

FTF
INTERNAL AUDIT SERVICE



**PUBLIC SECTOR INTERNAL AUDIT STANDARDS
EXTERNAL QUALITY ASSESSMENT
ARGYLL AND BUTE COUNCIL**

Issued To: L Slavin, Chief Internal Auditor
C.Sneddon, Chief Executive, Argyll and Bute Council
External Audit- Audit Scotland

Date: 24 August 2018

INTRODUCTION & SCOPE

- 1 Argyll and Bute Council (the Council) has an in-house internal audit function which provides an internal audit service to the Council, based on Public Sector Internal Audit Standards (PSIAS) which were last updated in April 2017. Compliance with these standards is mandatory for all public sector, including local authority, internal audit service providers, whether in-house, shared services or outsourced.
- 2 PSIAS requires external assessments to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 3 The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has developed an external quality assessment framework to satisfy this requirement for a five yearly external assessment which includes FTF Audit, who were chosen to review the Council's Internal Audit service.
- 4 This report sets out the findings arising from the external assessment undertaken by the Chief Internal Auditor for FTF Audit, which provides internal audit services to NHS Fife, NHS Tayside, NHS Forth Valley, NHS Lanarkshire and NHS Health Scotland.
- 5 The scope of the review was to establish whether the Council's internal audit function is complying fully with PSIAS and identify any recommendations for improvement.
- 6 The scope of this review is limited to the processes, procedures and practises in place during the tenure of the current Chief Internal Auditor (CIA) which commenced on 24 October 2017. No assurance is provided on any predecessor systems which have not been evaluated as part of this review.

OBJECTIVES

- 7 Our audit work was designed to evaluate whether appropriate systems were in place and operating effectively to mitigate risks to the achievement of the objective identified below:
 - ◇ As required by PSIAS, 'The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.'
- 8 Whilst not part of the formal process, during the course of this review, we looked to identify areas where the service may be able to add further value.

AUDIT OPINION AND FINDINGS

- 9 Based on the extensive evidence provided to us and detailed discussions with the CIA, we have concluded that the Council's internal audit service was able to demonstrate overall compliance with PSIAS requirements.

10 We were provided with a comprehensive and detailed portfolio of evidence encompassing all aspects of PSIAS and identified many areas of strong practice including the following:

- ◇ Robust procedures for compliance with PSIAS and Council ethical standards;
- ◇ A current, comprehensive Audit Charter containing all relevant aspects of PSIAS;
- ◇ A comprehensive audit manual directly related to PSIAS requirements;
- ◇ A CIA with sufficient status and authority with strong links to key officers, the management team and the Audit & Scrutiny Committee (the Committee) and good processes for engagement and consultation;
- ◇ Clear lines of reporting to the Committee and management with very comprehensive communication of departmental performance and individual audit findings;
- ◇ Robust self-assessment procedures;
- ◇ Clear evidence of diligent supervision of audit assignment planning and audit outputs;
- ◇ Clear procedures for follow-up and reporting of internal audit recommendations with very high compliance rates;
- ◇ Positive feedback from Council staff and elected members.

11 We would highlight the following areas of potential improvement:

- ◇ Whilst the planning process is robust, the annual Internal Audit plan does not contain overt reference to the Council's risk register and it is not therefore possible for the Committee to understand how the plan relates to the Council's key risks and controls. In addition, the plan does not demonstrate how coverage is related to other sources of assurance to ensure best use of Internal Audit resources;
- ◇ Although the planning process does take previous year's coverage into account, this is not made available to the Committee when approving the plan and therefore the Committee cannot assess which areas are not being addressed and, as noted above, is not able to assess the extent to which its key risks have been reviewed in this or previous years;
- ◇ Individual assignment plans are not focused on the key risks and controls highlighted within the risk register, although these are taken into account amongst a range of factors when developing an audit programme. Audit reports do not provide overt assurance on key risks and controls where relevant;
- ◇ The CIA's contribution to risk management arrangements within the Council should be undertaken under the auspices of a consultancy audit so that there is clarity over the scope of this work and overt evidence that PSIAS requirements in relation to consultancy appointments are met. This will also facilitate consideration of how best to ensure the independence of formal internal audit reviews of risk management, which are essential for a full understanding of the adequacy and effectiveness of internal control.

12 A number of minor issues are highlighted in the Action Plan to this report; none impact on our assessment of overall compliance with PSIAS.

- 13 The following chart shows our detailed assessment against each standard, noting that all instances where full compliance is not achieved relate solely to the issue of risk, which permeates a number of the standards:

	PSIAS Assessment Standard	Assessment
1	Definition of internal auditing	Fully Conforms
2	Code of ethics	Fully Conforms
3	Purpose, authority and responsibility	Fully Conforms
4	Independence and objectivity	Generally Conforms
5	Proficiency and due professional care	Fully Conforms
6	Quality assurance and improvement programme	Fully Conforms
7	Managing the internal audit activity	Generally Conforms
8	Nature of work	Generally Conforms
9	Engagement planning	Generally Conforms
10	Performing the engagement	Fully Conforms
11	Communicating results	Fully Conforms
12	Monitoring progress	Fully Conforms
13	Communicating the acceptance of risks	Fully Conforms

ACTION

- 14 An action plan has been agreed with management to address the identified areas for potential improvement. The Council's CIA has agreed to include all actions in the internal audit quality assurance improvement programme, an update on which is reported to the Committee as part of a standard agenda item. This follow-up process is in accordance with PSIAS.

ACKNOWLEDGEMENT

- 15 We would like to thank all members of staff for the help and co-operation received during the course of the audit.

A Gaskin, BSc. ACA
Chief Internal Auditor

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
1.	The annual Internal Audit plan does not contain overt reference to the Council's risk register and it is not therefore possible for the Committee to understand how the plan relates to the Council's key risks and controls. In addition, the plan does not demonstrate how coverage is related to other sources of assurance to ensure best use of Internal Audit resources.	<p>The annual plan should contain clear reference to the council's risk register and demonstrate how the plan will provide assurance on key risks and controls. It should also demonstrate how duplication is avoided through reliance on other external and independent assurance sources.</p> <p>Reference to key organisational priorities and objectives would also help the Committee understand the value and relevance of the proposed audits.</p>	<p>2</p> <p>3</p>	<p>A review of the format and content of the internal audit plan is currently underway and both these recommendations will be factored into that review.</p> <p>In particular, where relevant, there will be a clear alignment between identified audit assignments and the Council's strategic and/or operational risk register and a three year projection to show proposed future coverage of key strategic risks.</p> <p>The draft 2019/20 plan will be submitted to the Committee in December 2018 with a final version agreed in March 2019. Committee will be asked to feedback on the revised format presented in December and any feedback received will be factored into the final version.</p>	<p>Chief Internal Auditor</p> <p>23 November 2018</p>

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
2.	Prior year coverage is not presented to the Committee during its approval of the annual Internal Audit plan and therefore the Committee cannot assess which areas are not being addressed and, as noted above, is not able to assess the extent to which its key risks have been reviewed in this or previous years;	<p>As part of the revised planning process described above, the plan should demonstrate how previous coverage has provided assurance on key risks and controls and identify any key risks which will not be subject to internal audit review, with an explanation of the potential consequences to the Council.</p> <p>This information should inform the Committee consideration of the adequacy of internal audit coverage.</p>	<p>2</p> <p>3</p>	As per the response to action plan 1 this will also be considered when revising the format and content of the internal audit plan. The 2019/20 plan will also provide a summary of the key risks which were addressed by the 2018/19 internal audit plan.	<p>Chief Internal Auditor</p> <p>23 November 2018</p>

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
3.	Individual assignment plans are not focused on the key risks and controls highlighted within the risk register, although these are considered amongst a range of factors when developing an audit programme.	In addition to the emphasis on risks in the operational plan, individual audit assignments should demonstrate overt recognition of the risks, controls and assurances recorded in the Council's risk registers which should be a primary focus of the audit wherever relevant.	2	As per the finding box the risk registers are considered when audit terms of reference and audit programmes are drafted and approved. However it is recognised these planning documents could provide a clearer link between the risks identified and the control objectives designed to provide assurances over those risks. A review of the format and content of the terms of reference is currently underway and this recommendation will be factored into that review.	Chief Internal Auditor 23 November 2018
4.	Audit reports do not provide overt assurance on key risks and controls where relevant.	Wherever possible internal audit reports should provide assurance on the accuracy of the risks, controls and risk scores recorded in the risk register.	3	The template audit report will be revised to specifically reference the risks that were identified in the audit planning process and documented in the terms of reference (as per action plan 3). This combined with action plan 1 will provide greater assurance to the Committee over the controls/mitigating actions recorded in the risk registers.	Chief Internal Auditor 22 February 2019

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
5.	<p>Although the CIA made a significant contribution to the renewal of risk management processes, there was no assignment plan to ensure that independence was maintained. Consideration of the adequacy and effectiveness of risk management is one of the key components of the CIA's annual opinion.</p> <p>The 2017/18 review of risk management was an update rather than an overall assessment of the adequacy and effectiveness of risk management arrangements and the Committee did not receive any other assurance on risk management.</p>	<p>Any future contribution by the CIA to risk management arrangements within the Council should be undertaken under the auspices of a consultancy audit so that there is clarity over the scope of this work and overt evidence that PSIAS requirements in relation to consultancy appointments are met.</p> <p>The Committee should receive formal assurance on risk management arrangements at least annually. Consideration should be given to receipt of an annual risk management report from management, in addition to formal assurance from the CIA.</p>	<p>3</p> <p>2</p>	<p>The 2017/18 risk management report reflected the CIA's opinion that risk management procedures needing strengthening and on the activity to deliver those improvements. The Chief Executive reported further to the Committee in June 2018 on the strategic risk register and confirmed the new risk management arrangements.</p> <p>The CIA has agreed that Audit Scotland will provide an opinion on the Council's risk management arrangements in their 2017/18 annual audit report with internal audit focusing on the council's compliance with the risk management procedures. This will provide Committee with the cumulative assurance they require whilst ensuring appropriate independence over each component part.</p> <p>In future years these assurances will be fully provided by the internal audit's annual risk management report unless the CIA is of the view that he has had any material input in implementing further revisions to risk management arrangements.</p>	<p>Chief Internal Auditor / Audit Scotland</p> <p>Audit Scotland's annual audit report will be presented to Committee on 25 September 2018.</p> <p>Internal Audit's review of risk management is currently scheduled to be reported to Committee on 19 March 2019.</p>

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
6.	<p>Minor areas for consideration are:</p> <p>The Internal Audit contribution to Best Value and its ability to add value could be made more explicit so that maximum benefit can be derived from the Internal Audit function.</p> <p>The audit plan and annual internal audit report do not detail how the impact of Health and Social care integration on assurance and control has been taken into account. It is not clear how the Terms of Reference of the Committee have been adjusted to allow for HSCI.</p> <p>Chair input into CIA Performance review might be beneficial.</p> <p>The CIA job description requires CCAB but does not recognise the equivalent IIA qualification.</p>	<p>These issues should be discussed with the Committee and/or management to decide whether further action is required.</p>		<p>The CIA will prepare a paper for SMT consideration which incorporates these issues.</p> <p>The terms of reference of the Audit & Scrutiny Committee are subject to annual review as part of a wider review of the Council's constitution. The CIA will engage with the SMT Committee Chair and the internal auditors of Argyll & Bute HSCP to determine an appropriate protocol for obtaining audit assurances and whether there is a need to revise the Committee terms of reference.</p>	<p>Chief Internal Auditor</p> <p>26 November 2018</p>

APPENDIX A**DEFINITION OF ASSURANCE CATEGORIES AND RECOMMENDATION PRIORITIES****Categories of Assurance:**

A	Good	There is an adequate and effective system of risk management, control and governance to address risks to the achievement of objectives.
B	Broadly Satisfactory	There is an adequate and effective system of risk management, control and governance to address risks to the achievement of objectives, although minor weaknesses are present.
C	Adequate	Business objectives are likely to be achieved. However, improvements are required to enhance the adequacy/ effectiveness of risk management, control and governance.
D	Inadequate	There is increased risk that objectives may not be achieved. Improvements are required to enhance the adequacy and/or effectiveness of risk management, control and governance.
E	Unsatisfactory	There is considerable risk that the system will fail to meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of risk management, control and governance and to place reliance on the system for corporate governance assurance.
F	Unacceptable	The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Immediate action is required to improve the adequacy and effectiveness of risk management, control and governance.

The priorities relating to Internal Audit recommendations are defined as follows:

Priority 1 recommendations relate to critical issues, which will feature in our evaluation of the Governance Statement. These are significant matters relating to factors critical to the success of the organisation. The weakness may also give rise to material loss or error or seriously impact on the reputation of the organisation and require urgent attention by a Director.

Priority 2 recommendations relate to important issues that require the attention of senior management and may also give rise to material financial loss or error.

Priority 1 and 2 recommendations are highlighted to the Audit Committee and included in the main body of the report within the Audit Opinion and Findings

Priority 3 recommendations are usually matters that can be corrected through line management action or improvements to the efficiency and effectiveness of controls.

Priority 4 recommendations are recommendations that improve the efficiency and effectiveness of controls operated mainly at supervisory level. The weaknesses highlighted do not affect the ability of the controls to meet their objectives in any significant way.