

## The Highland Council

Audit and Scrutiny Committee – 19<sup>th</sup> June 2014

Agenda Item	6
Report No	AS/10/14

### Compliance with the Public Sector Internal Audit Standards

#### Report by Head of Internal Audit & Risk Management

##### Summary

This report refers to a review of the extent to which the Council's Internal Audit Section complies with the new Public Sector Internal Audit Standards and the steps being taken to ensure compliance.

## 1. Introduction

- 1.1 From 1<sup>st</sup> April 2013, new Public Sector Internal Audit Standards (PSIAS), hereafter referred to as "the Standards," came into effect which were jointly developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). The Standards have replaced the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK as the mandatory guidance and provide a coherent and consistent internal audit framework for the whole of the public sector.
- 1.2 The Internal Audit Section has previously used the CIPFA Code of Practice to undertake an annual review of best practice as part of the Section's wider benchmarking activity. The results of this were last reported to the Audit & Scrutiny Committee on 26<sup>th</sup> September 2013 and this showed that the Section was 99% compliant with the Code, complying with 190 of the 192 best practice questions posed on the Code of Practice checklist.
- 1.3 CIPFA has prepared a Local Government Application Note and a Checklist for Assessing Conformance with the Standards in order to evaluate the effectiveness of Internal Audit's performance. The Checklist, which contains 334 best practice questions, has now been completed in order to provide an annual assessment for 2013/14. This is provided at **Appendix 1**.

## 2. Differences between the CIPFA Code of Practice and the Standards

- 2.1 At the meeting on 26<sup>th</sup> September 2013, Members were informed that although there were broad similarities between the previous CIPFA Code and the new Standards, there were some key changes, with the most significant being as follows:
  - (i) The Standards introduce a requirement for external quality assessments to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
  - (ii) The Head of Internal Audit & Risk Management (*referred to in the Standards as "the Chief Audit Executive"*) may state that the internal audit activity conforms to the Standards only if the results of the quality assurance and improvement programme support this statement. These results are based upon internal and external assessments. Therefore, in addition to the external assessment referred to at (i) above, internal assessments consisting of on-

going monitoring of performance and periodic self-assessment by other persons within the organisation with sufficient knowledge of internal audit practices are required. The completion of the Checklist is therefore a key element of the required internal assessment.

- (iii) Any non-conformance with the Standards and the impact must be disclosed to senior management and the Audit & Scrutiny Committee (*referred to in the Standards as “the board”*).

### **3. Consulting services**

3.1 The Standards provide a definition of Internal Auditing as follows:

*“Internal auditing is an independent, objective and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

3.2 With regard to consulting services, the CIPFA Local Government Application Note states that, in addition to providing an independent and objective opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control, *“Internal Audit may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.”* Consulting services are defined as *“advisory and related client service activities, the nature and scope are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility.”* The Standards require that approval is sought from the Audit & Scrutiny Committee for any significant additional consulting activities not already included in the audit plan, prior to accepting the engagement.

3.3 There are various questions regarding “consulting services” within the attached checklist and, therefore, it is important to clarify the extent to which these are performed within the Highland Council. In this respect:

- Internal Audit provides advice and guidance on matters of governance or control on an ad-hoc basis which does not result in the compilation of a subsequent report. It is considered that the provision of such advice and guidance does not constitute a “consulting service.”
- There may also be occasions when management or Members have requested Internal Audit to undertake a review on a matter which would be of interest to the Audit & Scrutiny Committee or one which would be of relevance to the Head of Internal Audit & Risk Management’s Statement on Internal Control. On that basis, and with the subsequent approval of the Audit & Scrutiny Committee, this work would be added to the Audit Plan. Again, this does not fall within the definition of a “consulting service” as such work would be undertaken on the same basis as any other planned Internal Audit work. A recent example of this is the review of the governance of Inverness Old Town Arts which was added to the Audit Plan during 2013/14.

3.4 Work which is considered to be within the definition of a “consulting service” is as follows:

- The review of Linnhe Leisure’s financial position which was undertaken between

February 2013 and July 2013. This work was requested by the Adult & Children's Services Committee and subsequent reports were for their interest rather than for the interest of the Audit & Scrutiny Committee.

- A review requested by management which would be of specific interest to the Service concerned only and which would result in a "management report" rather than a report to the Audit & Scrutiny Committee. Although there are no recent examples of such work, reference to this would be made within the Head of Internal Audit & Risk Management's quarterly activity report to the Audit & Scrutiny Committee.

In view of the above, there is currently very little audit work which falls within the definition of "consulting services."

#### 4. Areas of non-compliance with the Standards

4.1 The appended Checklist has been completed to show the individual areas where Internal Audit fully complies, partially complies and does not comply with the requirements of the Standards and the Application Note. From this, the following conclusions can be drawn:

- Overall, Internal Audit is predominantly compliant with the new Standards. Of the 334 best practice lines, there is compliance with 253 (76%) requirements; partial compliance with 48 (14%) requirements and non-compliance with 33 (10%) requirements. As highlighted in Sections 1.2 and 1.3 above, there are an additional 142 requirements arising from the new Standards in comparison with the CIPFA Code, therefore this level of non-compliance or partial compliance would be expected.

	Y	P	N	
<b>1. Definition of Audit Risk</b>	3	0	0	
<b>2. Code of Ethics</b>	13	0	0	
<b>3. Attribute Standards</b>				
1000 Purpose, Authority and Responsibility	12	11	0	
1100 Independence and Objectivity	25	3	1	
1200 Proficiency and Due Professional Care	19	2	0	
1300 Quality Assurance and Improvement Programme	11	1	15	
<b>4. Performance Standards</b>				
2000 Managing the Internal Audit Activity	33	8	5	
2100 Nature of Work	31	0	0	
2200 Engagement Planning	37	18	3	
2300 Performing the Engagement	20	2	0	
2400 Communicating Results	44	2	9	
2500 Monitoring Progress	3	1	0	
2600 Communicating the Acceptance of Risks	2	0	0	
<b>Total</b>	<b>253</b>	<b>48</b>	<b>33</b>	<b>334</b>
	76%	14%	10%	

- The main areas of non-compliance or partial compliance are in respect of the following:

- Standard 1000: Purpose, Authority and Responsibility

Internal Audit has an Audit Charter which defines its purpose, authority and responsibility. The Charter was last revised in September 2013 and approved by the Audit & Scrutiny Committee. Although this was amended

to make reference to the new Standards, the Application Note shows that further detail is required.

- Standard 1100: Independence and Objectivity  
The Standards expect feedback to be sought from the Chair of the Audit & Scrutiny Committee in respect of the Chief Audit Executive's performance appraisal. At present, this appraisal is performed solely by the Director of Finance.
- Standard 1300: Quality Assurance and Improvement Programme
  - The Standards require that a Quality Assurance and Improvement Programme (QAIP) is developed which covers all aspects of the internal audit activity and enables conformance with all aspects of the Standards to be evaluated. The completion of this Checklist is an important element of the QAIP as are the various performance targets and measures that are currently in place to monitor Internal Audit's activities. However, as yet, these haven't been formally set out in a QAIP document.
  - The Standards require an external assessment, at least once every five years and, in this respect, the Checklist asks various questions regarding the performance and reporting of that assessment. The need for an external assessment within this timeframe has been recognised and reported previously to this Committee. For information, measures are being put in hand through the Scottish Chief Internal Auditor's Group to provide for reciprocal assessments.
- Standard 2000: Managing the Internal Audit Activity  
With regard to assurance mapping, the Standards make reference to documenting this process as part of the audit planning process and also taking into consideration the reliance on other assurance providers when compiling the Statement on Internal Control. At the last meeting of the Audit & Scrutiny Committee, on 27<sup>th</sup> March 2014, it was reported that assurance mapping would be developed during the course of 2014/15 in order to ensure that the Council's processes comply with best practice.
- Standard 2200: Engagement Planning  
Assignment Plans or Terms of Reference are prepared for each audit engagement which are issued to the respective client officers. However, the Standards require additional detail to be provided.
- Standard 2400: Communicating Results  
The Standards require confirmation, on an individual engagement basis, that these are conducted in accordance with the requirements of the Standards. Where any non-conformance with the Standards impacts on a specific engagement, this needs to be highlighted and explained in the audit report.

## **5. Impact of non-compliance and steps to be taken to ensure compliance.**

- 5.1 As referred to at Section 2.1(iii) above, any non-conformance with the Standards and the impact must be disclosed to senior management and the Audit & Scrutiny

Committee. In terms of the review that has been undertaken, this confirms that the impact is not significant, that Internal Audit complies with the Standards in all significant areas and operates independently and objectively. This position is therefore reflected within the Statement on Internal Control and Annual Report which is provided as a separate agenda item.

5.2 An action plan will be drafted to respond to the areas of partial compliance and non-compliance for consideration by this Committee at the next meeting in September.

## **6. Implications**

6.1 There are no resource, legal; equalities; climate change/carbon clever; risk, rural and Gaelic implications as a direct result of this report.

### **Recommendation**

Members are asked to:

- (i) Consider the attached assessment in terms of areas of compliance, partial compliance and non-compliance.
- (ii) Note that the current areas of partial compliance or non-compliance do not impact significantly on the ability to demonstrate overall compliance with the Standards.
- (iii) Note that an action plan will be presented to the next meeting to ensure fuller compliance with the Standards in due course.

Designation: Head of Internal Audit & Risk Management

Date: 9<sup>th</sup> June 2014

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## CHAPTER FOUR

# Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note

This checklist has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents.

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Evidence for each response must be provided and reasons for any partial or full non-conformance should be given, together with any compensating measures in place or actions in progress to address this.

Ref	Conformance with the Standard	Y	P	N	Evidence
1	<b>Definition of Internal Auditing</b>				
	Using evidence gained from assessing conformance with other Standards, is the internal audit activity:				Section 1 below provides a summary of the evidence obtained from an assessment of compliance with the Attribute Standards (Section 3) and the Performance Standards (Section 4).
	a) Independent?	✓			The CAE reports directly to the Director of Finance who is a member of the Executive Leadership Team. In addition, the Audit Charter gives the CAE direct access and freedom to report to the Chief Executive and senior management. The CAE also has direct

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Objective?	✓			<p>access and reports in his own name to the Audit &amp; Scrutiny Committee.</p> <p>All auditors are required to declare any issues that would affect their independence and objectivity in performing individual reviews in order that any conflicts are avoided.</p> <p>The CAE presents all audit reports and the Statement on Internal Control in his own name.</p> <p>All audit reviews are appropriately supervised and managed to ensure that work is performed objectively.</p> <p>As above, all auditors are required to declare any issues that would affect their independence and objectivity in performing individual reviews in order that any conflicts are avoided.</p>
	Using evidence gained from assessing conformance with other Standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓			The Audit Manual ensures a systematic and disciplined approach.
<b>2</b>	<b>Code of Ethics</b>				
	<p><b>Integrity</b></p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors:</p> <p>a) Perform their work with honesty, diligence and responsibility?</p> <p>b) Observe the law and make disclosures expected by the law and the profession?</p>	<p>✓</p> <p>✓</p>			<p>Qualified staff and staff undergoing professional training are bound by the respective Code of Ethics of their professional body</p> <p>The CAE is not aware of any issues which bring this into question</p> <p>The CAE is not aware of any issues which bring this into question</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
	<p>c) Not knowingly partake in any illegal activity nor engage in in acts that are discreditable to the profession of internal auditing or to the organisation?</p> <p>d) Respect and contribute to the legitimate and ethical objectives of the organisation?</p>	<p>✓</p> <p>✓</p>			<p>The CAE is not aware of any issues which bring this into question. If any concern arose, this would be investigated in terms of the Council's Disciplinary Procedures.</p> <p>The CAE is not aware of any issues which bring this into question. Through their work, auditors are responsible for reinforcing ethical behaviour across the Council.</p>
	<p><b>Objectivity</b></p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not:</p> <p>a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?</p> <p>b) Accepting anything that may impair or be presumed to impair their professional judgement?</p> <p>c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?</p>	<p>✓</p> <p>✓</p> <p>✓</p>			<p>The CAE is not aware of any issues which bring this into question</p> <p>The Council has a Code of Conduct for Employees which governs the receipt of gifts and hospitality. The CAE is not aware of any issues which brings this into question</p> <p>The CAE is not aware of any issues which bring this into question. This is ensured by appropriate supervision and management</p>
	<p><b>Confidentiality</b></p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:</p> <p>a) Acting prudently when using information acquired in the course of their duties and protecting that information?</p> <p>b) Not using information for any personal gain or in any manner that</p>	<p>✓</p> <p>✓</p>			<p>The CAE is not aware of any issues which bring this into question</p> <p>The CAE is not aware of any issues which bring this into question. If any concern arose, this would be</p>



Ref	Conformance with the Standard	Y	P	N	Evidence
	would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?				investigated in terms of the Council's Disciplinary Procedures.
	<p><b>Competency</b></p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:</p> <p>a) Only carrying out services for which they have the necessary knowledge, skills and experience?</p> <p>b) Performing services in accordance with the PSIAS?</p>	✓			<p>This is considered when audit engagements are assigned to individual auditors.</p> <p>Audit staff are aware of the PSIAS and the requirement to comply with these. The action plan arising from the completion of this checklist will reinforce the PSIAS.</p>
	c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?	✓			The Council's Employee Review & Development process assists in supporting CPD requirements.
	Do internal auditors have regard to the on Standards of Public Life's <i>Seven Principles of Public Life</i> ?	✓			The seven principles are referred to within the Council's Code of Conduct for Employees.
	<b>Standards</b>				
<b>3</b>	<b>Attribute Standards</b>				
<b>3.1</b>	<b>1000 Purpose, Authority and Responsibility</b>				
	<p>Does the internal audit charter include a formal definition of:</p> <p>a) the purpose</p> <p>b) the authority, and</p> <p>c) the responsibility</p>	<p>✓</p> <p>✓</p> <p>✓</p>			See Internal Audit Charter

Ref	Conformance with the Standard	Y	P	N	Evidence
	of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?				
<b>LGAN</b>	Does the internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity? Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.	✓			
<b>LGAN</b>	Does the internal audit charter also: a) Set out the internal audit activity's position within the organisation? b) Establish the CAE's functional reporting relationship with the board? c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively?	✓	✓		Requires clarity within the Charter that the CAE reports in own name to the A&S Committee. Also clarity within the Charter as to what the A&S Committee should approve (as provided within the Scheme of Delegation)  The Standards require the Charter to set out who the CAE reports to functionally and administratively. Further clarification is required within the Charter.
<b>LGAN</b>	d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit? e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	✓	✓		The responsibilities of the A&S Committee are set out in the Scheme of Delegation but not the Charter. There is no reference to the roles of the statutory officers with regard to internal audit.
<b>LGAN</b>	f) Define the scope of internal audit activities?	✓			
<b>LGAN</b>	g) Recognise that internal audit's remit extends to the entire control		✓		The Charter refers to "the Council's control environment." Clarify further.

Ref	Conformance with the Standard	Y	P	N	Evidence
	environment of the organisation?				
LGAN	h) Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011?	✓			N/A
LGAN	i) Establish the organisational independence of internal audit?		✓		The Charter refers to the CAE having direct access and freedom to report to the CX and senior management. Clarity required that CAE reports in own name to Directors and A&S Committee but reports administratively to the Director of Finance.
	j) Cover the arrangements for appropriate resourcing?		✓		The Charter requires the CAE to report on progress against the audit plan to be reported to the A&S Committee. Such progress reports are provided which refer to any resourcing issues.
	k) Define the role of internal audit in any fraud-related work?		✓		The Charter refers to the investigation of "any suspected fraud or irregularity." Clarification required as to the role of the Council's Fraud Investigation Team.
	l) Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?		✓		Such policies exist but they are not referred to within the Charter.
	m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	✓			Internal Audit does not undertake non-audit activity.
	n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?		✓		No reference to assurances provided to parties outside the organisation.
	o) Define the nature of consulting services?		✓		Reference is made to the consultancy role of Internal Audit but further explanation is required.

Ref	Conformance with the Standard	Y	P	N	Evidence
	p) Recognise the mandatory nature of the PSIAS?		✓		The Charter makes explicit reference to the PSIAS and states that the PSIAS require a Charter. Further explanation required in the Charter that the PSIAS are mandatory.
	Does the chief audit executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	✓			Previously reviewed by the A&S Committee on 26/09/2013
	Does the CAE attend audit committee meetings?	✓			See A&S Committee agendas, minutes and webcast
	Does the CAE contribute to audit committee agendas?	✓			The CAE contributes to agenda planning and to individual Committee agendas
<b>3.2</b>	<b>1100 Independence and Objectivity</b>				
	Does the CAE have direct and unrestricted access to senior management and the board?	✓			Referred to in the Audit Charter
	Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?	✓			Referred to in the Audit Charter
	Are threats to objectivity identified and managed at the following levels:				
	a) Individual auditor?		✓		All audit staff responsible for declaring any conflicts of interest through Declaration of Independence forms. Suggest that this is considered annually as part of Employee Review & Development process.
	b) Engagement?		✓		See above
	c) Functional?	✓			Direct reporting by the CAE to the A & S Committee ensures that there is no threat to objectivity.
	d) Organisation?	✓			See above

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>1110 Organisational Independence</i>				
	Does the CAE report to an organisational level equal or higher to the corporate management team?	✓			To Director of Finance who is a member of the Executive Leadership Team.
<b>LGAN</b>	Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	✓			See above
<b>LGAN</b>	Have reporting and management arrangements been put in place that preserves the CAE's independence and objectivity? This is of particular importance when the CAE is line managed by another officer of the authority.	✓			See above
<b>LGAN</b>	Does the CAE's position in the management structure: <ul style="list-style-type: none"> <li>a) Reflect the influence he or she has on the control environment?</li> <li>b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board?</li> <li>c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?</li> </ul>	✓ ✓ ✓			<p>This is reflected within the Charter and within the Council's Financial Regulations.</p> <p>The CAE contributes to Audit &amp; Scrutiny Committee agenda planning and submits reports in his own name. The CAE has delivered training to Members on Internal Audit and has led a review of the Effectiveness of the Audit &amp; Scrutiny Committee, using the Cipfa template.</p>
	Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:  The board:	✓			Included within annual report and will also be provided in the Charter when this is revised.

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) approves the internal audit charter				
	b) approves the risk-based audit plan				
	c) approves the internal audit budget and resource plan				
	d) receives communications from the CAE on the activity's performance (in relation to the plan, for example)				
	e) approves decisions relating to the appointment and removal of the CAE				
	f) seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.				
	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	✓			The CAE attends Quarterly Performance Reviews with the Chief Executive. An annual Employee Review & Development meeting is held with the Director of Finance.
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			✓	
	<i>1111 Direct Interaction with the Board</i>				
	Does the CAE communicate and interact directly with the board?	✓			Reports in own name and acts as the lead officer
	<i>1120 Individual Objectivity</i>				
	Do internal auditors have an impartial, unbiased attitude?	✓			Dictated by standards and codes of ethics of respective professional bodies
	Do internal auditors avoid any conflict of interest, whether apparent or		✓		Audit manual provides appropriate guidance and assignments are rotated as far as possible to avoid

Ref	Conformance with the Standard	Y	P	N	Evidence
	actual?				over-familiarity. Declaration of Independence forms are completed by all audit staff. It is recognised that these need to be updated annually.
	<i>1130 Impairment to Independence or Objectivity</i>				
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	✓			N/A
	Have internal auditors assessed specific operations for which they have been responsible within the previous year?	✓			The answer is “no” but is a “yes” with regard to compliance with the Standards.
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	✓			This will need to be considered further in due course in order to audit the Council’s risk management arrangements.
<b>LGAN</b>	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	✓			As far as possible.
<b>LGAN</b>	Have internal auditors declared interests in accordance with organisational requirements?	✓			Declaration of Independence forms. These will be updated annually.
<b>LGAN</b>	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?	✓			Staff are aware of the requirements of the Council's Code of Conduct for Employees which does not allow the acceptance of gifts or hospitality. There have been no known instances of staff accepting such benefits.
<b>LGAN</b>	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	✓			The answer is “no” but is a “yes” with regard to compliance with the Standards. Any such instance would be dealt with in terms of the Council’s Disciplinary Procedures.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	✓			All working papers and reports are reviewed to ensure that all material facts are reported.
LGAN	Have internal auditors complied with the Bribery Act 2010?	✓			Staff have an awareness of the requirements of the Bribery Act
	If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?	✓			Consulting engagements are rare. Such an issue has never occurred
	Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	✓			No significant additional consulting services outwith those identified within the audit plan
<b>3.3</b>	<b>1200 Proficiency and Due Professional Care</b>				
	<i>1210 Proficiency</i>				
	Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	✓			CMIIA
	Is the CAE suitably experienced?	✓			Approximately 30 years within Internal Audit
LGAN	Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	✓			The CAE is involved in the recruitment of all staff and this follows the Council's Recruitment and Selection Procedures.
LGAN	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?		✓		Job descriptions exist for all levels of staff which refer to the qualifications, competencies, skills etc required. However, it is recognised that these need to be revised, particularly with a view to future recruitment exercises.



Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	✓			The Employee Review & Development process ensures that training/knowledge gaps are identified and addressed.
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?	✓			There are very few instances where this has happened but appropriate advice and assistance would be sought.
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	✓			Staff have received appropriate anti-fraud training
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	✓			A dedicated computer audit team is in place.
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	✓			Staff trained in ACL (Audit Command Language) data analysis software and EXCEL.
	<i>1220 Due Professional Care</i>				
	Do internal auditors exercise due professional care by considering the:				
	a) Extent of work needed to achieve the engagement's objectives?	✓			The Audit Manual refers to the importance of planning each engagement. A Terms of Reference is drafted for each engagement which is signed off by the Principal Auditor & Risk Manager or the Computer Auditor and the Head of Internal Audit & Risk Manager.
	b) Relative complexity, materiality or significance of matters to which assurance procedures are applied?	✓			Ongoing supervision and weekly team meetings enable such matters to be considered
	c) Adequacy and effectiveness of governance, risk management and	✓			As above

Ref	Conformance with the Standard	Y	P	N	Evidence
	control processes?				
	d) Probability of significant errors, fraud, or non-compliance?	✓			As above
	e) Cost of assurance in relation to potential benefits?	✓			As above
	Do internal auditors exercise due professional care during a consulting engagement by considering the:				Consulting engagements are very rare
	a) Needs and expectations of clients, including the nature, timing and communication of engagement results?	✓			
	b) Relative complexity and extent of work needed to achieve the engagement's objectives?	✓			
	c) Cost of the consulting engagement in relation to potential benefits?	✓			
	<i>1230 Continuing Professional Development</i>				
<b>LGAN</b>	Has the CAE defined the skills and competencies for each level of auditor?		✓		See 1210 above. Job descriptions exist for all levels of staff which refer to the qualifications, competencies, skills etc. required. However, it is recognised that these need to be revised, particularly with a view to future recruitment exercises.
<b>LGAN</b>	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	✓			As part of annual Employee Review & Development process.
	Do internal auditors undertake a programme of continuing professional development?	✓			CPD training requirements are discussed as part of the annual Employee Review & Development process. CPD is also a requirement of the various professional bodies of which audit staff are members.
	Do internal auditors maintain a record of their professional development	✓			As part of the Employee Review & Development process.

Ref	Conformance with the Standard	Y	P	N	Evidence
	and training activities?				
<b>3.4</b>	<b>1300 Quality Assurance and Improvement Programme</b>				
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?			✓	A performance management and quality assurance programme was in place which complied with the requirements of the Cipfa Code of Practice. As the PSIAS provide a new set of standards a QAIP will need to be developed.
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?			✓	See above
	Does the CAE maintain the QAIP?			✓	See above
<b>LGAN</b>	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	✓			N/A
	<i>1310 Requirements of the Quality Assurance and Improvement Programme</i>				
	Does the QAIP include both internal and external assessments?			✓	See above – a QAIP will be developed
	<i>1311 Internal Assessments</i>				
<b>LGAN</b>	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	✓			Work is allocated by the respective managers (Audit & Risk Manager and the Computer Auditor) in consultation with the CAE.
	Do internal assessments include ongoing monitoring of the internal audit activity, such as:				

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) Routine quality monitoring processes?  b) Periodic assessments for evaluating conformance with the PSIAS?	✓		✓	All work is subject to quality review by the respective manager. The CAE reviews all reports.  Annual assessments have previously been undertaken in respect of the previous standards and will be undertaken annually in respect of the PSIAS.
<b>LGAN</b>	Does ongoing performance monitoring include comprehensive performance targets?	✓			Performance targets are in place in respect of the internal audit service as a whole.
<b>LGAN</b>	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?			✓	Performance targets are determined by the Head of Internal Audit & Risk Management in accordance with professional guidance.
<b>LGAN</b>	Does the CAE measure, monitor and report on progress against these targets?	✓			Reported to the Audit & Scrutiny Committee
<b>LGAN</b>	Does ongoing performance monitoring include obtaining stakeholder feedback?	✓			Stakeholder feedback is sought at the end of each review and is summarised and reported to the Audit & Scrutiny Committee annually.
	Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?  Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.			✓	This is a new requirement. Self-assessments against the previous Cipfa Standards have been carried out annually by the Audit & Risk Manager.
<b>LGAN</b>	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	✓			Reviews of activity against the audit plan are provided routinely to the Audit & Scrutiny Committee.
	<i>1312 External Assessments</i>				
	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	✓			It is planned to carry out an external assessment at least once in every 5 years. This was confirmed in a

Ref	Conformance with the Standard	Y	P	N	Evidence
					report to the Audit & Scrutiny Committee on 26/09/13 (agenda item 6).
<b>LGAN</b>	Has the CAE considered the pros and cons for the different types of external assessment (ie 'full' or self-assessment plus 'independent validation')?	✓			Has been subject to discussion at the Scottish Local Authorities Chief Internal Auditors Group.
	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?		✓		Outline discussions have taken place with the Chair of the Audit & Scrutiny Committee.
<b>LGAN</b>	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?			✓	Will be discussed in due course once options and proposals are developed.
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?			✓	Will be discussed in due course once options and proposals are developed.
	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? Competence can be determined in the following ways: a) experience gained in organisations of similar size b) complexity c) sector (ie the public sector) d) industry (ie local government), and e) technical experience. Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.			✓	Will be considered in due course.
	How has the CAE used his or her professional judgement to decide			✓	Will be considered in due course

Ref	Conformance with the Standard	Y	P	N	Evidence
	whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?				
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.			✓	Will be considered in due course
	<i>1320 Reporting on the Quality Assurance and Improvement Programme</i>				
	Has the CAE reported the results of the QAIP to senior management and the board?  Note that:  a) the results of both external and periodic internal assessment must be communicated upon completion			✓	Assessment not yet completed
	b) the results of ongoing monitoring must be communicated at least annually  c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.				
	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?			✓	Assessment not yet completed
	<i>1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'</i>				
	Has the CAE stated that the internal audit activity conforms with the			✓	The extent of compliance, following the completion of

Ref	Conformance with the Standard	Y	P	N	Evidence
	PSIAS only if the results of the QAIP support this?				this checklist, will be considered when the CAE prepares the annual report for 2013/14
	<i>1322 Disclosure of Non-conformance</i>				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board?	✓			The completion of this checklist is the first check against the PSIAS. This checklist, highlighting any areas of non-compliance, will be reported to the Audit & Scrutiny Committee.
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	✓			See above – this will be considered.
<b>4</b>	<b>Performance Standards</b>				
<b>4.1</b>	<b>2000 Managing the Internal Audit Activity</b>				
	Do the results of the internal audit activity's work achieve the purposes and responsibility of the activity, as set out in the internal audit charter?	✓			This is achieved through the completion of the audit plan, together with wider fraud and advisory work and is reported to the Audit & Scrutiny Committee.
	Does the internal audit activity conform with the <i>Definition of Internal Auditing</i> and the <i>Standards</i> ?	✓			As referred to within the Internal Audit Charter.
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the <i>Code of Ethics</i> and the <i>Standards</i> ?	✓			The requirement to conform to the Code of Ethics and the Standards is referred to within the Internal Audit Manual.
	Does the internal audit activity add value to the organisation and its stakeholders by  a) Providing objective and relevant assurance?	✓			a) The Annual Audit Plan takes into consideration the organisation's objectives. All audit reports give a clear opinion with regard to the level of assurance that can be provided

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes?				b) Audit reports consider effectiveness and efficiency; risk management and internal control.
	<i>2010 Planning</i>				
	Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	✓			Annual Audit Plan which takes account of the Programme for the Highland Council (Working together for the Highlands)
	Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?	✓			In addition to the Plan providing for audits of key financial systems and corporate governance assurance, the Plan provides for specific work on the Statement on Internal Control which provides the opinion.
	Does the risk-based plan take into account the organisation's assurance framework?		✓		Although the Plan takes account of the assurance framework, it is recognised that this needs to be developed further.
	Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:  a) How the internal audit service will be delivered?  b) How the internal audit service will be developed in accordance with the internal audit charter?  c) How the internal audit service links to organisational objectives and priorities?		✓	✓  ✓	The report to A&S Committee which accompanies the Plan refers to the audit service being delivered in accordance with the Standards.
	Does the risk-based plan set out how internal audit's work will identify and	✓			The preparation of the Plan provides for discussion with each Service Director thus allowing the



Ref	Conformance with the Standard	Y	P	N	Evidence
	address local and national issues and risks?				opportunity to consider local and national issues for incorporation therein. The Plan for 2014/15 provides evidence of national issues, e.g. Scottish Welfare Fund; Workforce Planning Arrangements (following a national report prepared by Audit Scotland).
	In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?	✓			The meetings with held with each Service Director consider their Service Risks and any Corporate Risks that are their responsibility.
	If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	✓			The CAE's judgement is used in addition to the input from senior management and the Audit & Scrutiny Committee.
<b>LGAN</b>	Does the risk-based plan set out the:  a) Audit work to be carried out?  b) Respective priorities of those pieces of audit work?  c) Estimated resources needed for the work?	✓  ✓  ✓	  ✓  		An outline scope is provided for each audit engagement.  These are prioritised by the CAE, particularly work to support the Statement on Internal Control, however these are not shown within the Plan.  The estimated number of days for each engagement is provided.
<b>LGAN</b>	Does the risk-based plan differentiate between audit and other types of work?	✓			The Plan differentiates between planned audit work; follow up reviews and scrutiny work. Reference is also made within the Plan to provision being made for fraud and irregularity work.
<b>LGAN</b>	Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?	✓			The Plan provides for a contingency to provide for unknown events. If during the course of the year it was felt necessary to amend the Plan, proposals would be submitted to the A&S Committee for consideration and approval.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	✓			See above. The Plan was amended during 2013/14 in response to concerns expressed by Members regarding Inverness Arts – this was later added to the Plan.
	Is the internal audit activity's plan of engagements based on a documented risk assessment?	✓			Records are held of the annual planning meetings held with Service Directors. In addition, the rationale behind the Plan is documented further.
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?	✓			See above
<b>LGAN</b>	In developing the risk-based plan, has the CAE also considered the following: a) Any declarations of interest (for the avoidance for conflicts of interest)? b) The requirement to use specialists, eg IT or contract and procurement auditors? c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary?		✓		Any declarations of interest would be considered at the point of each individual audit engagement. It is recognised that the Declaration of Interest forms should be completed annually.  In house Computer Audit team in place. Staff have received procurement /contract training but would obtain specialist advice from within the organisation if this was needed.  Contingency time is provided for within the Plan for such matters.
	d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	✓			Time is provided within the Plan for audit management which includes preparation of the Plan, reporting to the A&S Committee, staff meetings, Employee Review & Development meetings and any other similar matters.
	Is the input of senior management and the board considered in the risk assessment process?	✓			Risk registers are discussed at the annual audit planning meetings.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?	✓			Meetings are held with all Service Directors, the Chief Executive, the Chair and Vice Chair of A&S and Audit Scotland.
	Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	✓			Such engagements would be taken into account during the preparation of the Plan but there are no planned consulting engagements in respect of 2014/15. If any arise during the course of the year, these will be reported to the A&S Committee, after proper consideration of the extent to which these may add value.
	Are consulting engagements that have been accepted included in the risk-based plan?	✓			See above
	<i>2020 Communication and Approval</i>				
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?		✓		The Plan is provided to senior management in advance of the A&S meeting and is then presented to A&S Committee for review and approval. The Plan does not provide the resource requirements as these are dictated by the staffing budget provided to the CAE.
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	✓			In respect of 2013/14 the CAE reported on the changes to the Plan during the course of the year in view of ongoing resourcing issues. These changes were approved by the A&S Committee.
	Has the CAE communicated the impact of any resource limitations to senior management and the board?	✓			In respect of the 2013/14 Plan the CAE reported on the resource limitations but gave assurance to the A&S Committee that work would be prioritised, ensuring that work which had a direct impact on the Statement on Internal Control would be completed.
	<i>2030 Resource Management</i>				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?			✓	As referred to above, resources are set by the budget given to the CAE. These resources are benchmarked with other local authorities to ensure these are reasonable. The demands for audit time have, historically, always exceeded those available so engagements are prioritised. Any engagements not incorporated within the Plan would be undertaken if time allowed or would be carried forward to the following year.
<b>LGAN</b>	Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time?	✓			The timing of engagements is discussed and agreed with Service Directors at audit planning meetings. However, the timing of audits of the main financial systems needs to be at the end of each year in order to sample test transactions from each month.
<b>LGAN</b>	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.	✓			See above
	<i>2040 Policies and Procedures</i>				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	✓			Internal Audit Manual.
<b>LGAN</b>	Has the CAE established policies and procedures to guide staff in performing their duties in a manner than conforms to the PSIAS? Examples include maintaining an audit manual and/or using electronic management systems.	✓			Internal Audit Manual which provides the strategy, policy and operations of the Audit Section and a Galileo User Manual which details the procedures in respect of the electronic Audit Management System (Galileo).
<b>LGAN</b>	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2050 Coordination</i>				
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?			✓	It is recognised that assurance mapping needs to be developed further which will assist in addressing this requirement.
<b>LGAN</b>	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?			✓	See above
	Does the CAE share information and coordinate activities with other internal and external providers of assurance and consulting services?		✓		Information is shared and activities are coordinated with Audit Scotland. Audit Scotland coordinate the Assurance and Improvement Programme which details the work of the other inspection agencies. This needs to be developed in respect of Integrating Care.
<b>LGAN</b>	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans?	✓			Regular meetings are held with Audit Scotland.
	<i>2060 Reporting to Senior Management and the Board</i>				
	Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?		✓		The CAE provides a quarterly activity report to the Audit & Scrutiny Committee and, therefore, this report is available to senior management. The report provides details as to the progress against the Audit Plan and refers to any other relevant issues arising. The Plan does not refer to the purpose, authority and responsibility of Internal Audit as this is detailed within the Charter.
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters	✓			The CAE's activity report picks up on any such issues.

Ref	Conformance with the Standard	Y	P	N	Evidence
	needed or requested by senior management and the board?				
	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?		✓		Reports are quarterly – as dictated by the Committee cycle.
	<i>2070 External Service Provider and Organisational Responsibility for Internal Auditing</i>				
	Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	✓			N/A
<b>4.2</b>	<b>2100 Nature of Work</b>				
	Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and internal control processes?	✓			N/A
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	✓			N/A
	<i>2110 Governance</i>				
	Does the internal audit activity:				Through the completion of the audit plan, communication of findings to management and reporting to the Audit & Scrutiny Committee. In addition, the CAE is the author of the Council's Financial Regulations and has contributed to the

Ref	Conformance with the Standard	Y	P	N	Evidence
	<p>a) Promote appropriate ethics and values within the organisation?</p> <p>b) Ensure effective organisational performance management and accountability?</p> <p>c) Communicate risk and control information to appropriate areas of the organisation?</p> <p>d) Coordinate the activities of and communicate information among the board, external and internal auditors and management?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			Council's Code of Conduct for Employees which refers to the behaviours expected of staff.
	Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing the above objectives?	✓			Through individual audit assignments and through the CAE's Annual Statement on Internal Control.
	<p>Has the internal audit activity evaluated the:</p> <p>a) design</p> <p>b) implementation, and</p> <p>c) effectiveness</p> <p>of the organisation's ethics-related objectives, programmes and activities?</p>	<p>✓</p> <p>✓</p> <p>✓</p>			Audit work considers the Council's objectives and priorities.
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	✓			IT governance is included within the Annual Audit Plan and is reported in the CAE's Annual Statement on Internal Control
<b>LGAN</b>	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of	✓			Various competing demands and priorities are considered when drafting the Annual Audit Plan.

Ref	Conformance with the Standard	Y	P	N	Evidence
	the organisation when developing the risk-based plan?				
	<i>2120 Risk Management</i>				
	<p>Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that:</p> <p>a) Organisational objectives support and align with the organisation's mission?</p> <p>b) Significant risks are identified and assessed?</p> <p>c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?</p> <p>d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>This is considered as part of the CAE's Annual Statement on Internal Control. In addition audit reviews of risk management are planned every 3 years.</p>
	<p>Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems regarding the:</p> <p>a) Achievement of the organisation's strategic objectives?</p> <p>b) Reliability and integrity of financial and operational information?</p> <p>c) Effectiveness and efficiency of operations and programmes?</p> <p>d) Safeguarding of assets?</p> <p>e) Compliance with laws, regulations, policies, procedures and</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>As part of the annual planning process, through the performance of individual audit reviews and through the Statement on Internal Control checklist.</p>



Ref	Conformance with the Standard	Y	P	N	Evidence
	contracts?				
	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	✓			Considered as part of annual audit planning. Internal Audit is responsible for the Council's anti-fraud and anti-corruption strategy.
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	✓			According to the nature of the individual audit review.
	Are internal auditors alert to other significant risks when undertaking consulting engagements?	✓			Consulting engagements are a rare occurrence but this would be considered.
	Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?	✓			The responsibility for risk management sits with the CAE but this is delegated to one member of staff (the Audit & Risk Manager). This role does not include the management of individual risks but, instead, the process as a whole (nb the Audit & Risk Manager does not "own" any risks).
	<i>2130 Control</i>				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the:  a) Achievement of the organisation's strategic objectives?  b) Reliability and integrity of financial and operational information?  c) Effectiveness and efficiency of operations and programmes?  d) Safeguarding of assets?  e) Compliance with laws, regulations, policies, procedures and contracts?	✓  ✓  ✓  ✓  ✓			The CAE provides an Annual Statement on Internal Control which covers such matters.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	✓			As referred to above, Consulting engagements are a rare occurrence but this would be considered
<b>4.3</b>	<b>2200 Engagement Planning</b>				
	Do internal auditors develop and document a plan for each engagement?	✓			Terms of Reference are produced for each engagement.
	Does the engagement plan include the engagement's:				
	a) Objectives?	✓			
	b) Scope?	✓			
	c) Timing?			✓	But sometimes referred to in the email accompanying the Terms of Reference
	d) Resource allocations?	✓			Shown as the budgeted number of days
	Do internal auditors consider the following in planning an engagement, and is this documented:				The information provided on the Terms of Reference document will vary according to the nature of the engagement and this is reflected in the response below.
	a) The objectives of the activity being reviewed?	✓			
	b) The means by which the activity controls its performance?		✓		
	c) The significant risks to the activity being audited?	✓			
	d) The activity's resources?		✓		
	e) The activity's operations?		✓		

Ref	Conformance with the Standard	Y	P	N	Evidence
	f) The means by which the potential impact of risk is kept to an acceptable level?  g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model?  h) The opportunities for making significant improvements to the activity's governance, risk management and control processes?	   ✓	 ✓	✓	
	Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:  a) Objectives?  b) Scope?	 ✓  ✓			Refers to High Life Highland and Assessors only.  Terms of Reference are issued  Terms of Reference are issued
	c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?			✓	
	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:  a) Objectives?  b) Scope?  c) The respective responsibilities of the internal auditors and the client and other client expectations?	 ✓  ✓  ✓			As referred to above, consulting engagements are rare.

Ref	Conformance with the Standard	Y	P	N	Evidence
	For significant consulting engagements, has this understanding been documented?	✓			This would be documented.
	<i>2210 Engagement Objectives</i>				
	Have objectives been agreed for each engagement?	✓			Provided within the Terms of Reference for each engagement.
	Have internal auditors carried out a preliminary risk assessment of the activity under review?		✓		Dependent upon the nature of the review
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?	✓			As above, where applicable.
	Have internal auditors considered the probability of the following, when developing the engagement objectives: a) Significant errors? b) Fraud? c) Non-compliance? d) Any other risks?	✓ ✓ ✓ ✓			Considered when preparing the Terms of Reference.
	Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished?		✓		This would be dependent upon the nature of the audit engagement
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?		✓		

Ref	Conformance with the Standard	Y	P	N	Evidence
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?		✓		
<b>LGAN</b>	If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been considered; including money, people and assets?		✓		
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	✓			As referred to above, consulting engagements are rare. However, the terms of reference for such work would be agreed with the client and would address such matters as considered necessary.
	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?	✓			
	<i>2220 Engagement Scope</i>				
	Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives?	✓			Terms of Reference document refers to scope and objectives of each engagement. This is agreed with the client prior to the engagement.
	Does the engagement scope include consideration of the following relevant areas of the organisation: a) Systems? b) Records? c) Personnel? d) Premises?	✓	✓ ✓ ✓		The Terms of Reference refer to the systems. Other areas are recorded as deemed appropriate.
	Does the engagement scope include consideration of the following				

Ref	Conformance with the Standard	Y	P	N	Evidence
	<p>relevant areas under the control of outside parties, where appropriate:</p> <p>a) Systems?</p> <p>b) Records?</p> <p>c) Personnel?</p> <p>d) Premises?</p>	✓	✓ ✓ ✓		As above
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	✓			Consulting work has not arisen through assurance engagements but through other means.
	Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?	✓			Consulting work has not arisen through assurance engagements but through other means.
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives?	✓			
	If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?	✓			N/A
	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	✓			
	During consulting engagements, were internal auditors alert to any significant control issues?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2230 Engagement Resource Allocation</i>				
	<p>Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on:</p> <p>a) The nature and complexity of each individual engagement?</p> <p>b) Any time constraints?</p> <p>c) The resources available?</p>		<p>✓</p> <p>✓</p> <p>✓</p>		<p>The Audit Plan refers to the required resources for each engagement, based upon the undernoted three factors. These are considered further when preparing the Terms of Reference for each engagement.</p>
	<i>2240 Engagement Work Programme</i>				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives?	✓			Work programmes are prepared for each engagement once the Terms of Reference have been agreed.
	<p>Do the engagement work programmes include the following procedures for:</p> <p>a) Identifying information?</p> <p>b) Analysing information?</p> <p>c) Evaluating information?</p> <p>d) Documenting information?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			Appropriate procedures are provided in the Audit Manual and the Galileo User Manual.
	Were work programmes approved prior to implementation for each engagement?	✓			Approved by the appropriate Manager
	Were any adjustments required to work programmes approved promptly?	✓			Discussed at weekly team meetings and approved by the appropriate manager.

Ref	Conformance with the Standard	Y	P	N	Evidence
4.4	<b>2300 Performing the Engagement</b>				
	Have internal auditors carried out the following in order to achieve each engagement's objectives:				Reviews of working papers, matters for discussion summaries, draft audit reports and final audit reports are reviewed by the appropriate manager. The CAE reviews all audit reports.
	a) Identify sufficient information?	✓			
	b) Analyse sufficient information?	✓			
	c) Evaluate sufficient information?	✓			
	d) Document sufficient information?	✓			
	<i>2310 Identifying Information</i>				
	Have internal auditors identified the following in order to achieve each engagement's objectives:				As above, reviews of working papers, matters for discussion summaries, draft audit reports and final audit reports are reviewed by the appropriate manager. The CAE reviews all audit reports.
	a) Sufficient information?	✓			
	b) Reliable information?	✓			
	c) Relevant information?	✓			
	d) Useful information?	✓			



Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2320 Analysis and Evaluation</i>				
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	✓			Requirement to comply with Internal Audit Manual and review of work by appropriate manager.
<b>LGAN</b>	Have internal auditors remained alert to the possibility of the following when performing their individual audits, and has this been documented?: a) intentional wrongdoing b) errors and omissions c) poor value for money d) failure to comply with management policy, and e) conflicts of interest	✓ ✓ ✓ ✓ ✓			Requirement to comply with Internal Audit Manual and review of work by appropriate manager
	<i>2330 Documenting Information</i>				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	✓			Working papers are reviewed by the appropriate manager to ensure that these are consistent with the report findings and conclusions.
<b>LGAN</b>	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?	✓			Requirements of working papers set out in Audit manual and Galileo User Manual.
	Does the CAE control access to engagement records?	✓			The CAE is responsible for the Audit management system (Galileo) which contains all engagement records. These are restricted to particular staff on a “need to know” basis.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?	✓			Any requests for information would be discussed with the Council's Freedom of Information Officer.
	Has the CAE developed and implemented retention requirements for all types of engagement records?		✓		Retention schedules under revision
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?		✓		Retention schedules under revision
	<i>2340 Engagement Supervision</i>				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	✓			Supervised by appropriate manager
	Is appropriate evidence of supervision documented and retained for each engagement?	✓			Supervision is recorded within Galileo in the form of review points and review of working papers.
<b>4.5</b>	<b>2400 Communicating Results</b>				
	Do internal auditors communicate the results of engagements?	✓			Matters for discussion meetings to "close off" all engagements and through draft and final reports.
	<i>2410 Criteria for Communicating</i>				
	Do the communications of engagement results include the following:				A standard report template is in place.
	a) The engagement's objectives?	✓			
	b) The scope of the engagement?	✓			
	c) Applicable conclusions?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	d) Recommendations and action plans, if appropriate?	✓			
LGAN	Has the internal auditor discussed the contents of the draft final report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	✓			Achieved through “matters for discussion” meetings which refer to all draft report findings. Also draft reports are issued with a view to confirming the factual accuracy, seeking comments and addressing the audit recommendations through agreed management actions.
LGAN	If recommendations and an action plan have been included, are recommendations prioritised according to risk?	✓			Recommendations are prioritised as high, medium and low.
LGAN	If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?	✓			The final audit report provides for timescales against the recommendations and actions.
LGAN	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	✓			These are rare but would be recorded in this manner.
LGAN	Do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?	✓			Reports provide for all material facts.
LGAN	Do the final communications of engagement results contain, where appropriate, the internal auditor’s opinions and/or conclusions, building up to the annual internal audit opinion on the control environment?	✓			An overall opinion is provided in each engagement report in the form of: full assurance; substantial assurance; reasonable assurance: limited assurance and no assurance. The opinions provided in these reports support the CAE's overall annual opinion.
	When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	✓			The opinion is communicated in the draft report and may be subject to discussion but this remains the opinion of the CAE which is evidenced by the results of the work performed.

Ref	Conformance with the Standard	Y	P	N	Evidence
	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information?	✓			Opinions are supported by the report findings and conclusions which are backed up by the detailed working papers.
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	✓			Areas of good practice and areas where the engagement objectives have been achieved are acknowledged within each report.
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	✓			Engagement results are reported to the Audit & Scrutiny Committee and are in the public domain. Some limited exceptions apply where reports are considered in private and, in these cases, information requested through FOI requests would be redacted.
<b>LGAN</b>	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?			✓	Relevant to HLH and Assessors.
	<i>2420 Quality of Communications</i>				
	Are communications:				Achieved through compliance with the Internal Audit Manual and managerial review.
	a) Accurate?	✓			
	b) Objective?	✓			
	c) Clear?	✓			
	d) Concise?	✓			
	e) Constructive?	✓			
	f) Complete?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	g) Timely?	✓			
	<i>2421 Errors and Omissions</i>				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	✓			This hasn't occurred as draft reports are issued which allow any factual inaccuracies, errors or omissions to be identified and corrected
	<i>2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'</i>				
	Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?			✓	This is a new requirement
	<i>2431 Engagement Disclosure of Nonconformance</i>				
	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results?			✓ ✓ ✓	As above, this is a new requirement As above, this is a new requirement As above, this is a new requirement
	<i>2440 Disseminating Results</i>				
	Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	✓			The circulation is defined at the start of each audit engagement and is set out in the Terms of Reference. This is on a "need to know" basis. Final

Ref	Conformance with the Standard	Y	P	N	Evidence
					reports are issued to the appropriate Director. The Audit Manual refers to the process for requests for audit reports and considers the requirement to comply with FOI legislation.
	Has the CAE communicated engagement results to all appropriate parties?	✓			Communicated through Matters for Discussion meetings, draft reports and final reports.
	Before releasing engagement results to parties outside the organisation, did the CAE:  a) Assess the potential risk to the organisation?  b) Consult with senior management and/or legal counsel as appropriate?  c) Control dissemination by restricting the use of the results?	✓  ✓  ✓			Any requests for audit reports would be considered in terms of FOI legislation and would be discussed and agreed with the responsible officer.
	Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	✓			Although consulting engagements are rare, these issues would be reported accordingly.
	<i>2450 Overall Opinion</i>				
	Has the CAE delivered an annual internal audit opinion?	✓			An annual Statement on Internal Control is completed
	Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control?	✓			
	Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?			✓	The Statement on Internal Control provides the opinion of the CAE. Expectations of other stakeholders will be considered further when assurance mapping is developed.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	✓			Built up from different sources of evidence including: planned work during the year; testing of key financial systems and use of a specific checklist.
	Does the communication identify the following:				
	a) The scope of the opinion, including the time period to which the opinion relates?	✓			
	b) Any scope limitations?	✓			
	c) The consideration of all related projects including the reliance on other assurance providers?			✓	To be developed further as part of assurance mapping
	d) The risk or control framework or other criteria used as a basis for the overall opinion?			✓	To be developed further as part of assurance mapping
	Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?	✓			Such an opinion has not been provided previously but, if one was to be provided, the reasons would be stated.
	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	✓			The Statement on Internal Control is referred to within the Corporate Governance Assurance Statement.
	Does the annual report incorporate the following:				An annual report is prepared which accompanies the Statement on Internal Control.
	a) The annual internal audit opinion?	✓			
<b>LGAN</b>	b) A summary of the work that supports the opinion?	✓			
<b>LGAN</b>	c) A disclosure of any qualifications to the opinion?	✓			As above. Qualifications have not been provided previously but would be disclosed if appropriate.
<b>LGAN</b>	d) The reasons for any qualifications to the opinion?	✓			As above. Qualifications have not been provided previously but would be disclosed if appropriate

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	e) A disclosure of any impairments or restriction in scope?	✓			
LGAN	f) A comparison or work actually carried out with the work planned?			✓	Any work not carried out is reported throughout the year to the Audit & Scrutiny Committee.
	g) A statement on conformance with the PSIAS?	✓			To be provided with effect from the 2013/14 Statement on Internal Control.
LGAN	h) The results of the QAIP?		✓		A performance management and quality assurance programme was in place which complied with the requirements of the Cipfa Code of Practice. As the PSIAS provide a new set of standards a QAIP will need to be developed.
LGAN	i) Progress against any improvement plans resulting from the QAIP?		✓		As above
LGAN	j) A summary of the performance of the internal audit activity against its performance measures and targets?	✓			
	k) Any other issues that the CAE judges is relevant to the preparation of the governance statement?	✓			
4.6	<b>2500 Monitoring Progress</b>				
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action?	✓			All management actions are followed up, either by way of specific follow up audits or through routine "action tracking." The results of this are reported to the Audit & Scrutiny Committee.
	Where issues have during the follow-up process, has the CAE considered revising the internal audit opinion?		✓		Where specific follow up reviews are undertaken this enables the opinion provided previously to be revised.
	Do the results of monitoring management actions inform the risk-based planning of future audit work?	✓			Would be considered as part of the following year's audit plan.



Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	✓			Consulting engagements are rare but it would be ensured that any actions are monitored.
<b>4.7</b>	<b>2600 Communicating the Acceptance of Risks</b>				
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	✓			Although this has not happened previously, such discussions would take place.
	If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	✓			Although this has not happened previously, such discussions would take place.