

## The Highland Council

Audit and Scrutiny Committee – 2<sup>nd</sup> March 2017

Agenda Item	3
Report No	AS/1/17

### External Assessment of Compliance with the Public Sector Internal Audit Standards (PSIAS)

#### Report by the Corporate Audit Manager

##### Summary

This report presents the report containing the External Quality Assessment of the Highland Council's compliance with the PSIAS requirements. Colin McDougall, West Dumbartonshire Council's Audit and Risk Manager undertook this Assessment and will attend Committee to present his report and answer any questions from Members.

#### 1. Background

- 1.1 As previously reported to Members, the Public Sector Internal Audit Standards (PSIAS) came into effect from 01/04/13 and compliance with these was reinforced by the Local Authority Accounts (Scotland) Regulations which came into effect on 10/10/14.
- 1.2 The PSIAS requires an External Quality Assessment (EQA) is performed at least once every five years by a qualified independent assessor or assessment team from outside the organisation. It was previously agreed that this would be undertaken through the Scottish Local Authorities Chief Internal Auditors Group (SLACAIG) which developed a standard EQA framework for use within the Group. This arrangement ensures that the assessment is undertaken by an appropriately qualified external assessor and for the Highland Council this assessment was undertaken by the Audit & Risk Manager from Dumbartonshire Council.

#### 2. External Assessment

- 2.1 The report from the External Quality Assessment is attached as **Appendix 1**. The overall conclusion is that the Internal Audit service **Generally Conforms** with the PSIAS. The checklist at Appendix A of the report summarises conformance with the PSIAS against the 13 assessment areas and each of these is graded under: Fully Conforms/ Generally Conforms/ Partially Conforms/ Does Not Conform. This shows that for the 13 assessment areas there are 7 areas which met the criteria for Fully Conforms and 6 were Generally Conforms. Where there are areas where full conformance has not been achieved, recommendations have been made to address these. This information is contained within the action plan together with the management agreed actions at section 3 of the report.

### **3. Implications**

- 3.1 Risk - Failure to comply with the PSIAS could result in: non-compliance with the Local Authority Accounts (Scotland) Regulations 2014; the inability to provide the necessary assurances within the annual Internal Audit report and the Annual Governance Statements. Also this could attract adverse criticism from External Audit regarding the quality of the Internal Audit service within the Council.

There are no Resource; Legal; Equalities; Climate Change/Carbon Clever; Gaelic and Rural implications arising from this report.

#### **Recommendation**

The Committee is invited to consider this report.

Designation: Corporate Audit Manager

Date: 17<sup>th</sup> February 2017

Author: Donna Sutherland, Corporate Audit Manager

Background Papers:



SCOTTISH LOCAL AUTHORITIES

Chief Internal Auditors' Group

## The Highland Council



## EXTERNAL QUALITY ASSESSMENT

### OF THE

## INTERNAL AUDIT SERVICE

## Final Report

17<sup>th</sup> February 2017

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<b>Date of Visits</b>	<b>26<sup>th</sup> August 2016 and 9<sup>th</sup> &amp; 10<sup>th</sup> November 2016</b>
<b>Draft Report Issued</b>	<b>6<sup>th</sup> February 2017</b>
<b>Management Response Received</b>	<b>15<sup>th</sup> February 2017</b>
<b>Final Report Issued</b>	<b>17<sup>th</sup> February 2017</b>

<b>Issued to:</b>	
<b>Derek Yule</b>	<b>Director of Finance</b>
<b>Evelyn Johnston</b>	<b>Corporate Audit and Performance Manager</b>
<b>Donna Sutherland</b>	<b>Corporate Audit Manager</b>
<b>Cllr Richard Laird</b>	<b>Chair of Audit and Scrutiny Committee</b>

## 1. EXECUTIVE SUMMARY

### 1.1 Background

#### Introduction

1.1.1 This report has been prepared following a review of compliance with the Public Sector Internal Audit Standards (PSIAS) 2013 and the International Professional Practices Framework (IPPF) on which PSIAS has been based. The purpose of this report is to provide an overview of The Highland Council's (THC's) arrangements for the operation and management of its Internal Audit service.

1.1.2 PSIAS applies to all internal audit service providers, whether in-house, shared services or outsourced. Indeed, it should be acknowledged that internal audit within public bodies in Scotland became a statutory function on 10 October 2014, which brings Scotland into line with the rest of the United Kingdom. PSIAS contains the following definition:

*“Internal auditing is an independent, objective assurance 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”.*

1.1.3 PSIAS requires, as outlined in Standard 1300 “Quality Assurance and Improvement Programme”, that:

*“External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation”.*

1.1.4 To meet this requirement, a reciprocal arrangement to complete a programme of inspections has been developed by the Scottish Local Authorities Chief Internal Auditors’ Group (SLACIAG) within Scotland. This process has identified West Dunbartonshire Council (WDC) as the Authority to undertake the independent review of the level of compliance with PSIAS by THC’s Internal Audit function.

1.1.5 This report details the findings from the External Quality Assessment (EQA) undertaken in the period August 2016 to February 2017 by the Chief Internal Auditor of WDC.

### 1.2 Scope

1.2.1 The purpose of this EQA is to provide an independent assessment of the extent to which the Internal Audit Service within THC complies with PSIAS.

1.2.2 The methodology for this EQA, takes the form of a validated self-assessment. As such, we have undertaken the following work in arriving at our opinion:

- A review of the latest self-assessment and supporting evidence provided by the Chief Audit Executive (CAE) – see Note below;
- canvassed the opinions of key stakeholders such as Chair of the Audit Committee, Directorate, and Chief Executive;
- completed a series of tests using a standard checklist; and

- completed a review of guidance and process documents and a sample of files (See Appendix B).

Note: The Chief Audit Executive (CAE) is the terminology used by PSIAS to describe a senior person responsible for effectively managing the internal audit activity in accordance with the Internal Audit Charter and the *Definition of Internal Auditing* and the *Code of Ethics and Standards*. The CAE or others reporting to the CAE will have appropriate professional certifications and qualifications. The specific job title of the CAE may vary across organisations. The post within THC which is the CAE is the Corporate Audit Manager.

- 1.2.3 As part of our review of the internal audit service, we issued questionnaires to a sample of key stakeholders using the service. This included the Chair of the Audit and Scrutiny Committee (ASC). The confidential responses were sent to the review team. A sample questionnaire can be seen at Appendix C of the report.
- 1.2.4 All of the questionnaires were returned and provided useful feedback in relation to the Internal Audit function within THC.

#### Limitations

- 1.2.5 We have not undertaken any specific work to assess the effectiveness of the Council's Audit Committee as this was not required in order to assess the function's level of compliance with PSIAS. Our view as to the extent of compliance with PSIAS cannot be taken as any assurance on the strength of the control environment. It should also be noted that this report does not include detailed findings from the sample file reviews undertaken but these findings have been used to support our recommendations for improvements.

### **1.3 Areas of Good Practice Identified**

- 1.3.1 Fully qualified Corporate Audit Manager (CAE) with extensive local authority experience;
- 1.3.2 Internal Audit staff who are enthusiastic, experienced and able to provide a professional service;
- 1.3.3 A robust planning methodology in evidence on which the annual Audit Plan is based;
- 1.3.4 Regular and comprehensive reporting of activity to the ASC;
- 1.3.5 The ability of External Audit to place reliance on the work of Internal Audit; and
- 1.3.6 Substantial compliance with PSIAS and IPPF.

### **1.4 Conclusion and Main Findings**

- 1.4.1 The overall conclusion is arrived at following completion of the comprehensive EQA Checklist and, based on the work we have undertaken, it is our opinion that the Internal Audit Service within THC **generally conforms** with the PSIAS. As detailed at Appendix A there are however many areas within the Standards where the function can demonstrate that it is fully compliant with the requirements of PSIAS.
- 1.4.2 Verbal enquiries have confirmed that, as an internal audit function, significant consulting engagements are not routinely undertaken. Areas within the assessment, in relation to such activity, were therefore not assessed.
- 1.4.3 Aside from an overall compliance with PSIAS, our review has nonetheless highlighted areas where improvements could be made. Some of the issues identified

for improvement were minor in nature, with only a few more significant areas being identified, namely:

- Development of a formal assurance mapping process to support the overall Statement of Assurance at the financial year-end; and
- Amending the annual report to include a number of key statements required by PSIAS.

The areas for improvements identified are detailed in full at Section 3 (Action Plan). Completion of all of these actions would then enable the Corporate Audit Manager of THC to be in a position to report full compliance with PSIAS.

- 1.4.4 Whilst the recommendations are made for the Corporate Audit Manager to consider and action, Council senior management and members of the ASC need to recognise that in order to deliver these, they will all have a role to play, especially in relation to the support they can give regarding resource allocations to the Internal Audit Service and their expectations of the number of days required as they support and facilitate Internal Audit in the improvement actions detailed.

## **2. DETAILED FINDINGS AND RECOMMENDATIONS**

The findings are detailed below under each heading within the checklist.

### **2.1 Section A: Definition of Internal Auditing**

- 2.1.1 The internal audit function within THC is considered to **fully conform** with the PSIAS definition detailed at paragraph 1.1.2 above. This definition is contained within the Internal Audit Charter.

### **2.2 Section B: Code of Ethics**

- 2.2.1 Within this area there was strong evidence of a culture that supports internal auditors within the team, as managed by the Corporate Audit Manager (CAE), to perform work with honesty, diligence, responsibility and objectivity.
- 2.2.2 The Internal Audit function of THC is considered to **fully conform** to this Assessment Area.

### **2.3 Section C: Attribute Standards**

#### **1000 Purpose, Authority and Responsibility**

**The standard sets out that the purpose, authority and responsibility of the internal audit activity must be defined in an Internal Audit Charter. It should define the nature of assurance services and consulting activities as well as internal audit's position in the organisation and relationships between the Chief Audit Executive and the Board.**

- 2.3.1 The Internal Audit Charter is clear, concise and easy to follow in both its terminology and presentation. Paragraph 8.1 (ii) of the Audit Charter states that the Corporate Audit Manager is "professionally accountable" to the Director of Finance. It is important that regular meetings take place between the Corporate Audit Manager and the Director of Finance (see Action Plan – point 1). It would also be helpful if a structure chart were added to the Audit Charter in order to explain the various reporting lines, direct and indirect, of Internal Audit across the organisation (see Action Plan – point 2).

- 2.3.2 Beyond the specific requirements of PSIAS, there are opportunities arising from recent restructures, which have brought the audit and performance functions together, to make better use of the information gathered from audit activity in order to consider performance improvements and service re-design aspects. This is likely to further increase the profile of internal audit across the organisation through identifying suggestions for service improvement that go beyond the traditional governance and assurance roles that are already recognised to be effective (see Action Plan – point 3).
- 2.3.3 The internal audit function within THC is considered to **generally conform** in terms of its purpose, authority and responsibility.

#### **1100 Independence and Objectivity**

**The standard sets out the organisational and reporting lines expected to promote and preserve the organisational independence of the internal audit activity. It also sets out the arrangements expected to achieve individual objectivity and for dealing with potential and actual conflicts of interest.**

- 2.3.4 The organisational independence of the internal audit function within THC is clearly evident.
- 2.3.5 The annual Audit Plan should confirm that there are sufficient resources to deliver the programme of audit assignments and confirm that there are no significant threats to the independence of the internal audit activity such as inappropriate scope or resource limitations, re-confirming this position as part of the Annual Report (see Action Plan – point 4).
- 2.3.6 It should be noted that the Corporate Audit Manager undertakes a six-monthly review of corporate risks, although this is not part of her remit. Otherwise, appropriate arrangements are in place to manage conflicts of interest within the function (see Action Plan – point 5).
- 2.3.7 The internal audit function within THC is considered to **generally conform** in terms of its independence and objectivity.

#### **1200 Proficiency and Due Care**

**The standard sets out the necessary requirements to ensure that the internal audit team possesses the knowledge, skills and other competencies to effectively carry out their professional responsibilities applying due professional care.**

- 2.3.8 The CAE holds a relevant professional qualification and stakeholder questionnaires have confirmed that the CAE is suitably experienced. Recent structural changes have resulted in the Head of Audit and Risk Management retiring, with the post being deleted and a new post of Corporate Audit and Performance Manager being created, so that there is now an Audit & Performance Section within the Finance Directorate. This does offer the opportunity to enhance performance management and link with financial management and best value reviews. The Charter states that the CAE reports to the Corporate Audit and Performance Manager for all operational and management issues but has professional accountability to the Director of Finance in recognition of his role as Section 95 Officer. It should be noted that the Corporate Audit and Performance Manager does not hold a recognised accountancy or audit qualification, and she has not previously worked in an internal audit environment until August 2016. The PSIAS requires that the CAE has regular access to an organisational level equal or higher to the Executive Leadership Team (ELT). This could be demonstrated by the CAE meeting with the Director of Finance on a regular basis to discuss Internal Audit matters. However, this does not occur and it has been



acknowledged that the Charter needs to be updated to reflect the actual arrangements in place. (see Action Plan – point 1).

2.3.9 Processes are in place to demonstrate due professional care and Job Profiles exist for all employees within the function with the exception of the Auditor (ICT). This should be prepared in the interests of completeness and so as to fully evidence compliance with PSIAS (see Action Plan – point 6).

2.3.10 The internal audit function within THC is considered to **generally conform** in terms of its proficiency and due care.

#### **1300 Quality Assurance and Improvement Programme**

**The standard sets out the necessary requirements for the internal and external assessment of performance and compliance against PSIAS, including the arrangements for reporting on results and disclosure of non-performance.**

2.3.11 Arrangements are in place to monitor the performance of the internal audit function within THC and this is in evidence throughout the audit process and the reporting of such to the ASC.

2.3.12 The Standard requires the CAE to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the Internal Audit activity and report this at least annually to senior management and the Audit Committee. These arrangements are in place.

2.3.13 The internal audit function within THC is considered to **fully conform** in terms of its Quality Assurance and Improvement Programme.

## **2.4 Section D: Performance Standards**

#### **2000 Managing the internal audit activity**

**The standard sets out the necessary requirements for the overall management of the internal audit activity, the preparation of the risk based Audit Plan including delivery and reporting of the Audit Plan**

2.4.1 A robust planning methodology was in evidence from which the annual Audit Plan is prepared. The only area for improvement in this area would be to develop a more formal assurance mapping processes to assess the organisation's overall assurance framework and use this to inform the Plan and the overall audit opinion. PSIAS requires such an approach to be developed and that this is documented. Benefits accrue from placing reliance on output from other assurance providers by avoiding duplication of effort (see Action Plan – point 7).

2.4.2 The Annual Audit Plan (the Plan) is approved by the ASC but it is not formally communicated to the ELT. In order to comply with PSIAS, the Plan should be communicated to and noted by the ELT on a formal basis and approved by the ASC. The Plan should also confirm that there are no resource limitations that have constrained the contents of the Plan (see Action Plan – point 8).

2.4.3 The Audit Manual is comprehensive and competently covers the objective and processes of the internal audit function and was last reviewed in November 2016.

2.4.4 Regular reports are provided to the ASC that are informative and relevant. As mentioned at paragraph 2.3.2, opportunities exist to make better use of the information gathered from audit activity in order to consider performance

improvements and service re-design aspects within Audit reports (see Action Plan – point 3).

2.4.5 Although meetings between internal audit and external audit do take place from time to time, holding such meetings more frequently would enhance the opportunity to discuss key issues more regularly and minimise any duplication of effort (see Action Plan – point 9).

2.4.6 The internal audit function within THC is considered to **generally conform** in terms of managing the internal audit activity.

#### **2100 Nature of work**

**The standard sets the internal audit activity that needs to be undertaken to evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.**

2.4.7 From an examination of Staffing Structures, the Audit Plan and Audit Reports, the internal audit function within THC is considered to **fully conform** in terms of the nature of its work.

#### **2200 Engagement Planning**

**The standard sets the requirements necessary to develop and plan for each engagement including the objectives, scope, timing and resource allocations.**

2.4.8 Based on the sample of individual audits examined, the internal audit function within THC is considered to **fully conform** with the Engagement Planning standards.

#### **2300 Performing the Engagement**

**The standard sets the requirements necessary to gather, document, analyse and evaluate evidence to achieve the engagement objectives. Supervision arrangements and records management are also covered.**

2.4.9 The requirements to gather, document, analyse and evaluate evidence to achieve the engagement objectives were confirmed verbally or through a sample review of files.

2.4.10 The internal audit function within THC is considered to **fully conform** with Performing the Engagement standards.

#### **2400 Communicating Results**

**The standard sets the requirements necessary for the communication of results for individual engagements and the overall annual opinion.**

2.4.11 The annual report should provide an opinion as to the overall adequacy of the effectiveness of the organisation's framework of governance, risk management and control. The audit opinion currently used is limited to comments on the control framework. Therefore the "Audit Opinion" should be expanded to include each of these areas (see Action Plan – point 10).

2.4.12 The Assurance Statement should take into account the work of other assurance providers and evidence to support this reliance should be developed as part of an assurance mapping process that, in turn, informs THC's Governance Statement (see Action Plan – point 11).

2.4.13 The internal audit function within THC considered to **generally conform** in terms of communicating results.

### **2500 Monitoring Progress**

**The standard sets out the expected arrangement for monitoring the implementation of agreed actions or the acceptance of the risk of not implementing.**

- 2.4.14 A process is in place for monitoring the delivery of audit actions and reporting of such to the ELT and the ASC.
- 2.4.15 This process aims to ensure clear communication of unacceptable levels of risk. The internal audit function within THC is therefore considered to **fully conform** in terms of monitoring progress.

### **2600 Communicating the Acceptance of Risk**

**The standard sets out the expected arrangement for the escalation of unacceptable risk to the Board.**

- 2.4.16 There are no issues to report. The internal audit function within THC is considered to **fully conform** in terms of communicating the acceptance of risk.

We would like to thank all staff and Elected Members of THC for the co-operation and goodwill we received during the course of our review.

Colin McDougall, B.A. (Hons.), C.A.,  
Audit and Risk Manager (Chief Internal Auditor).

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For and on behalf of:  
SLACIAG  
17<sup>th</sup> February 2017

### 3. ACTION PLAN

Ref. No.	Finding	Recommendation	Priority	Management Comment	Manager Responsible	Date to be Completed
1. (2.3.1 and 2.3.8)	<p>Paragraph 8.1 (ii) of the Audit Charter states that the Corporate Audit Manager is “professionally accountable” to the Director of Finance. This could be demonstrated by the CAE meeting with the Director of Finance on a regular basis to discuss Internal Audit matters. However, this does not occur and it has been acknowledged that the Charter needs to be updated to reflect the actual arrangements in place.</p> <p>On this basis, this does not fulfil a requirement within PSIAS of the CAE having regular access to an organisational level equal or higher to the Executive Leadership Team (ELT).</p>	<p>(a) The Audit Charter is updated to reflect the actual reporting arrangements in place.</p> <p>(b) Regular meetings take place as appropriate between the Corporate Audit Manager and the Director of Finance.</p>	2	<p>The approach to the restructure to an Audit &amp; Performance Team and its management was discussed and supported by Audit Scotland. There are no scheduled regular meetings but professional support for the CAE is available when required and this includes the ability to meet where considered necessary.</p> <p>The Internal Audit Charter will be amended to reflect the reporting and support arrangements in place.</p>	Director of Finance	31/03/18

<b>Ref. No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Comment</b>	<b>Manager Responsible</b>	<b>Date to be Completed</b>
2. (2.3.1)	The Audit Charter does not contain a structure chart – this would be beneficial to explain Internal Audit’s reporting lines across the organisation.	A structure chart should be added to the Audit Charter as an appendix in order to explain the various reporting lines, direct and indirect, of Internal Audit across the organisation.	3	This will be added when the Audit Charter is next reviewed.	Corporate Audit Manager	31/03/18
3. (2.3.2 and 2.4.4)	Opportunities have arisen from recent restructures, which have brought the audit and performance functions together, to go beyond the traditional governance and assurance roles that are already recognised to be effective.	Better use of the information gathered and reported from audit activity should be made in order to consider performance improvements and service re-design aspects identified from audit assignments.	2	This has already been recognised and arrangements are being put in place for a more collaborative approach between audit and performance. This will work both ways whereby information held by performance staff will be considered as part of the planning stage of individual assignments undertaken as part of the 2017/18 Audit Plan and where appropriate, the output from these assignments will be taken forward by the performance staff.	Corporate Audit Manager/  Corporate Audit & Performance Manager	31/03/17

<b>Ref. No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Comment</b>	<b>Manager Responsible</b>	<b>Date to be Completed</b>
4. (2.3.5)	The annual Audit Plan does not confirm that there are sufficient resources to deliver the programme of audit assignments and confirm that there are no significant threats to the independence of the internal audit activity such as inappropriate scope or resource limitations, re-confirming this position as part of the Annual Report.	The report accompanying the annual Audit Plan should confirm that there are sufficient resources to deliver the programme of audit assignments and confirm that there are no significant threats to the independence of the internal audit activity such as inappropriate scope or resource limitations. This position should be re-confirmed in the Internal Audit Annual Report.	2	<p>This will be confirmed in the covering report on the 2017/18 Audit Plan to the ASC on 02/03/17.</p> <p>This will be re-confirmed within the Annual Report which goes to the ASC on 26/06/17.</p>	Corporate Audit Manager	30/06/17

<b>Ref. No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Comment</b>	<b>Manager Responsible</b>	<b>Date to be Completed</b>
5. (2.3.6)	The Corporate Audit Manager undertakes a six-monthly review of corporate risks, although this is not part of her remit.	To eliminate a conflict of interest, responsibility for the six-monthly review of corporate risks should be carried out by another Officer.	2	As previously explained, the risk management responsibilities were transferred to the Performance Manager's post. However, Senior Management subsequently decided to leave this post vacant until 31/03/17 as part of the need to make budget savings. Therefore, the Corporate Audit manager agreed to continue with this task on an interim basis until the post is filled. It is hoped that this will be undertaken shortly, if not alternative arrangements will be put in place for the review of the corporate risks. We do not see this as a material conflict of interest.	Corporate Audit & Performance Manager	30/06/17
6 (2.3.9)	There is no specific Job Description for the role of Auditor (ICT).	A formal Job Description should be prepared for the post of Auditor (ICT).	2	This had already been recognised and the current Auditor's job description will be amended to reflect the changes required for the post of Auditor (ICT).	Corporate Audit Manager	31/03/17

<b>Ref. No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Comment</b>	<b>Manager Responsible</b>	<b>Date to be Completed</b>
7 (2.4.1)	Although assurance mapping is carried out, this would benefit from being done in a more structured manner.	A formal assurance mapping process should be developed which: <ul style="list-style-type: none"> <li>• Recognises key areas of assurance received by THC through either internal or external reviews;</li> <li>• Gathers data that records coverage and output; and</li> <li>• Is used as part of the assessment of the organisation's overall assurance framework each year and use to inform the content of the Audit Plan and the overall audit opinion.</li> </ul>	2	This has already been acknowledged and this task has been included in the Corporate Audit Manager's ERD plan for 2017/18.	Corporate Audit Manager	31/12/17
8 (2.4.2)	The Audit Plan is not formally presented each year to the ELT for noting and should confirm that there are no resource limitations that have constrained its contents.	The Audit Plan should be presented to the ELT each year and should confirm that there are no resource limitations that have constrained the contents of the Plan.	2	The 2017/18 Audit Plan will be communicated to the ELT prior to being presented to the ASC for approval on 02/03/17. This will confirm that there are no resource limitations.	Corporate Audit Manager	28/02/17



<b>Ref. No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Comment</b>	<b>Manager Responsible</b>	<b>Date to be Completed</b>
9 (2.4.5)	Although meetings between internal audit and external audit do take place from time to time, holding such meetings more frequently would enhance the opportunity to discuss key issues more regularly and minimise any duplication of effort.	Meetings between internal audit and external audit should be held on a regular (at least quarterly) basis.	3	Discussions will take place with Grant Thornton who have taken over as the Council's new External Auditors in order to agree an appropriate frequency for meetings.	Corporate Audit Manager	31/03/17
10 (2.4.11)	The Internal Annual Report does not provide an opinion as to the overall adequacy of the effectiveness of the organisation's framework of governance, risk management and control.	The opinion contained with the Internal Audit Annual report needs to express an opinion as to the overall adequacy of the effectiveness of the organisation's framework of governance, risk management and control.	2	This will be addressed within the 2016/17 Annual Report.	Corporate Audit Manager	30/06/17

Ref. No.	Finding	Recommendation	Priority	Management Comment	Manager Responsible	Date to be Completed
11 (2.4.12)	The Internal Audit Annual report does not take into account the work of other assurance providers and evidence to support this reliance should be developed as part of an assurance mapping process.	The Assurance Statement should recognise the work of other assurance providers. Evidence of output from external providers should be retained within the assurance mapping process.	2	As detailed at 7 above, the assurance mapping process will be developed and will include liaising with the Performance staff to establish what information is already held regarding other forms of assurance within the Council.  This will then be used when preparing the 2018/19 Audit Plan and the 2017/18 Annual Report.	Corporate Audit Manager	30/06/18














### Key to Grading of Recommendations

#### Priority:

1. Critical
2. Requires addressing
3. Housekeeping
4. Value for Money

SUMMARY OF CONFORMANCE WITH THE PSIAS

APPENDIX A

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	Definition of Internal Auditing				
Section B	Code of Ethics				
Section C	Attribute Standards				
1000	Purpose, Authority and Responsibility				
1100	Independence and Objectivity				
1200	Proficiency and Due Professional Care				
1300	Quality Assurance and Improvement Programme				
Section D	Performance Standards				
2000	Managing the internal Audit Activity				
2100	Nature of Work				
2200	Engagement Planning				

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
2300	Performing the Engagement				
2400	Communicating Results				
2500	Monitoring Progress				
2600	Communicating the Acceptance of Risks				

## **DOCUMENTAION AND RECORDS EXAMINED**

## **APPENDIX B**

Annual Governance Statement 2015/16

Audit Tracking Procedure

Anti-Fraud and Anti-Corruption Policy

Audit and Scrutiny Committee (ASC) – committee agendas, minutes and reports

Audit Team Job Descriptions

Client Audit Questionnaires

Declarations of Interest for Audit Team members

Documentation from sample of three audit files (including final reports)

External Quality Assessment: Self-Assessment Checklist

Financial Regulations

Galileo User Manual

Internal Audit Annual Report 2015/16

Internal Audit Plan 2016/17

Internal Audit Charter

Internal Audit Manual

Professional qualification documentation

Reporting and Escalation Protocol

Records Management Policy

Risk Management Strategy

Structure Charts

Training Records

## External Quality Assessment - Stakeholder Questionnaire

To ensure your Council's internal audit service conforms to the Definition of Internal Auditing, the Code of Ethics and the Public Sector Internal Audit Standards (PSIAS), external assessments must be carried out at least once every five years by a qualified, independent assessor from outside the organisation. The external assessment process supplements the periodic self-assessments carried out internally by your internal audit service. The first external assessment must be carried out by 31 March 2018.

One of the objectives of the PSIAS is to establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations. To assess whether or not this objective has been met and feed in to the external assessment process, we are requesting the opinion of key stakeholders, via this questionnaire, of the internal audit service. The questionnaire, which has been developed from the PSIAS, contains questions relating to the attribute and performance standards considered relevant for this information gathering exercise. With a view to achieving continuous improvement, your answers will also be compared against your Council's Chief Audit Executive's view of the level of service provided as well as any evidence available to support this. Your assessment team may contact you for further information.

The independent assessment team selected to review the Internal Audit Service at your organisation is from **[insert] Council**. The review will be led by **[insert Chief Audit Executive's name, job title and telephone no.]** Please complete this questionnaire and return it to **[insert the Chief Audit Executive's e-mail address]** by **[insert date]**. Your views are fundamental to the successful completion of this external assessment process and will assist, going forward, with the continuous improvement of the internal audit service within your local authority.

## External Quality Assessment - Stakeholder Questionnaire

		No	Yes	Partly	No Comment
<b>1000</b>	<b>Purpose, Authority and Responsibility</b>				
	Does the Internal Audit Plan focus on areas that matter to the organisation?				
	Do internal audit findings and recommendations help the organisation achieve its objectives?				
	Are internal audit findings and recommendations valued by stakeholders?				
	Does the internal audit service have a high profile within the organisation?				
	Is the internal audit service considered to be a key strategic partner throughout the organisation?				
	The 4 key principles relevant to the internal auditing profession are integrity, objectivity, confidentiality and competency. Does the internal audit service demonstrate compliance with these?				
	Does the internal audit service also have due regard to the principles of openness, honesty, leadership, selflessness and accountability?				
	Is the internal audit service fair, impartial and unbiased?				
	Does the internal audit service protect the information it receives?				
	Have you had sight of the Internal Audit Charter?				
<b>1100</b>	<b>Independence and Objectivity</b>				
	Does the Chief Audit Executive have direct and unrestricted access to the Chief Executive and Chair of the Audit Committee (or equivalent)?				
	Are priorities for and objectives of audit engagements discussed with senior management and stakeholders as appropriate?				



	No	Yes	Partly	No Comment
<b>1200</b>	<b>Proficiency and Due Professional Care</b>			
Does the Chief Audit Executive demonstrate that he / she has sufficient knowledge and experience?				
Do you believe that members of the internal audit service collectively (whether in-house, outsourced / co-sourced or a combination) possess the knowledge, skills and other competencies required to meet audit objectives and comply with the PSIAS?				
Do you believe that all members of the internal audit service (whether in-house, outsourced / co-sourced or a combination) exercise due professional care?				
<b>2000</b>	<b>Managing the Internal Audit Activity</b>			
Do you believe that the internal audit service adds value to the organisation through the assurance and consultancy services it provides?				
Do you believe that the internal audit service contributes to the efficiency and effectiveness of the organisation's governance arrangements, including risk management and the internal control environment in general?				
Are you given the opportunity to formally feed in to the internal audit planning process? e.g. through stakeholder meetings, client feedback questionnaires, informal discussions with the Chief Audit Executive.				
As a key stakeholder, are you given the opportunity to communicate your expectations of the internal audit service to the Chief Audit Executive?				
Do you believe that the internal audit plan takes in to account the organisation's risk management framework, or where a sufficiently developed framework does not exist, the Chief Audit Executive's own assessment of risk?				
Do you believe that the assignments contained within the internal audit plan are clearly linked to the risks and priorities of the organisation?				
Is the internal audit plan flexible enough to respond timeously to changes in the organisation's risk profile?				

		No	Yes	Partly	No Comment
<b>2400</b>	<b>Communicating Results</b>				
	Do Internal Audit Reports communicate the engagement's scope and objectives as well as overall conclusions, associated risks, recommendations / action plans?				
	Are Internal Audit Reports accurate, objective, clear, concise, constructive, complete and timely?				
	Are you comfortable that Internal Audit Reports include all significant and relevant information and observations to support conclusions and recommendations?				
	Are all Internal Audit Reports, whether in full or abridged, reported to key stakeholders including the organisation's Audit Committee or equivalent?				
	Are key stakeholders advised when recommendations made are not agreed in full so that residual risks are known and can be appropriately managed?				
<b>Overall assessment</b>					
	In overall terms, do you believe that the internal audit service within your Council adds value to the organisation, leading to improved organisational processes and operations?				

Please enter any further comments you may have below .

Completed by	
Position held	
Date	