

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE21 June 2018Report by Chief AuditorEAST RENFREWSHIRE COUNCIL COMPLIANCE WITH PUBLIC SECTOR  
INTERNAL AUDIT STANDARDS (PSIAS)**PURPOSE OF REPORT**

1. To provide members with the summary outcome of the independent external assessment of the Internal Audit service as detailed in the attached report (see Appendix).

**BACKGROUND**

2. The Internal Audit function is required to adhere to the Public Sector Internal Audit Standards (PSIAS) to ensure quality and consistency across the public sector. In order to adhere to this, an independent external assessment of the Internal Audit service is required to be carried out at least once every five years by a qualified independent assessor or assessment team from outside the organisation.

3. To meet this requirement and obtain best value for the Council, a reciprocal arrangement to complete a programme of inspections was developed and agreed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). As part of the agreement, the assessment of East Renfrewshire's Internal Audit service was carried out by East Dunbartonshire Council. The only cost of this review was therefore Internal Audit time taken to assist the assessor in carrying out the review and providing the necessary evidence. East Renfrewshire carried out an external assessment of South Ayrshire Council as part of this arrangement.

**SUMMARY FINDINGS**

4. As detailed within the attached report, the external assessment is based on reviews over 13 headings as specified within the PSIAS. There are four possible ratings that can be given for each heading, fully compliant, generally compliant, partially compliant or not compliant. East Renfrewshire Council's Internal Audit service has been assessed as fully compliant in eleven categories and generally compliant in the remaining two categories. A total of four recommendations were made and implementation of the agreed actions is summarised in the action plan contained within the report.

5. The overall conclusion by the external assessor is that the Internal Audit service has sound documentation standards and reporting procedures in place and complies with the main requirements of PSIAS.

**RECOMMENDATION**

6. The Committee is asked to note the content of the report and the proposed action plan contained within the report.

Further information is available from Michelle Blair, Chief Auditor (Telephone 0141 577 3067)

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# Audit & Risk Report

East Renfrewshire Council

Compliance with PSIAS

Prepared by:  
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May 2018

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## 1. INTRODUCTION

- 1.1 Local Authority Internal Audit functions are required to adhere to Public Sector Internal Audit Standards (PSIAS).
- 1.2 The PSIAS require that the Chief Audit Executive (CAE) develops a Quality Assurance and Improvement Programme (QAIP). The QAIP is designed to enable evaluation of the Internal Audit activities conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors comply with the Code of Ethics.
- 1.3 The PSIAS requires that the QAIP must include both internal and external assessments. Internal self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practice should be undertaken periodically. An external assessment must be carried out at least once every 5 years by a qualified independent assessor or assessment team from outside the organisation.
- 1.4 The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has developed this External Quality Assessment Framework to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the QAIP. It incorporates the requirements of the PSIAS as well as the Local Government Application Note in order to give comprehensive coverage of both documents.
- 1.5 Those weaknesses identified within the body of this report represent only those that have come to Internal Auditors attention during the course of the Audit and, as such, may not include all risks that exist within the system. This report is written on an exception basis and areas within the Scope and Objectives not subject to comment were concluded as generally satisfactory.
- 1.6 Internal Audit would like to extend their thanks to all officers and management who have assisted with the work that we have performed.

## 2. AUDIT SCOPE & OBJECTIVES

- 2.1 The Scope and Objectives of the Audit is to verify whether East Renfrewshire Council Complies with the PSIAS.
- 2.2 Specifically, the scope of the Audit was defined to include an assessment of the following areas, which comprise the PSIAS standards:-
- Definition of Internal Audit
  - Code of Ethics
  - Attribute Standards
    - Purpose, Authority and Responsibility
    - Independence and Objectivity
    - Proficiency and Due Professional Care
    - Quality Assurance and Improvement Programme
  - Performance Standards
    - Managing the internal Audit Activity

- Nature of Work
- Engagement Planning
- Performing the Engagement
- Communicating Results
- Monitoring Progress
- Communicating the Acceptance of Risks

### 3. BACKGROUND

- 3.1 The SLACIAG Management Committee will develop a recommended programme of reviews each year to ensure that all participating organisations comply with the requirement to undertake an EQA once every 5 years. SLACIAG have agreed that whenever possible, an external assessment will be undertaken once during each administration (once every four or five years).
- 3.2 SLACIAG Management Committee assigned East Dunbartonshire Council the responsibility of reviewing East Renfrewshire's compliance with the PSIAS.

### 4. AUDIT FINDINGS

#### 4.1 *A – Definition of Internal Auditing*

*Fully Conforms*

- 4.1.1 Based on the work performed, it has been concluded that the internal audit function meets the definition of Internal Auditing.
- 4.1.2 It is concluded that the Internal Audit function **fully conforms** to this definition.

#### 4.2 *A – Code of Ethics*

*Fully Conforms*

- 4.2.1 Based on the work performed, no evidence of non conformance with the Code of Ethics has been noted.
- 4.2.2 It is concluded that the Internal Audit function **fully conforms** to this Code.

#### 4.3 *1000 - Purpose, Authority and Responsibility*

*Fully Conforms*

- 4.3.1 The Internal Audit Charter was reviewed for compliance with PSIAS. Some information required under PSIAS is contained in separate documents, but referred to in the Audit Charter. This includes the responsibility of the Audit and Scrutiny Committee, which is detailed in the Council's Scheme of Administration and the process to be followed in relation to fraud is detailed in the Anti Fraud and Bribery Strategy.
- 4.3.2 It is concluded that the Internal Audit function **fully conforms** to this Standard.

#### 4.4 *1100 - Independence and Objectivity*

*Fully Conforms*

- 4.4.1 The independence and objectivity of the Internal Audit function was reviewed. This is an area of best practice, with the Chief Auditor reporting directly to the Chief Executive. Furthermore, the Internal Audit function does not have any areas of operational responsibility that could impair independence or objectivity.
- 4.4.2 It is concluded that the Internal Audit function **fully conforms** to this Standard.

#### 4.5 *1200 - Proficiency and Due Professional Care*

*Fully Conforms*

- 4.5.1 The job descriptions of the team were reviewed and it was confirmed that the Chief Auditor is required to be CCAB qualified. It was further verified that the current Chief Auditor is a fully qualified accountant (member of ICAEW), with extensive experience in her current role and previous external auditing roles. The team utilise assisted audit techniques where appropriate, using IDEA software and maintain an audit manual, which contains structured methodology. Training records are maintained and staff are managed through the Performance Review and Development Scheme process.
- 4.5.2 It is concluded that the Internal Audit function **fully conforms** to this Standard.

#### 4.6 *1300 - Quality Assurance and Improvement Programme*

*Fully Conforms*

- 4.6.1 PSIAS includes a requirement that the Head of Internal Audit develops and maintains a Quality Assurance and Improvement Programme to enable the internal audit activity to be assessed against the PSIAS. At East Renfrewshire Council, internal audit assignments are conducted by individual auditors and files are reviewed by the Chief Auditor. The Annual Report includes Internal Audit's performance against Key Performance Indicators. The function performs well against the productivity and output metrics. For 2016/17 the function achieved more productive days than planned and achieved 100% of planned outputs. Client feedback is sought via surveys and used to inform improvements. It is a requirement for an external assessment to be conducted at least every five years to assess compliance with PSIAS. This review and report meets this requirement.
- 4.6.2 A self-assessment against PSIAS was undertaken by the Chief Internal Auditor and this was reported to the Audit and Scrutiny Committee in September 2016. It is recommended that compliance is enhanced by completing this annually and reporting on it in the Annual Report as part of a statement on the internal audit function's Quality Assurance and Improvement Programme.

Action Plan Point 1

- 4.6.3 It is concluded that the Internal Audit function **fully conforms** to this Standard.

#### 4.7 *2000 – Managing the Internal Audit Activity*

*Fully Conforms*

- 4.7.1 The Managing the Internal Audit Activity 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.
- 4.7.2 The documented risk assessment and planning methodology is included in the Audit Manual. An assessment of the adequacy of internal control is included in the Annual Report. There is also a documented procedure for planning, which was viewed by the external assessor. The methodology for preparing the annual risk based audit plan appears appropriate.
- 4.7.3 The Audit Plan is formally approved by committee and progress against the annual audit plan is reported on a quarterly basis to the Audit and Scrutiny Committee. The process for allocating resources against the plan appears reasonable. Verbal updates are given by the Chief Auditor on significant risks identified. However, consideration should be given to, as a minimum, providing some written detail to the Audit and Scrutiny Committee on the nature of High Risk issues raised to potentially enhance visibility and scrutiny.

Action Plan Point 2

- 4.7.4 It is concluded that the Internal Audit function **fully conforms** to this Standard.

#### 4.8 *2100 – Nature of Work*

*Fully Conforms*

- 4.8.1 The Nature of Work 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.
- 4.8.2 From the overview of work completed, it is concluded that the Internal Audit function **fully conforms** to this Standard.

#### 4.9 *2200 – Engagement Planning*

*Fully Conforms*

- 4.9.1 The Engagement Planning Standard sets the requirements necessary to develop and plan for each engagement including the objectives, scope, timing and resource allocations.
- 4.9.2 An initial risk assessment is undertaken as part of the planning for the Audit Plan. The Chief Auditor shares Audit Objectives with the service for agreement, prior to commencement of the audit. The agreement of the objectives is then recorded on file.
- 4.9.3 From the overview of work completed, it is concluded that the Internal Audit function **fully conforms** to this Standard.



#### 4.10 2300 – *Performing the Engagement*

*Generally Conforms*

- 4.10.1 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.
- 4.10.2 At East Renfrewshire, procedures are in place to identify, document, analyse, and evaluate evidence gathered during the audit engagement. Paper audit files are maintained and these are generally well organised and clear to follow. The quality and quantity of evidence retained is generally deemed sufficient but minor instances have been noted where the quality could be improved to enable a third party to understand the work that has been undertaken and the detail of the results.
- Action Plan Point 3
- 4.10.3 It is concluded that the Internal Audit function **generally conforms** to this Standard.

#### 4.11 2400 – *Communicating Results*

*Generally Conforms*

- 4.11.1 The standard sets the requirements necessary for the communication of results for individual engagements and the overall annual opinion.
- 4.11.2 The results of engagements are reported to appropriate management and directors. Written progress reports are provided to the Audit and Scrutiny Committee detailing the names of the audits and status towards completion. However, these reports do not provide detail on the nature of number of issues raised by internal audit. Instead, verbal updates are provided to the Audit and Scrutiny Committee on significant issues. As mentioned previously at 4.7.3, with reference to Action Plan Point 4, the written reports to the Audit and Scrutiny Committee could be enhanced by providing an indication of the number of issues noted, whether these have been classified as High / Medium or Low and some detail on High risk issues.
- 4.11.3 The overall audit opinion on internal controls is provided in the annual report. Significant areas of concern are highlighted in the audit opinion. Compliance with PSIAS could be further enhanced by also concluding on the overall effectiveness of the overall adequacy of the council's framework of governance and risk management.
- Action Plan Point 4
- 4.11.4 A sample of Audit reports were reviewed by the external assessor and these were deemed to be accurate, objective, clear and concise.
- 4.11.5 It is concluded that the Internal Audit function **generally conforms** to this Standard.

#### 4.12 2500 – *Monitoring Progress*

*Fully Conforms*

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

4.12.2 The audit function keeps a database of all audits and follow-ups are performed by department area, for example Environment. If a specific audit is being performed then any outstanding audit actions are followed up on as part of this process. All previous recommendations are followed-up each year.

4.12.3 It is concluded that the Internal Audit function **fully conforms** to this Standard.

**4.13 2600 – Communicating the Acceptance of Risks**

*Fully Conforms*

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

4.13.2 The internal audit function communicates to the Audit and Scrutiny Committee when points raised by internal audit have not been accepted. This could be further enhanced by providing this detail in writing in reports to the committee, particularly if Internal Audit deem the issue to be a High risk. The extent of information contained in reports to the Audit and Scrutiny Committee is considered above at 4.7.3 and 4.11.2 and in Action Plan Point 4.

4.13.3 The Chief Auditor has direct access to the Chief Executive as a direct report and has access to the Chair of the Audit Committee.

4.13.4 It is concluded that the Internal Audit function **fully conforms** to this Standard.

## 5 SUMMARY AND OPINION

Table 1 – Summary of Results of Assessment

Standard / Section	Result
Section A: Definition of Internal Auditing	Fully conforms
Section B: Code of Ethics	Fully conforms
Section C: Attribute Standards:	
• 1000 – Purpose, Authority and Responsibility	Fully conforms
• 1100 – Independence and Objectivity	Fully conforms
• 1200 – Proficiency and Due Professional Care	Fully conforms
• 1300 – Quality Assurance and Improvement Programme	Fully conforms
Section D: Performance Standards:	
• 2000 – Managing the Internal Audit Activity	Fully conforms
• 2100 – Nature of Work	Fully conforms
• 2200 – Engagement Planning	Fully conforms
• 2300 – Performing the Engagement	Generally conforms
• 2400 – Communicating results	Generally conforms
• 2500 – Monitoring Progress	Fully conforms
• 2600 – Communicating the Acceptance of Risks	Fully conforms

- 5.1 It is concluded that the Internal Audit function has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Further enhancement of compliance is suggested in the Action Plan at Appendix 1.

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<i>Ref</i>	<b>Finding</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>Target Date</b>
<i>1</i>	<p><b>Reporting of PSIAS Self Assessment</b></p> <p>A self-assessment against PSIAS was undertaken by the Chief Internal Auditor and this was reported to the Audit and Scrutiny Committee in September 2016. However, the results of this were not included in the Annual Report.</p>	<p>It is recommended that compliance is enhanced by completing the self assessment against PSIAS annually and reporting on it in the Annual Report as part of a statement on the internal audit function's Quality Assurance and Improvement Programme.</p>	<p>Agreed – PSIAS self assessments will be carried out annually except for years where there has been an external assessment and a statement on the QAIP will be included within the Annual Report.</p>	<b>31 March 2019</b>
<i>2</i>	<p><b>Reporting to the Audit and Scrutiny Committee</b></p> <p>The Audit Plan is formally approved by committee and progress against the annual audit plan is reported on a quarterly basis to the Audit and Scrutiny Committee and adjusted if required. The process for allocating resources against the plan appears reasonable. Verbal updates are given by the Chief Auditor on significant risks identified but these updates are not provided in writing ahead of the committee meetings.</p>	<p>Consideration should be given to, as a minimum, providing some written detail to the Audit and Scrutiny Committee on the nature and number of High risk issues raised, including those not accepted by management, with the aim of enhancing visibility and scrutiny.</p>	<p>Agreed – the quarterly progress reports provided to audit and scrutiny members will be expanded to include more information about findings/recommendations.</p>	<b>30 Sept 2018</b>
<i>3</i>	<p><b>Retention of audit evidence</b></p> <p>Procedures are in place to identify, document, analyse, and evaluate evidence gathered during the audit engagement. Paper audit files are maintained and these are generally well organised and clear to follow. The quality and quantity of evidence retained is generally deemed sufficient but minor instances have been noted where the quality could be improved to enable a third party to understand the detail of the work undertaken.</p>	<p>It should be ensured that sufficient detail is retained on file to enable a third party to fully understand the detail of the work undertaken.</p>	<p>Agreed, the Chief Auditor will ensure that cross referencing within files is adequate to allow a third party to understand the detail of the work undertaken.</p>	<b>Immediate</b>

<i>Ref</i>	<b>Finding</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>Target Date</b>
4	<p><b>Annual Audit Opinion</b></p> <p>The overall audit opinion on internal controls is provided in the annual report. Significant areas of concern are highlighted in the audit opinion. However, an opinion is not provided on governance and risk management.</p>	<p>Compliance with PSIAS could be further enhanced by concluding on the overall effectiveness of the council's framework of governance and risk management.</p>	<p>Agreed – this will be implemented in the next assurance statement.</p>	<p><b>30 Sept 2018</b></p>