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2017/18 Audit Annual Overview of Internal Audit

Audit Scotland's Code of Audit Practice (the Code) sets out the wider dimension of public sector audit and requires the external auditor to undertake an annual assessment of the adequacy, strengths and weaknesses of the council's internal audit function and to identify those areas of internal audit work on which we can place reliance.

We have now completed our annual assessment of the council's internal audit function as part of the 2017/18 audit. This included a review of the range and quality of work carried out and overall we have found that the internal audit function has sound documentation standards and that it complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). It is noted that, in line with good practice, arrangements have been made for an external assessment to be carried out of Internal Audit's compliance with the PSIAS in 2017/18. We will consider the outcome of this review to ensure that no issues are identified that would impact upon our ability to place reliance on the work of internal audit.

We are planning for our 2017/18 audit to take assurance from the work of internal audit across a number of council systems. These areas were reported as part of our 2017/18 Annual Audit Plan presented to the Audit and Scrutiny meeting on 8 March 2018. We will continue to monitor and review completed internal audit assignments to ensure that work on which we are placing reliance has been delivered. Any failure to complete areas where formal reliance has been agreed could impact on our plan and agreed audit fee.

While our review of the work of the Internal Audit function proved satisfactory, there is a need to strengthen the processes for reporting Internal Audit findings to members of the Audit and Scrutiny Committee. This relates to the following issues:

- Internal Audit reports or executive summaries are not normally issued to members or tabled at the Audit and Scrutiny Committee. The Chief Internal Auditor will provide members at meetings of the Audit and Scrutiny Committee with verbal updates on key audit findings. Members can then request to see the Internal Audit Report or request that the Internal Audit Report be submitted to a future Audit and Scrutiny Committee. Internal Audit produces around 50 internal audit reports each year. Although some reports resulting from the work done in the 2017/18 Internal Audit Plan have been circulated to committee members, no reports have been formally tabled at the Audit and Scrutiny Committee. However, an update report on the payment of creditors has been provided by officers to the Audit and Scrutiny Committee. The current arrangements limit the transparency of the reporting of internal audit findings and the opportunity for members of the Audit & Scrutiny Committee to challenge officers on identified internal control issues. **Action Plan 1**

- In order to fulfil their role as those charged with governance, members of the Audit and Scrutiny Committee should be made aware of all relevant weaknesses in the council's internal control environment. This applies equally to the findings of those reviews carried out as part of the Annual Internal Audit Plan as well as any one off or unplanned investigations carried out during the year. Where such reports include issues of a particularly sensitive or confidential nature, the arrangements for sharing these reports should be agreed with members of the Audit and Scrutiny Committee. It is noted that a formal approach has not been agreed for the reporting of sensitive or confidential audit reports with the Audit and Scrutiny Committee which maintains confidentiality as well as transparency of the governance process. **Action Plan 2**

Yours sincerely

Elaine Barrowman
Senior Audit Manager

Action Plan

Key Risk Areas and Planned Management Action

Point	Issues and Risk Identified	Planned Management Action	Responsible Officer / Completion Date
1	<p>Copies of Internal Audit Reports are not normally submitted to members of the Audit and Scrutiny Committee for scrutiny and review.</p> <p><i>There is risk that current reporting arrangements limit the transparency of internal audit findings and the opportunity for members to challenge officers in instances of poor internal control.</i></p>	<p>To date the committee has adopted a risk managed approach on internal audit issues progressing matters by exception where it considers there is a need to do so. The committee considers this an effective use of its limited time and resources. The committee has on a number of occasions asked for audit reports to be circulated to members after the meeting, On other occasions if an audit recommendation was not accepted they have asked for further information to be presented to the Committee. However in light of this recommendation, the quarterly progress reports will be augmented to include conclusions for the reports issued in the quarter and will ask members of the committee to consider whether they wish any reports to be circulated or submitted for more detailed consideration at a future meeting. The system of rating all recommendations in audit reports as high, medium or low introduced last year should further support the transparency of this process.</p>	<p>Chief Auditor 1 June 2018</p>

2	<p>A formal approach has not been agreed for the reporting of sensitive or confidential audit reports with the Audit and Scrutiny Committee which maintains confidentiality as well as transparency of the governance process.</p> <p><i>There is risk that audit reports of a particular sensitive or confidential nature may not be shared with the members of the Audit and Scrutiny Committee and as such members may not be aware of all instances of weaknesses in the council's internal control environment.</i></p>	<p>The Council already has in place formal processes which allow sensitive or confidential reports to be presented to any meeting of the Council as long as the reason for the exemption complies with the Local Government (Scotland) Act 1973. Specific mention is also made in Standing Orders of the processes to be followed if the matters affect staff in the Council. Therefore the Audit and Scrutiny Committee can discuss Audit papers in private.</p> <p>It is acknowledged that some reports are prepared relating to unplanned work or a sensitive or confidential nature. In relation to these reports, where significant control weakness have been identified and reported on, the findings will also be summarised in the quarterly progress report and members asked if they wish any of the reports to be circulated or submitted to a future meeting. Some reports may be recommended to be considered as an exempt item however final decision on this rests with members.</p>	<p>Chief Auditor 1 June 2018</p>
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