

EAST RENFREWSHIRE COUNCIL
AUDIT AND SCRUTINY COMMITTEE

18 January 2024

Report by Chief Auditor

EAST 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 South Lanarkshire 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 will carry out an external assessment of Midlothian Council as part of this arrangement.

SUMMARY FINDINGS

4. As detailed within the attached report, the external assessment is based on reviews over 14 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 nine categories and generally compliant in the remaining five categories. A total of six 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 generally conforms with the 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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**EXTERNAL QUALITY
ASSESSMENT 2
OF
EAST RENFREWSHIRE
COUNCIL'S
INTERNAL AUDIT FUNCTION**

Report Recipients:

Steven Quinn, Chief Executive
Margaret McCrossan, Head of Accountancy
Gerry Mahon, Chief Officer Legal and Procurement
Michelle Blair, Chief Audit Executive
Cllr Andrew Morrison, Chair of the Audit and Scrutiny Committee

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EXECUTIVE SUMMARY

1. INTRODUCTION

- 1.1 The mandatory Public Sector Internal Audit Standards (PSIAS), published initially in April 2013 and updated most recently in March 2017, apply to all internal audit service providers in the UK public sector, whether in-house, provided via a shared service arrangement or outsourced. To supplement the PSIAS and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a Local Government Application Note, which was last updated in 2019.
- 1.2 The objectives of the PSIAS are to define the nature of internal auditing within the UK public sector; set basic principles for carrying out internal audit; establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; establish the basis for the evaluation of internal audit performance and drive improvement planning.
- 1.3 The PSIAS require the Chief Audit Executive (the Chief Auditor in East Renfrewshire Council) to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both periodic internal self-assessments and five-yearly external assessments, carried out by a qualified, independent assessor from outwith the organisation, and enable evaluation of the internal audit activity's conformance with the PSIAS, including the Mission of Internal Audit, Definition of Internal Auditing and Code of Ethics. In addition, the QAIP should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.
- 1.4 To assist its members to meet the five-yearly external assessment requirement, the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) established a collaborative system of formal peer reviews. This approach not only assists with ensuring that independent assessors, and their teams, have appropriate knowledge and experience of the local government internal audit environment but also removes the financial burden from councils, associated with procuring these services externally. The allocation of assessors / assessment teams to councils participating in the peer review process was undertaken autonomously, ensuring that, amongst other governing principles, local authorities with perceived / known conflicts of interest could not review one another. At the outset, assessors were required to formally declare any interests so that these could be appropriately addressed during the allocation process. South Lanarkshire Council was selected to carry out the external assessment in East Renfrewshire Council.
- 1.5 To support the peer review process, SLACIAG developed a comprehensive External Quality Assessment (EQA) framework, including an EQA Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note (EQA Checklist) and a key Stakeholder Questionnaire proforma. The external assessment of East Renfrewshire Council's Internal Audit function has been carried out by South Lanarkshire Council's Audit and Compliance Manager utilising this framework.
- 1.6 This report provides a high level summary of requirements for each standard per the PSIAS and CIPFA Local Government Application Note and sets out the findings, conclusions and recommendations from the external assessment, which involved discussions with key members of staff, including the Chief Auditor, review of the most recent self-assessment carried out utilising the EQA Checklist and consideration of other relevant supporting documentation / information (Evidence Pack) including working paper files and completed stakeholder questionnaires. A comprehensive list of supporting documentation / information and completed stakeholder questionnaires considered as part of the assessment can be found at appendices B and C respectively.

2. OVERALL CONCLUSION

2.1 The overall conclusion of the external assessment is that East Renfrewshire Council's Internal Audit function **generally conforms** with the PSIAS. A full summary of assessment, per assessment area, can be found at Appendix A. A summary of totals is as follows:

	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
TOTALS	9	5	0	0

2.2 The main areas for improvement highlighted in the report are as follows:

- References to compliance with PSIAS throughout all audit activity should be to the revised 2017 Standard.
- An assurance mapping exercise of how the Internal Audit Plan links to the organisation's strategic and organisational top risks should be completed and presented along with the Annual Plan each year.
- Audit reports should record a formal audit opinion that aligns to the various classifications of audit opinion within the annual report.
- The timing of the presentation of the Internal Audit Annual Report should be aligned to that of the Committee receiving the Council's draft unaudited accounts so that the Chief Auditor's opinion, for the relevant financial year, is captured within the draft Annual Governance Statement (AGS).

2.3 Full details of the assessment recommendations and management responses can be found in the Action Plan at Appendix D.

3. SECTION A – MISSION OF INTERNAL AUDIT AND CORE PRINCIPLES

The PSIAS state that the Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation, which is ‘to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’.

Taken as a whole, the Core Principles for the Professional Practice of Internal Auditing, as set out in the PSIAS, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Core Principles should be present and operating effectively. Failure to achieve any of the Core Principles would imply that an internal audit activity was not as effective as it could be in achieving the Mission of Internal Audit.

- 3.1 Evidence obtained from assessing conformance with other standards in the PSIAS has been used, along with specific consideration surrounding the achievement of the Core Principles, to conclude that East Renfrewshire Council’s Internal Audit function **fully conforms** with accomplishing the Mission of Internal Audit as detailed above.

4. SECTION B – DEFINITION OF INTERNAL AUDITING

The PSIAS state that 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.

- 4.1 Evidence obtained from assessing conformance with other standards in the PSIAS has been used to conclude that East Renfrewshire Council’s Internal Audit function **fully conforms** with the definition of Internal Auditing as detailed above. Evidence provided confirmed the objective of the Internal Audit function is to add value and improve East Renfrewshire Council’s risk management, control and governance processes with positive feedback from Stakeholders supporting this view.

5. SECTION C – CODE OF ETHICS

The PSIAS state that the purpose of the Institute of Internal Auditor’s Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out in the PSIAS. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

- 5.1 Evidence obtained from assessing conformance with other standards in the PSIAS, in particular the Attribute Standards 1000 – Purpose Authority and Responsibility, 1100 – Independence and Objectivity, 1200 – Proficiency and Due Professional Care, Professional Standards 2000 – Managing the Internal Audit Activity and 2300 – Performing the Engagement, has been used to conclude that East Renfrewshire Council’s Internal Audit function **generally conforms** with the requirement to comply with the Code of Ethics given that there are a small number of improvements set out within this report to further enhance compliance with PSIAS.

6. SECTION D – ATTRIBUTE STANDARDS

Attribute Standards apply to organisations and individual internal auditors providing the internal audit services in a local authority.

6.1 1000 - Purpose, Authority, and Responsibility

The PSIAS state that the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit Charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval. The internal audit charter must also:

- *define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity;*
- *cover the arrangements for appropriate resourcing;*
- *define the role of internal audit in any fraud-related work; and*
- *describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activities.*

6.1.1 East Renfrewshire Council’s Internal Audit Charter is periodically reviewed with the most recent revision taking place in June 2019. The Internal Audit Charter was approved by the Audit and Scrutiny Committee on 20 June 2019. The Charter references the introduction of PSIAS in April 2013 but not the revised standard introduced on 1 April 2017. Given the time that has elapsed, it is recommended that the Internal Audit Charter is reviewed and represented to the Audit and Scrutiny Committee. At the point of review, the content of the Charter should be updated to reflect the revised PSIAS (2017) and:

- include a statement regarding the Mission of Internal Audit
- provide a definition of the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation

(Recommendation 1)

6.1.2 Having considered the findings above, it has been concluded that East Renfrewshire Council’s Internal Audit function **generally conforms** with Standard 1000 on Purpose, Authority and Responsibility.

6.2 1100 - Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work. Various aspects of independence and objectivity are covered in this standard as well as 1200, including reporting functional lines of the CAE, the relationship between the CAE and the board and any impairment to individual internal auditors’ objectivity or independence. Reporting and management arrangements must be put in place that preserve the CAE’s independence and objectivity, in particular with regard to the principle that the CAE must be independent of the audited activities.

6.2.1 The Chief Auditor reports functionally to the Audit and Scrutiny Committee and administratively to the Chief Executive, who is a member of the Council’s Senior Management Team. The Chief Auditor has direct and unrestricted access to the Chief Executive and the Chair of the Audit and Scrutiny Committee and this has been confirmed by the completed Stakeholder Questionnaires. These reporting / access arrangements are clearly defined in the Internal Audit Charter as are safeguards to limit impairment of independence or objectivity.

6.2.2 In support of organisational independence, the Chief Auditor attends Audit and Scrutiny Committee meetings to present all internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and reports / executive summaries from the planned audits to Elected Members). The reports are all submitted in the Chief Auditor’s name.

- 6.2.3 The Chief Auditor does not have operational responsibility for the activities audited and this is communicated to stakeholders via the Chief Auditor's responsibilities set out in the Internal Audit Charter.
- 6.2.4 All staff within the Internal Audit function are required to complete a declaration on an annual basis of any conflicts of interest.
- 6.2.5 East Renfrewshire Council's Internal Audit function **fully conforms** with Standard 1100 on Independence and Objectivity.

6.3 1200 - Proficiency and Due Professional Care

The CAE must be professionally qualified, suitably experienced and responsible, in accordance with the organisation's human resources processes, for recruiting appropriate staff. He or she is responsible for ensuring that up-to-date job descriptions exist, reflecting roles and responsibilities, and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.

The CAE should periodically assess individual auditors' skills and competencies against those set out in the relevant job descriptions and person specifications. Any training or development needs identified should be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored. In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This may be fulfilled through requirements set by professional bodies or through the organisation's own appraisal and development programme. Auditors should maintain a record of such professional training and development activities.

The internal audit activity should be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with these standards. The PSIAS states that the CAE must obtain competent advice and assistance if the activity is unable to perform all or part of an engagement.

- 6.3.1 The Chief Auditor holds a relevant professional qualification and is suitably experienced, with 20 years internal audit experience within a Scottish local government environment. The Chief Auditor is a member of SLACIAG and regularly attends and contributes to meetings. In relation to the two SLACIAG Sub-Groups, the Computer Audit Sub-Group (CASG) and the Scottish Local Authorities Investigators Group (SLAIG), East Renfrewshire Council's Internal Audit function is represented on the former, with a Senior Revenues Officer representing East Renfrewshire Council on SLAIG.
- 6.3.2 To support the Chief Auditor in East Renfrewshire Council's Internal Audit function there are three Senior Auditors. Membership of one of the Consultative Committee of Accountancy Bodies (CCAB) is noted as an essential requirement for the post of Senior Auditor. There are a total of five members of staff in the Internal Audit function, including the Chief Auditor and three Senior Auditors. Of these five posts, two are noted as vacant at the time of the review. When presenting the 2022/2023 Audit Plan to the Audit and Scrutiny Committee (June 2022), there was one post vacant and the report set out the assumption that capacity calculations were based on this post being filled. The 2022/2023 Annual Report noted that the number of vacancies had increased in year and highlighted that this was not sustainable for the Service in the longer term. It is noted that recruitment activity is ongoing to resolve capacity shortfall and that the Audit and Scrutiny Committee are aware that a resolve is required to properly resource the Internal Audit function. The Internal Audit function delivers internal audit services to East Renfrewshire Council, East Renfrewshire Culture and Leisure Trust and East Renfrewshire Integration Joint Board and is responsible for the investigation of any suspected fraud or bribery within East Renfrewshire Council.

- 6.3.3 The Internal Audit Charter notes that the Chief Executive is the line manager of the Chief Auditor and accordingly carries out the performance appraisals. The Chair of the Audit and Scrutiny Committee is invited to provide feedback for input into this process. There is a formal Employee Performance and Development Appraisal process that is competency based.
- 6.3.4 The Internal Audit function is represented on a number of corporate groups, including the Information Security Forum providing an opportunity to ensure that the implementation of internal controls has been a key consideration in the development of new processes or revisions to existing practices and that revised Council systems and processes continue to embed the key internal controls of segregation of duties, authorisation, reconciliation and monitoring.
- 6.3.5 The Chief Auditor and Senior Auditors adhere to specific CPD requirements linked to their relevant professional body. Aside from this there is a programme of compulsory generic Council-wide training and job-specific training dependent on the content of the annual Audit Plan.
- 6.3.6 Job Profiles/Descriptions are in place but one dates back to as early as 2001. At an appropriate juncture, the opportunity should be taken to revisit such to confirm that these provide a clear description of the requirements of each role.
- 6.3.7 There was positive comment within Questionnaires that Stakeholders were satisfied that the function demonstrated sufficient knowledge and experience and that all members of the Internal Audit function exercise due professional care. Evidence was provided of professional qualifications, a formal performance appraisal process and a commitment to the ongoing training and development of the team with no significant gaps in compliance with PSIAS identified.
- 6.3.8 East Renfrewshire Council's Internal Audit function **fully conforms** with standard 1200 on Proficiency and Due Professional Care.

6.4 1300 - Quality Assurance and Improvement Programme

The PSIAS state that the Chief Audit Executive must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity.

The QAIP must include both periodic internal self-assessments and five-yearly external assessments, carried out by a qualified, independent assessor from outside the organisation, and enable evaluation of the internal audit activity's conformance with the PSIAS, including the Definition of Internal Auditing and Code of Ethics. In addition, the QAIP should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

The public sector requirement in the PSIAS states that results of the QAIP and progress against any improvement plans must be reported in the annual report.

- 6.4.1 Internal Audit files and reports are reviewed by the Chief Auditor prior to issue.
- 6.4.2 Client feedback is pursued by the Internal Audit function as part of an annual corporate exercise. This provides an opportunity for Council Services to provide comment to the function albeit not on an individual assignment basis.
- 6.4.3 Performance measures are reported to the Audit and Scrutiny Committee on both a quarterly and annual basis. These indicators detail performance in areas that are relevant to the delivery of an effective and efficient internal audit service. In terms of aiding scrutiny and challenge, commentary is provided in the annual report of any indicators that fall below target. A verbal update on performance against quarterly indicators is provided if required.

- 6.4.4 The last formal self-assessment of conformance with the PSIAS was carried out in 2022/2023 in preparation for the independent, external assessment, the findings from which are the subject of this report. This utilised the EQA Checklist with the corresponding QAIP intimated to Members as being available on conclusion of the external review.
- 6.4.5 East Renfrewshire Council's Internal Audit function **fully conforms** with Standard 1300 on Quality Assurance and Improvement Programme.

7. SECTION E – PERFORMANCE STANDARDS

Performance Standards describe the nature of the internal audit services being provided and provide criteria against which the performance of an internal audit function can be measured.

7.1 2000 - Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation. The internal audit activity is effectively managed when it achieves the purpose and responsibility included in the internal audit charter, it conforms with the PSIAS, its individual members conform with the Code of Ethics and the PSIAS and it considers trends and emerging issues that could impact the organisation. The internal audit activity adds value to the organisation and its stakeholders when it considers strategies, objectives and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

- 7.1.1 In March 2023, the Chief Auditor, presented a Strategic Internal Audit Plan to the Audit and Scrutiny Committee that set out a planned programme of work to be undertaken over a rolling five-year period. The Chief Auditor confirmed that she consults with both senior management and the Audit and Scrutiny Committee to understand the organisation's strategies, objectives and risks and that this is set out in documented risk assessment and planning methodologies.
- 7.1.2 This longer-term Strategic Plan is translated into an annual audit plan which aligns to the PSIAS requirement that the Plan is fixed for a period of no longer than one year. The annual plan is reviewed and discussed by the Council's Senior Management Team and approved by the Audit and Scrutiny Committee.
- 7.1.3 Progress towards completion of the Internal Audit Plan, and the individual audits contained within this Plan is reported quarterly to the Audit and Scrutiny Committee within progress reports.
- 7.1.4 Engagement with Stakeholders confirmed that the Internal Audit function added value to the organisation and that Stakeholders were given the opportunity to feed into the planning process.
- 7.1.5 In terms of best practice, it is recommended that the audit plan should incorporate a strategic high-level statement of how the internal audit service will be delivered in accordance with the Internal Audit Charter (**Recommendation 2**) and complete an assurance mapping exercise setting out how the Plan links to the Council's strategic and organisational top risks (**Recommendation 3**).
- 7.1.6 East Renfrewshire Council's Internal Audit function **generally conforms** with Standard 2000 on Managing the Internal Audit Activity.

7.2 2100 - Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organisation's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

More specifically, the internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes, evaluate the effectiveness and contribute to the improvement of risk management processes and assist the organisation in maintaining effective controls by evaluating their efficiency and effectiveness and promoting continuous improvement.

7.2.1 The 2023/2024 Audit Plan presented to the Audit and Scrutiny Committee references the consideration of current and developing risks, that the corporate strategic risk register is reviewed and that a risk-based approach is taken when preparing the Plan.

7.2.2 East Renfrewshire Council's Internal Audit function **fully conforms** with Standard 2100 on Nature of Work.

7.3 2200 - Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organisation's strategies, objectives and risks relevant to the engagement.

The CIPFA Local Government Application note states that for each engagement, a brief should be prepared, discussed and agreed with relevant managers. The brief should establish the objectives, scope and timing for the assignment and its resource and reporting requirements. Audit work should be undertaken using a risk-based audit approach.

7.3.1 An audit remit is sent by the Chief Auditor at the start of each assignment that sets out objectives and timing of the audit with client agreement being secured at the outset. It is recommended that, to demonstrate fuller compliance with PSIAS, that the remit is expanded to also set out the scope of work; resources allocated; risks relevant to the engagement along with further detail as to how audit work relates to the Council's risks, strategies and objectives (**Recommendation 4**).

7.3.2 For the sample of audit assignments reviewed, standard CIPFA test programmes had been used. This provides assurance that testing covers all generic risks within an audit area albeit there is a requirement for these programmes to be amended to reflect the risks and controls within the Council's specific processes and procedures.

7.3.3 East Renfrewshire Council's Internal Audit function **generally conforms** with Standard 2200 on Engagement Planning.

7.4 2300 - Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence needs to be gathered to achieve the engagement objectives and support an independent and objective audit opinion. Systems should be in place to ensure that auditors obtain and record, within the working papers, sufficient evidence to support their conclusions, professional judgements and recommendations. Working papers should always be sufficiently complete and detailed to enable an experienced internal auditor with no previous connection with the audit to ascertain what work was performed, re-perform it if necessary and support the conclusions reached. The CAE should also specify how long all audit documentation should be retained, whether held on paper or electronically. All audit work should be subject to an appropriate internal quality review process.

Internal auditors must be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest when performing their individual audits. They must also have sufficient knowledge to identify indicators that fraud or corruption may have been committed.

- 7.4.1 The Internal Audit Manual sets out the procedure in relation to undertaking a planned audit, including the preparation of working papers and setting up of files. All audit activity is required to be conducted in a clear, concise and logical manner.
- 7.4.2 A sample electronic file was viewed that demonstrated working papers were set out in a structured and compliant manner utilising standard CIPFA testing matrices. The file evidenced a full audit trail that included expected controls; actual controls; test controls and test results and evidenced a robust process around the performance of audits.
- 7.4.3 An example of a review schedule was also provided as evidence of the review and supervisory role within the function as part of the audit process.
- 7.4.4 Extracts from the audit manual were provided that set out record management arrangements. A retention schedule is in place to ensure there is a consistent and controlled process around the retention of files for a stipulated period of time. Registers were advised to be retained detailing dates of disposal and an extract from the audit manual was provided that detailed the requirement to confidentially dispose of records.
- 7.4.5 East Renfrewshire Council's Internal Audit function **fully conforms** with Standard 2300 on Performing the Engagement.

7.5 2400 - Communicating Results

The basic aims of every internal audit report should be to:

- *give an opinion on the risk and controls of the area under review, building up to the annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;*
- *prompt management to implement the agreed actions for change leading to improvement in the control environment and performance; and*
- *provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales.*

Each report should include the scope and purpose of the audit to help the reader to understand the extent, or limitations, of the assurance(s) provided by the report. During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the closure stage. Before issuing the final report, the internal auditor should normally discuss the contents with the appropriate levels of management to confirm the factual accuracy, to seek comments and to confirm the agreed management actions. A draft report is useful for this purpose. Recommendations should be prioritised according to risk. The recommendations and the resultant management action plans should be agreed prior to the issue of the final report. Any areas of disagreement between the internal auditor and management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those weaknesses giving rise to significant risks that are not agreed should be brought to the attention of a more senior level of management and the board.

As set out in the PSIAS, the CAE must deliver an annual internal audit opinion and report that can be used by the organisation to inform its annual governance statement. This must include the annual internal audit opinion concluding on the overall adequacy and effectiveness of the organisation's governance, risk and control framework, a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and a statement of conformance with the PSIAS and the results of the internal audit QAIP.

- 7.5.1 An Internal Audit report is issued at the conclusion of each audit assignment. This provides the reader with the background to the audit and sets out the scope of work undertaken. A high-level summary precedes more detail in relation to findings in areas where there are recommendations. Recommendations are captured within an action plan with a risk rating attached along with details of the responsible officer and a date for completion. It is recommended that audit reports record a formal audit opinion that aligns to the various classifications of audit opinion within the annual report (**Recommendation 5**). This would allow the Audit and Scrutiny Committee to map how individual audit reports inform the overall opinion expressed within the Annual Report.
- 7.5.2 Ahead of a final report being distributed, a draft report is issued to clients to confirm factual accuracy. Audit clients then have a period of time to respond and advise of responsibilities and dates for the implementation of actions.
- 7.5.3 The Internal Audit Annual Report forms part of the Council's governance arrangements and informs the Council's Annual Governance Statement (AGS). The draft 2022/2023 AGS was presented to the Audit and Scrutiny Committee in June 2023 and included reference to the Chief Auditor providing an independent opinion on the adequacy and effectiveness of the system of internal control but did not state that opinion. It is noted that the formal audit opinion was expressed in the final 2022/2023 AGS presented to the Committee in September 2023. It is recommended that the timing of the presentation of Internal Audit's Annual Report should be aligned to that of the Committee receiving the Council's draft unaudited accounts so that the Chief Auditor's opinion, for the relevant financial year, is captured within the draft Accounts (**Recommendation 6**).
- 7.5.4 East Renfrewshire Council's Internal Audit function **generally conforms** with Standard 2400 on Communicating Results.

7.6 2500 - Monitoring Progress

The PSIAS place responsibility for monitoring progress with the CAE to ensure that management actions have been effectively implemented or, if not, that senior management have accepted the risk of not taking action. The CAE must, therefore, implement a follow-up process for ensuring the effective implementation of audit results or ensuring senior management are aware of the consequences of not implementing an action point and are prepared to accept the risk of such consequences occurring. The results of this process should be communicated to the board. The CAE should develop escalation procedures for cases where agreed actions have not been effectively implemented by the date agreed. These procedures should ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level. The effective involvement of the board in the follow-up process is critical to ensuring that it works. The CAE should consider revising the internal audit opinion in light of findings from the follow-up process. The findings of follow-up reviews should inform the planning of future audit work.

- 7.6.1 A process has been developed around the follow-up of audit actions and reporting of such to senior management and the Audit and Scrutiny Committee. This process was found to be robust and comprehensive and reported in sufficient detail to highlight outstanding actions and the risks attached to a delay in implementation.
- 7.6.2 East Renfrewshire Council's Internal Audit function **fully conforms** with Standard 2500 on Monitoring Progress.

7.7 2600 - Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, they must discuss the matter with senior management. If the chief audit executive determines that the matter has not been


















resolved, they must communicate the matter to the board. It is not the responsibility of the chief audit executive to resolve the risk.

7.7.1 Reports to management and the Audit and Scrutiny Committee are communicated directly by the Chief Auditor who has free and unfettered access to the Chief Executive and the Chair of the Audit Committee. An annual Internal Audit opinion on the overall adequacy and effectiveness of the council's governance, risk management and control arrangements is presented by the Chief Auditor to senior management and the Board and this opinion is incorporated within the Council's final AGS.

7.7.2 East Renfrewshire Council's Internal Audit function **fully conforms** to the Standard on Communicating the Acceptance of Risk.

Yvonne Douglas
Audit and Compliance Manager
South Lanarkshire Council
7 December 2023

APPENDIX A – SUMMARY OF ASSESSMENT

REF	PAGE No.	ASSESSMENT AREA	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	4	Mission of Internal Audit and Core Principles				
Section B	4	Definition of Internal Auditing				
Section C	4	Code of Ethics				
Section D	4	ATTRIBUTE STANDARDS				
1000	5	Purpose, Authority and Responsibility				
1100	5	Independence and Objectivity				
1200	6	Proficiency and Due Professional Care				
1300	7	Quality Assurance and Improvement Programme				
Section E	8	PERFORMANCE STANDARDS				
2000	8	Managing the internal Audit Activity				
2100	8	Nature of Work				
2200	9	Engagement Planning				
2300	9	Performing the Engagement				
2400	10	Communicating Results				
2500	11	Monitoring Progress				

2600	11	Communicating the Acceptance of Risks				
TOTALS			9	5		

APPENDIX B – EVIDENCE PACK

- Completed EQA checklist
- Annual Report 2021/2022 and minute
- Organisation Chart
- Internal Audit Charter and minute
- Follow up reports example
- Annual Governance Statement
- Clearance of objectives examples
- Procedures for updating Plan
- Annual plan 2022/2023 and minute
- Progress report examples
- Audit and Scrutiny Committee report and minute
- Details of staff qualifications
- Performance appraisal process
- Confirmation of independence
- Financial Regulations extract
- Audit and Scrutiny Committee Terms of Reference
- Employee code of conduct
- Examples of audit reports
- Chief Auditor job description
- Training records
- Review Points
- Retention schedule and records management policy
- Anti-fraud procedure extract
- External PSIAS assessment audit committee report (2018)
- Client feedback
- Service Level Agreement (East Renfrewshire Culture and Leisure)
- Stakeholder questionnaire
- Interview with Senior Auditor

APPENDIX C – STAKEHOLDER QUESTIONNAIRES

Stakeholder questionnaires were completed by the following key members of staff and Elected Members:

- Lorraine McMillan (Chief Executive)
- Margaret McCrossan (S95 Officer, Head of Accountancy)
- Gerry Mahon (Monitoring Officer, Chief Officer Legal and Procurement)
- Cllr Andrew Morrison (Chair of Audit and Scrutiny Committee)

APPENDIX D – ACTION PLAN

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
1	6.1.1	<p>The Charter should be updated to reflect the revised PSIAS (2017) and reviewed to:</p> <p>include a statement regarding the Mission of Internal Audit and to:</p> <p>provide a definition of the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation.</p>	Agree to update Charter to reflect requirements as stated in PSIAS	Chief Auditor June 2024
2	7.1.5	The audit plan should incorporate a strategic high-level statement of how the internal audit service will be delivered in accordance with the Internal Audit Charter.	Agreed	Chief Auditor June 2024
3	7.1.5	An assurance mapping exercise of how the Internal Audit Plan links to the organisation's strategic and organisational top risks should be completed and presented along with the Annual Plan each year.	Consideration will be given to providing narrative on how the internal audit plan links to the organisation's strategic top risks where appropriate.	Chief Auditor June 2024
4	7.3.1	Audit remits should be expanded to include the scope of work; resources allocated; risks relevant to the engagement along with further detail as to how audit work relates to the Council's risks, strategies and objectives.	Agree to extend audit remits to include scope, resources and risks. Will consider adding reference to Council's risks and strategies where relevant.	Chief Auditor June 2024
5	7.5.1	Audit reports should record a formal audit opinion that align to the various classifications of audit opinion within the annual report.	Agreed, I will implement this for 2024/25 audits.	Chief Auditor April 2024
6	7.5.3	The timing of the presentation of the Internal Audit Annual Report should be aligned to that of the Committee receiving the Council's draft unaudited accounts so that the Chief Auditor's opinion, for the	The Chief Auditor will aim to submit the Internal Audit Annual Report to the June meeting of the Audit and Scrutiny Committee each year where possible.	Chief Auditor June 2024

		relevant financial year, is captured within the draft Annual Governance Statement (AGS).		
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Critical	Critical
Significant	Significant
Routine	Routine