

Governance, Risk and Best Value Committee

10.00am, Tuesday, 1 August 2017

Internal Audit Opinion and Annual Report for the Year Ended 31 March 2017

Executive summary

Item number	7.1
Report number	
Executive/routine	
Wards	

This report provides the Internal Audit Annual Report and Opinion based on Internal Audit activity undertaken for the financial year ended 31 March 2017.

This report details the scope of internal audit, the opinion for the year ended 31 March 2017 and a note on the role and limitations of internal audit. This report is prepared per the requirement set out in the Public Sector Internal Audit Standards (PSIAS).

Links

Coalition pledges
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Single Outcome Agreement

Internal Audit Opinion and Annual Report for the Year Ended 31 March 2017

Recommendations

- 1.1 It is recommended that the Committee note the internal audit opinion for the year ended 31 March 2017.

Background

- 2.1 The purpose of the Internal Audit function is to review and consider the City of Edinburgh Council's framework of governance, risk management & controls, and to make recommendations to management as to how any identified weaknesses might be addressed. Internal Audit also work with management to assist in the process of developing actions to rectify identified weaknesses. However, it is the responsibility of management to address and rectify the weaknesses identified and in doing so, improve the robustness of the framework of Governance, Risk Management and Control in place at the Council.
- 2.2 The Public Sector Internal Audit Standards (PSIAS) requires that the Chief Internal Auditor delivers an annual opinion to the Governance, Risk and Best Value Committee, that can be used to inform the organisation's Annual Governance Statement. The purpose of this report is to present our opinion on the overall adequacy and effectiveness of the City of Edinburgh Council's framework of governance, risk management and controls, as relevant to our internal audit work performed for the financial year 1 April 2016 to 31 March 2017.
- 2.3 Whilst this report is a key element of the framework designed to inform the Annual Governance Statement, there are also a number of other important sources to which the Governance, Risk and Best Value Committee should look to gain assurance. This report does not supplant the Governance, Risk and Best Value Committee's responsibility for forming their own view on governance, risk management and control.

Internal Audit Opinion

Opinion

- 3.1 Internal Audit considers the framework of Governance, Risk Management and Control to be generally adequate but with enhancements required.
- 3.2 Internal Audit have not identified any fundamental weaknesses in the framework of governance, risk management and control at the Council.
- 3.3 However, based on our work performed in the year, (set out below) and the management recommendations that remain outstanding at the date of this report, Internal Audit considers that there are weaknesses in the framework of governance, risk management and controls. There were also instances during the year of non-compliance with existing controls. If not addressed, these weaknesses and instances of non-compliance may put the achievement of organisational objectives at risk. We consider that improvements are therefore required to address the matters identified, which will enhance the adequacy and effectiveness of governance, risk management and control.
- 3.4 This opinion is subject to the inherent limitations of internal audit (covering both the controls environment and the assurance over controls) as set out in Appendix 1. The nature and types of opinion considered by Internal Audit are set out in appendix 2.

Basis of opinion

- 3.5 Our opinion is based solely on our assessment of whether the governance, risk management and controls in place support the achievement of the Council's objectives.
- 3.6 We have set out in Appendix 2 the 46 Internal Audit reports that have been issued in connection with the 2015/16 (6 reports carried forward) & 2016/17 Internal Audit programmes and which inform the 2016/17 opinion. Appendix 3 identifies 5, 2016/17 programme reviews approaching completion. We have also considered the effect of any changes in the Council's systems & objectives as well as the level of resources available to Internal Audit.
- 3.8 We identified a total of 121 recommendations within the 46 reports issued in 2016/17. These have been summarised below:

Service Area	Number of Reviews Completed	Number of findings			
		Critical	High	Medium	Low
Council Wide	4	-	1	4	-
Communities & Families	5	-	-	9	4

Health & Social Care	5	-	5	14	3
Place	9	-	8	14	8
Resources	13	-	8	16	9
Strategy & Insight	3	-	3	6	1
Joint Boards	5	-	1	6	1
Other	2	-	-	-	-
Total 16/17	46	-	26	69	26
<i>Total 15/16</i>	<i>43</i>	<i>-</i>	<i>15</i>	<i>70</i>	<i>36</i>
<i>Total 14/15</i>	<i>39</i>	<i>-</i>	<i>13</i>	<i>66</i>	<i>64</i>

3.9 For all completed internal audit reviews, finalised action plans have been agreed with management for recommendations made. The Council is on a journey of improvement with regard to the governance, risk management and internal control framework of the Council and the completion of the recommendations identified by Internal Audit will assist with these improvements.

3.10 The total number of open recommendations at 31 March 2017 (including overdue recommendations) is set out below:

Service Area	Number of findings			
	Critical	High	Medium	Low
Communities & Families	-		2	1
Health & Social Care	-	3	12	
ICT		6		
Place	-		10	2
Resources	-	10	15	3
Strategy & Insight	-	2	10	1
Total 16/17	-	21	49	7
<i>Total 15/16</i>	<i>-</i>	<i>13</i>	<i>48</i>	<i>30</i>
<i>Total 14/15</i>	<i>-</i>	<i>16</i>	<i>49</i>	<i>55</i>

Of these, there are 2 High & 29 Medium recommendations that currently remain open beyond an agreed 31 March 2017 or earlier closure date.

Service Area	Number of findings		
	Critical	High	Medium
Chief Executive – S&I	-	-	2
Communities & Families	-	-	-
Health & Social Care	-	2	11
ICT	-	-	-
Place	-	-	10
Resources	-	-	6
Total 16/17	-	2	29
<i>Total 15/16</i>	<i>-</i>	<i>2</i>	<i>15</i>
<i>Total 14/15</i>	<i>-</i>	<i>3</i>	<i>10</i>

We track and report High & Medium overdue outstanding actions on a quarterly basis and the results for the last 12 months are set out in the table below;

Grading	Over due at 31 March 2016	Over due at 30 June 2016	Overdue at 30 Sept 2016	Overdue at 31 Dec 2016	Overdue at 31 March 2017
High	2	6	5	5	2
Medium	15	16	17	18	29
Total	17	22	22	23	31

Further details of these overdue recommendations are contained within 'Internal Audit follow up arrangements: status report from 1 January 2017 to 31 March 2017'.

Comparison to prior year

- 3.11 We believe that the strength of the Governance Risk & Control environment at the Council as a whole has been broadly stable year on year and this is reflected in the generally consistent overall number of 'recommendations' identified in 2014/15, 2015/16 and 2016/17 audit years. We note the increase in 'High' Findings in 2016/17 and this is an area of concern, however 12 of these findings (46%) are concentrated within 3 individual reviews (2 of which relate to specific and isolated areas within the Council). Once the impact of these reviews is removed, the level of 'High' findings in 2016/17 remains broadly comparable with the previous 2 years. We have also noted areas where management have taken on board our recommendations and have made improvements to the control environment.
- 3.12 However, we note the deterioration over the year in the number of overdue actions shown above. We would encourage all those involved in Governance at the Council to assist in addressing and resolving these open items and reversing this trend.
- 3.13 While we consider that the strength of the framework of Governance, Risk Management and Control in place at the Council continues to be in the 'Generally adequate but with some enhancements required' category (See Appendix 2) we continue to consider that it is towards the lower end of this category. We consider that the Council should endeavour to improve its Governance Risk & Control environment and move towards a stronger position.

Independence of Internal Audit

- 3.14 Maintaining independence from the areas that are subject to review is an important part of our methodology. We have internal processes in place to ensure that personal independence is maintained at all times and that we manage any potential conflicts of interest that staff could have in conducting reviews.

3.15 We do not consider that we have faced any significant threats to our organisational independence during 2016/17, nor do we consider that we have faced any inappropriate scope or resource limitations.

Conformance with Public Sector Internal Audit Standards

3.15 The PSIAS require us to report annually on conformance. Adoption of the PSIAS is mandatory for UK public sector organisations and they provide a coherent and consistent internal audit framework for the whole of the public sector.

Internal assessment

3.16 The Chartered Institute of Public Finance & Accountancy (CIPFA) has prepared a Local Government Application Note and a Checklist for Assessing Conformance with the PSIAS in order to allow internal audit teams to evaluate the effectiveness of Internal Audit’s performance. The Checklist, which contains 334 best practice questions, was completed in Q3 2016/17 as part of the Internal Audit team’s quality programme.

3.17 The review identified one area of non-compliance with the PSIAS;

<i>Area of Non-compliance</i>	<i>Explanation</i>
The Internal Audit team were not aware of any written documentation with the Joint Boards & the Edinburgh Military Tattoo covering internal audit responsibilities	<p>The Council provides (& recharges) support services to each of these organisations, of which Internal Audit is one. The position in connection with Service Level Agreements (SLAs) with a number of these organisations is unclear and the Council are currently seeking to resolve this matter.</p> <p>The intention is to utilise the SLA that was implemented to govern the supply of internal audit services by the Council to the Edinburgh Integrated Joint Board as a template to ensure that appropriate SLA’s are in place with all these organisations.</p>

External assessment

3.18 The PSIAS requires that the service undergo an external quality assessment (EQA) every 5 years. In order to obtain this, the Internal Audit function joined the ‘Partnering Scheme’ promoted by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is a sub-group of CIPFA.

3.19 Under the SLACIAG scheme, the service was subject to an EQA by the Chief Internal Auditor of North Lanarkshire, which was undertaken between November 2016 and January 2017.

- 3.20 The outcome of the EQA was positive with Internal Audit assessed as **fully conforming** with the PSIAS. A copy of the EQA report received is enclosed as Appendix 5.
- 3.21 The EQA made three recommendations for improvement. These were all classified as minor. Two of these items can be addressed by making modest changes to documentation in the reporting to this Committee. Internal Audit has made these changes.
- 3.22 The final recommendation is in connection with the lack of current Service Level Agreements (SLA)s with Joint Bodies. This is something that Internal Audit recognises and was identified in our self assessment process. As noted above, this is in the process of being addressed.

Internal Audit Self-Assessment

Quality Assurance and Improvement Programme

- 3.21 The PSIAS require an ongoing quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity, and that the results of this programme are included in the Internal Audit annual report. The QAIP must include both annual internal assessments and external assessments at least every 5 years.
- 3.22 Internal Assessments must include ongoing monitoring of the performance of the internal audit activity and periodic self-assessments. Ongoing monitoring is an integral part of the day to day supervision, review and measurement of the internal audit activity, and is incorporated in the routine policies and practices used to manage the internal audit activity. All work is reviewed by qualified staff prior to being issued to ensure it is of sufficient quality and complies with the methodology set out in the Internal Audit Manual.
- 3.23 The requirement for the periodic self-assessment is met by;
- An annual self review of compliance with the PSIAS via reviewing our conformance with the CIPFA Local Government Application Note and Checklist;
 - Analysis of Internal Audit KPI trends;
 - Analysis of feedback received from clients on completed reviews to identify any trends emerging; and
 - The completion of quality reviews checklists on a sample of reviews to ensure that they comply with the Audit Manual. These reviews will be undertaken by a team member independent of the reviews.

Key performance indicators & client feedback scores

- 3.24 We reported our KPI results and client feedback scores for the first 6 months of the year (H1) to you in our Quarterly Update in December 2016. The results for the second 6 months of the year (H2) are set out below with H1 as a comparator.

	H2 2016/17	H1 2016/17
Staffing		
Chief Internal Auditor & Principal Audit Managers to be professionally qualified	Green	Green
Internal Audit training events to be held during the year	Green	Green
Operational		
Audits outlined in the annual plan to be completed in the year initially planned	Yellow	Yellow
Terms of Reference (ToRs) to be agreed for each audit before substantive field work commences	Green	Green
Exit meetings to be held at the end of the fieldwork	Green	Green
Draft reports issued to management for comment within 2 weeks of the exit meeting	Green	Green
Management comments received within 2 weeks of draft report being issued	Red	Red
Recommendations agreed with management prior to issue of the final report	Green	Green
Final report issued within 1 week of final management comments being received	Green	Green
Reporting		
Status of recommendations to be tracked, with overdue high and medium grade recommendations being reported to the GRBV	Green	Green
Wider Relationships		
Average client satisfaction score for quality	Green	Green
Average client satisfaction score for efficiency	Green	Green
Average client satisfaction score for timing	Green	Green

We have included within Appendix 6 greater detail on the H2 Half Year KPI results for 2016/17.

- 3.25 The 'red' KPI indicator highlights that we continue to find it difficult to get agreed management responses to our findings and close out audits within our targeted timelines. We frequently experience delays in receiving management responses from auditees with a corresponding impact on the efficiency of the closure process, however, this has no impact on the quality of the work performed and the conclusions reached in the internal audit reports issued.
- 3.26 The remaining indicators are tracking either broadly in line with or above our expectations.

Internal Quality Reviews

- 3.27 We conducted internal reviews on a sample of 10 files (2015/16 – 8) completed though out the year. These files covered work performed by a number of different Auditors, both Principal Audit Managers and outsourced (PwC) work.
- 3.28 The work documented for each file was assessed against 12 different attributes which covered audit methodology and project management requirements contained within our Internal Audit Manual. The evidence threshold for each question was deliberately set at a high standard with a '*If it's not documented on the file, it didn't happen*' approach adopted, even if other supporting evidence was available.

The results of this exercise are set out below:

		2016/17	2015/16
Planning attributes			
1	Is an understanding of the function's activities, set up, and their key objectives and risks demonstrated through scoping meeting minutes and planning documentation?	10/10 files were compliant.	7/8 files were compliant.
2	Were the terms of reference reviewed by the Chief Internal Auditor before it was issued to the key contacts?	10/10 files were compliant.	6/8 files were compliant.
3	Was the Planning Risk Control Matrix reviewed by the Principal	9/10 files were compliant	7/8 files were compliant.

	Audit Manager before controls testing began?		
Fieldwork attributes			
4	Was a walkthrough of the process completed? If not, is there evidence that this was discussed and agreed with the Principal Audit Manager?	10/10 files were compliant.	8/8 files were compliant.
5	Have the key controls been identified?	10/10 files were compliant.	8/8 files were compliant.
6	Were the sample sizes set out in the Internal Audit Manual used to test controls?	10/10 files were compliant.	8/8 files were compliant.
7	Have all the objectives agreed in the Terms of Reference been addressed?	10/10 files were compliant.	8/8 files were compliant.
Reporting attributes			
8	Was fieldwork reviewed by the Principal Audit Manager before the draft report was issued?	8/10 files were compliant.	5/8 files were compliant.
9	Was the draft report reviewed by the Principal Audit Manager and the Chief Internal Auditor before the draft report was issued?	10/10 files were compliant.	8/8 files were compliant.
10	Is there evidence of discussions with the appropriate level of management to confirm the factual accuracy of findings and agree management actions?	10/10 files were compliant.	8/8 files were compliant.
11	Has the final report (including management actions) been approved by the Chief Internal Auditor before issue?	10/10 files were compliant.	8/8 files were compliant.
Overall view			

12	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to reperform it if necessary and to support the conclusions reached?	10/10 files were compliant.	8/8 files were compliant.
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- 3.29 The results for 2016/17 internal file reviews show an improvement on the quality of our documentation surrounding the planning process, reflecting the additional focus we have put into documenting this part of the audit process.
- 3.30 The 2 'amber' rated areas act as a reminder of the necessity to maintain the core project management disciplines with both these criteria being project management related. In reality, given our style of work, it is likely that these two criteria were met in practise, but the lack of documentary evidence in a number of files to evidence this has resulted in the 'amber' status. These criteria which both related to the timely documentation of review procedures, have no impact on the overall audit quality of any audits as appropriate reviews were undertaken before the audits were finalised and released. They have been included within our quality review criteria as timely review can often increase audit efficiency.
- 3.31 We will continue to perform internal reviews going forward and I would anticipate that additional learning points will emerge from future reviews.

Measures of success

- 4.1 Effective governance, risk management and internal control within the City of Edinburgh Council.

Financial impact

- 5.1 No direct financial impact.

Risk, policy, compliance and governance impact

- 6.1 No direct impact.

Equalities impact

- 7.1 No direct impact.

Sustainability impact

8.1 No direct impact.

Consultation and engagement

9.1 None.

Background reading/external references

10.1 [Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector](#)

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Chief Internal Auditor

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Links

Coalition pledges

Council outcomes CO25

Single Outcome Agreement All

Appendices

- Appendix 1 – Limitations and responsibilities of internal audit
- Appendix 2 – Opinion types
- Appendix 3 – Internal Audit Reports Supporting 2016/17 Opinion
- Appendix 4 – Reviews Nearing Completion from the 2016/17 audit plan
- Appendix 5 – External Quality Review – Final Report
- Appendix 6 – Internal Audit KPIs for H2 2016/17

Limitations and responsibilities of internal audit and management responsibilities

Limitations and responsibilities of internal audit

The opinion is based solely on the internal audit work performed for the financial year 1 April 2016 to 31 March 2017. The work addressed the Terms of Reference agreed for each individual internal audit assignment as set out in the individual assignment reports. However, where other matters have come to the attention of Internal Audit which is considered relevant, they have been taken into account when forming the opinion.

There might be additional weaknesses in the system of internal control that were not identified because they did not form part of the programme of work, were excluded from the scope of individual internal audit assignments or were not brought to Internal Audit's attention. As a consequence Management and the Committee should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's attention.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to the Council is for the year ended 31 March 2017. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

It is Management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for Management's responsibilities for the design and operation of these systems.

Internal Audit endeavour to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, it carries out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and examinations by internal auditors should

not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2

Opinion types

The PSIAS require the provision of an opinion but do not provide any methodology surrounding the nature of that opinion. We have adopted the approach set out below in order to form an opinion for the Council.

We consider that there are 4 possible opinion types that could apply to the Council. These are set out in the table below:

1 Adequate <i>An adequate and appropriate framework of Governance, Risk management & Control is in place enabling the risks to achieving organisation objectives to be managed</i>	2 'Generally adequate but with enhancements required' <i>Areas of weakness and non-compliance in the framework of Governance, Risk management & Control that that may put the achievement of organisational objectives at risk</i>
3 'Significant enhancements required' <i>Significant areas of weakness and non-compliance in the framework of Governance, Risk management & Control that puts the achievement of organisational objectives at risk</i>	4 Inadequate <i>The framework of Governance, Risk management & Control is inadequate with a substantial risk of system failure resulting in the likely failure to achieve organisational objectives.</i>

Judgement is required to be exercised in determining the appropriate opinion to be given and it should be noted that in giving any opinion, assurance can never be absolute.

Appendix 3

Internal Audit Reports Supporting 2016/17 Internal Audit Opinion

Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Comments
Council Wide				
Continuous Testing: Stand By, On Call & Disturbance Payments – CG1511	1	2	-	-
Continuous Testing: Purchase Orders – CG1514	-	1	-	-
Continuous Testing: Working Time Regulations – RES 1618	-	1	-	-
Continuous Testing: Recording of Annual Leave & Sickness – CG1516	-	-	-	-
Communities & Families				
Complaints – CF1619	-	3	1	-
Review of Child Protection- CF1617	-	3	-	-
Management of Care Providers – CF1620	-	2	3	-
Prevent Strategy – CF1618	-	1	-	-

Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Comments
Communities & Families Assurance Framework – CF1601	N/A	N/A	N/A	Thematic findings from 15 establishment visits.
Health & Social Care				
Self Directed Support Option 3 – HSC 1503	3	4	1	1 advisory comment.
Integrated Health & Social Care Budgeting Process – HSC1505	2	1	-	-
Pre-Employment Verification – SW1601	-	6	-	-
Care Home Debt Management – HSC1601	-	2	2	-
Care sector Capacity – HSC 1504	-	1	-	-
Place				
Contract Management: Edinburgh Building Services & Housing Asset Management – PL1606	5	2	1	1 advisory comment
Infrastructure Inspections – PL1605	2	2	-	-
Review of Grant Management – CSE 1601	1	1	-	-
Mortuary Services – PL1603	-	3	2	-
Licensing – PL1602	-	2	3	-
Management of Development Funding – MIS 1617	-	2	1	-
Recycling Targets – PL1601	-	2	-	-

Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Comments
Port Facility Security Plan – MIS 1602	-	-	1	-
Monitoring of Air Quality – PL1604	-	-	-	-
Resources				
Leavers Process – RES 1603	4	1	-	-
Property Maintenance – RES 1615	2	2	1	-
Health & Safety – Contractor Management – RES 1601	1	2	-	-
Lothian Pension Fund – 3 rd Party Supplier Risk – RES 1614	1	1	-	-
Risk Function: Governance, Strategy & Process – RES 1608	-	3	1	1 advisory comment.
Non-Housing Invoicing – MIS1601	-	3	-	-
Service Level Agreements with Outside Entities – RES 1605	-	2	-	-
Lothian Pension Fund – Governance of LPF Group – RES 1613	-	1	2	2 advisory comments.
Facilities Management (Transformation Programme) – RES 1616	-	1	-	-
Lothian Pension Fund - Internally Managed Investments – RES 1602	-	-	3	-
Carbon Reduction Commitment – MIS 1605	-	-	2	-

Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Comments
Implementation of 2016/17 Savings – RES 1604	-	-	-	-
Review Recommend – Essential Learning – RES 1602	N/A	N/A	N/A	-
Strategy & Insight				
Online Customer Services – HMO Licensing – RES 1607	2	1	-	-
Review of Information Governance Framework – RES 1617	1	2	-	-
ICO Follow up – RES 1606	-	3	1	-
Joint Boards				
EIJB - Management Information (Referral from the EIJB Audit & Risk Committee)	1	3	-	-
Royal Edinburgh Military Tattoo – Stock Management & Anti-Fraud Procedures – JB1604	-	2	1	-
LVJB Annual Internal Audit Work – JB1601	-	1	-	1 advisory comment.
LBCJA Annual Internal Audit Work – JB1603	-	-	-	-
SesTrans Annual Internal Audit Work – JB1602	-	-	-	-
Other				
Tron Kirk Investigation	N/A	N/A	N/A	
CWSS Grant claim	N/A	N/A	N/A	

Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Comments
TOTAL (46 reports)	26	69	26	

Appendix 4

Reviews Nearing Completion

The following table shows the Internal Audit reviews from the 2016/17 Internal Audit plan that are nearing completion at the time of preparing this report. All of these were with Management for comment prior to Mid-April 2017.

Service Area	Title / Description
Council Wide	Cyber – External Vulnerability
Council Wide	IT Disaster Recovery
Council Wide	ICT: Monitoring of Contract Payments
Children & Families	'GIRFEC' – Named Person
Health & Social care	Review Recommend – Care at Home Contract



SCOTTISH LOCAL AUTHORITIES

Chief Internal Auditors' Group

To: HEAD OF LEGAL AND RISK (as Chief Officer with line management responsibility for Internal Audit) COUNCILLOR JOANNA MOWAT, (as Chair of the Governance, Risk and Best Value Committee (GRBV) - the Council Committee with oversight responsibility for internal audit matters)		CITY OF EDINBURGH COUNCIL EXTERNAL QUALITY ASSESSMENT OF THE INTERNAL AUDIT SERVICE FINAL REPORT
From: KEN ADAMSON, HEAD OF AUDIT AND INSPECTION, NORTH LANARKSHIRE COUNCIL		
Date: 27 January 2017	Ref: KA/CEC-EQAR	

1 Purpose of Report

- 1.1 To report to the results of a recently completed External Quality Assessment Review (EQAR) of the extent to which the Council's internal audit service is complying with the requirements of the Public Sector Internal Audit Standards (PSIAS).

2 Background

- 2.1 The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS).
- 2.2 The PSIAS sets out a range of key requirements with which internal audit functions and organisations are expected to comply covering a broad range of relevant areas including:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (covering areas such as responsibility, independence, proficiency and quality); and
 - Professional Standards (covering areas such as managing activity, nature of work undertaken, engagement planning, performing the engagement, communicating results, monitoring progress and risk management).
- 2.3 The PSIAS requires the 'Chief Audit Executive (CAE)', the Council's Chief Internal Auditor, to carry out an annual internal self-assessment against the PSIAS and develop a quality assurance and improvement plan (QAIP) based on the outcome.
- 2.4 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment Review (EQA) at least once every five years, by appropriately qualified and independent reviewers. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have developed a "peer review" framework as a cost effective means of complying with this requirement. City of Edinburgh Council has previously agreed to participate in this workstream.

3. Scope of review and work undertaken

- 3.1 The EQAR was undertaken by the Head of Audit and Inspection from North Lanarkshire Council. The review, which took place between November 2016 and January 2017, was based on an updated self-assessment completed by the City of Edinburgh Council Internal Audit team in October 2016.
- 3.2 The review methodology included a detailed consideration of the latest self-assessment and supporting evidence completed by audit management. Discussions were also held with key stakeholders (including the Chair of the GRBV Committee, the Head of Legal and Risk and the Council's s95 officer) to obtain a fuller understanding of how Internal Audit operates and interacts with key stakeholders.
- 3.3 Detailed additional testing was undertaken using a standard checklist and involved a review of a range of Internal Audit guidance and process documents, consideration of the Council's governance arrangements in relation to Internal Audit, examination of a sample of 2016-17 audit files and consideration of Internal Audit outputs.
- 3.4 The review focused on the operation of the internal audit service and did not undertake any specific work to assess the effectiveness of the GRBV Committee.

4. Results of the EQA review

- 4.1 The overall conclusion arrived at following completion of the comprehensive EQA checklist and based on the results of the work undertaken, is that in my opinion the City of Edinburgh Council Internal Audit Service **fully conforms** with the PSIAS.
- 4.2 Our detailed assessment in respect of each of the individual elements of the PSIAS is summarised in Appendix 1 of this report.
- 4.3 We have identified a range of good practice examples including well documented and embedded internal audit methodologies, a robust and transparent audit planning methodology and effective reporting arrangements.
- 4.4 There were no issues identified on which we have raised significant recommendations. We have raised a small number of suggested improvement actions for the Chief Internal Auditor to consider, although these are relatively minor suggestions and none of the issues raised are considered to be material in relation to PSIAS or to our assessment. Suggested improvement actions are included at Appendix 2. These should in due course be added to the QAIP and progress addressing them reported to the GRBV Committee.
- 4.5 I would like to thank all those involved for the co-operation and assistance received during the course of the review.

Ken Adamson
Head of Audit and Inspection
North Lanarkshire Council

For further information please contact Ken Adamson, Head of Audit and Inspection, North Lanarkshire Council on 01698 302188

Appendix 1 EQAR Summary of Assessment

Assessment Area	Fully conforms	Generally conforms	Partially conforms	Does not conform
<u>Section A - Definition of Internal Auditing:</u> Key areas within the standards that contribute towards the assessment of whether or not the Internal Audit activity meets the definition of Internal Auditing.	√			
<u>Section B - Code of Ethics:</u> Key areas within the standards that contribute towards the assessment of whether or not individual auditors comply with the Code of Ethics.	√			
Section C - Attribute Standards				
<u>1000 Purpose, Authority and Responsibility:</u> 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.	√			
<u>1100 Independence and Objectivity:</u> 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.	√			
<u>1200 Proficiency and Due Professional Care:</u> 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.	√			
<u>1300 Quality Assurance and Improvement Programme:</u> The standard sets out the necessary requirements for the internal and external assessment of performance and compliance against the PSIAS and the arrangements for reporting on results and disclosure of non-performance.	√			

Appendix 1 (continued) EQAR Summary of Assessment

Assessment Area	Fully conforms	Generally conforms	Partially conforms	Does not conform
Section D - Performance Standards				
<u>2000 Managing the internal Audit Activity:</u> 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.	√			
<u>2100 Nature of Work:</u> The standard sets out 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.	√			
<u>2200 Engagement Planning:</u> The standard sets out the requirements necessary to develop and plan for each engagement including the objectives, scope, timing and resource allocations.	√			
<u>2300 Performing the Engagement:</u> The standard sets out the requirements necessary to gather, document, analyse and evaluate evidence to achieve the engagement objectives. Supervision arrangements and records management are also covered.	√			
<u>2400 Communicating Results:</u> The standard sets out the requirements necessary for the communication of results for individual engagements and the overall annual opinion.	√			
<u>2500 Monitoring Progress:</u> The standard sets out the expected arrangement for monitoring the implementation of agreed actions or the acceptance of the risk of not implementing.	√			
<u>2600 Communicating the Acceptance of Risks:</u> The standard sets out the expected arrangement for the escalation of unacceptable risk to the Board.	√			

Appendix 2 Recommendations arising from EQAR

Assessment Area	Recommendation	Management comments	Responsible officer and date
1100	<p>Reporting and management arrangements appear adequate and effective in ensuring that Internal Audit can fulfil its responsibilities and support and preserve the CAE's independence and objectivity. No real or apparent impairment was identified.</p> <p>The CAE may wish to consider providing specific assurance to the GRBV Committee within the Annual Report that there has been no impairment during the year to the organisational independence of the function and/or no significant threats to the independence of the internal audit activity, such as inappropriate scope or resource limitations.</p>	<p>Our view is that we cover this point implicitly in our annual report when we confirm compliance with the PSIAS, an impairment (perceived or actual) to Independence or an unacceptable scope limitation would be outwith the PSIAS.</p> <p>However we accept that an explicit statement to this effect in our annual report would be beneficial and we will ensure such a statement is included within the annual report for 2016/17 when it is presented at the June GRBV Committee.</p>	Chief Internal Auditor 30 June 2017
2000	<p>The Internal Audit Annual Plan contains documented risk assessment and planning methodology which includes narrative relating to other forms of assurance and how these will be treated by the function.</p> <p>The CAE may wish to consider whether scope exists to explain more clearly to the GRBV how other forms of assurance impact on his assessment of the strength of the control environment for each auditable unit.</p>	<p>We agree with this recommendation and have added additional narrative to the 2017/18 Annual Plan to explain in greater detail how other sources of assurance impact the control environment assessment for each auditable unit.</p>	Chief Internal Auditor 30 April 2017
2200	<p>The service delivers internal audit services to a relatively small number of outside bodies; although standard audit methodologies are used which appear PSIAS compliant and the CAE has largely addressed any potential weaknesses or issues which might arise, the Service's QAIP has identified the need to formalise Service Level agreements (SLAs) with outside bodies.</p> <p>The CAE should seek to ensure SLAs are agreed with all outside bodies to which internal audit services are delivered which address relevant roles and responsibilities and key operational arrangements.</p>	<p>We recognise this issue and highlighted it in our annual report for 2015/16. We are seeking to address this and currently are in the final stages of agreeing a draft SLA for the EIJB (it has been approved by the Council's legal team and is undergoing final review by the NHS legal team).</p> <p>Once we can get the EIJB SLA agreed, it is our intention to use this as a template for the other JB's. Given the timing of the audit cycle for the other JB, it will be Q4 of 2017/18 before these can be put in place.</p>	Chief Internal Auditor EIJB: 30 June 2017 Other JB's: 31 March 2018

Internal Audit - KPIs for H2 2016/17

KPI	Target Level	Current Status	H1 2016/17 Status	Comments
Staffing				
Chief Internal Auditor & Principal Audit Managers to be professionally qualified	100%	100%	100%	
Internal Audit training events to be held during the year	2	6	1	We held 6 formal training events during the year, 4 of which were facilitated by external specialists and 2 by internal audit team members. In addition to this, we held a number of ad-hoc internal training sessions.
Operational				
Audits outlined in the annual plan to be completed in the year initially planned	90%	86%	31%	Excluding Continuous Testing, the Schools Assurance project and the provision of 3 audits for the Edinburgh Integration Joint Board, the 2016/17 Audit plan contained 37 identified audits. 32 of which have been completed as planned during the year. The remaining 5 are in the completion phase with Internal Audit awaiting comments from Management. In addition, there were 4 unplanned audits/reviews completed during the year.
Terms of Reference (ToRs) to be agreed for each audit before substantive field work commences	100%	100%	100%	
Exit meetings to be held at the end of the fieldwork	100%	100%	100%	
Draft reports issued to management for comment within 2 weeks of the exit meeting	90%	91%	93%	
Management comments received within 2 weeks of draft report being issued	90%	30%	43%	We continue to experience difficulties in obtaining management comments within the targeted timescales, particularly for the more challenging audits. We have however noted an improvement in the quality of initial responses received from management.
Recommendations agreed with management prior to issue of the final report	100%	100%	100%	

Final report issued within 1 week of final management comments being received	80%	96%	100%	
Reporting				
Status of recommendations to be tracked, with overdue high and medium grade recommendations being reported to the GRBV	100%	100%	100%	
Wider Relationships				
Average client satisfaction score for quality	3.5	4.9	4.9	Our client satisfaction survey works on a 1-5 scoring system (5 being highest). We have observed a marked reduction in management responses to our client satisfaction surveys which is disappointing.
Average client satisfaction score for efficiency	3.5	4.9	4.9	
Average client satisfaction score for timing	3.5	5	4.9	

NB: The KPI results exclude Continuous Testing & the Schools Assurance programme (other than the Wider Relationships section which includes Continuous Testing reports) as a consequence of their differing natures to core internal audit reports. These items follow different pathways that do not map to these KPIs.