit activity has the relevant structures, policies, and procedures in place and these are applied in practice in all material respects. The majority of tests have been concluded as satisfactory and there is at least partial conformance in others. General conformance does not require complete / perfect conformance. Some areas of good practice and some minor areas of improvement may have been identified.

Partially conforms – The assessment team concludes that the internal audit activity is making efforts to comply with the requirements, is aware of the areas for development but falls short in some material respects. Some tests will have identified material areas for improvement.

Does not conform – The assessment team concludes that the internal audit activity is not aware of and is not making efforts to comply with the requirements. The majority of tests will have identified significant opportunities for improvement. The deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management and the Board of the authority being assessed.

6.7 The overall conclusion for the assessment is a matter of judgement, based on the conclusions from each assessed section. Whilst it may not be necessary to have every single element in place to obtain a fully compliant opinion, any material deficiency must be regarded as non-compliant and it will be up to the assessor to make that evidence based judgement.

7. Reporting

7.1 It is expected that the CAE of the assessment team will meet with the CAE of the authority being assessed to discuss the outcome of the assessment.

7.2 Where both parties are in agreement in all material respects regarding the outcome of the assessment, both CAE's should sign the EQA Checklist. Thereafter, the draft report should be prepared. A template report is provided with this EQA Framework in order to aid consistency.

7.3 There may be some benefit in the assessment team meeting with the Senior Management or the Chair of the Board, where there are recommendations that it is considered they should take forward.

7.4 The report should be issued as draft to the CAE of the authority being assessed for completion of the action plan. On completion of the action plan the report should be issued as final.

7.5 The report should be presented to the Senior Management Team and the Board, the CAE of the authority being assessed may wish to invite the CAE of the assessment team to attend such meetings to answer questions or present the report.

8. Continuous Improvement

8.1 It is important to get feedback on the EQA Framework and the supporting toolkit. As part of the post review process, feedback can be provided to the EQA Co-ordinator who will collate experiences and suggested areas for improvement. .

8.2 It is anticipated that feedback will be reported collectively and will inform any future EQA development in relation to the framework and toolkit. Amendments to the framework and supporting toolkit will be approved by a meeting of the SLACIAG members before the implementation of any material changes.

9. Commitment by Participating Authorities

9.1 SLACIAG agreed to introduce a scheme where member local authorities could voluntarily participate in a scheme of independent validated self-assessment. This scheme allowed compliance with the PSIAS, together with minimising costs to participating local authorities and maintaining an independent approach to the systematic review of each participating authority.

9.2 There will be no costs associated with the services provided to participating authorities. Where an authority that has received benefits of a review but then fails to provide a similar service to another matched authority without justification, this may result in the authority no longer being able to participate in the scheme going forward. The scheme is primarily founded on mutual trust and it is important that those authorities signing up to participation consider, in advance, the resource and staffing requirements that will be required.

9.3 It is important that any anticipated problems are highlighted as soon as practicable to the EQA Co-ordinator in order that alternative arrangements can be made.