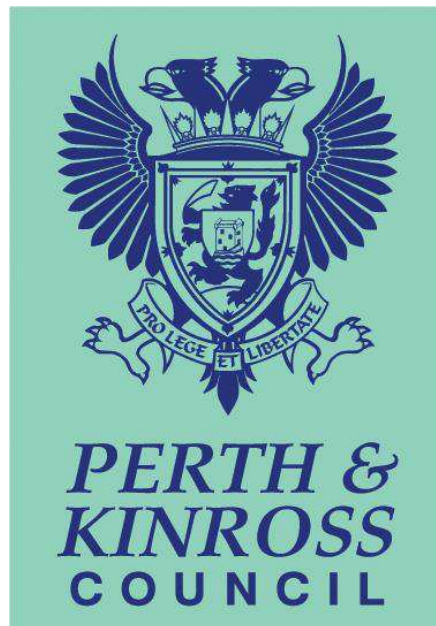


Perth and Kinross Council



EXTERNAL QUALITY ASSESSMENT OF THE INTERNAL AUDIT SERVICE

Final Report

8 October 2018

External Quality Assessment of the Internal Audit Service at Perth and Kinross Council

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External Quality Assessment of the Internal Audit Service at Perth and Kinross Council

1. EXECUTIVE SUMMARY

1.1. Background

1.1.1. This report has been prepared following a review of compliance with the Public Sector Internal Audit Standards (PSIAS) 2013 and the International Professional Practices Framework (IPPF) on which PSIAS has been based. The purpose of this report is to provide an overview of Perth and Kinross Council's (PKC) arrangements for the operation and management of its Internal Audit service.

1.1.2. PSIAS applies to all internal audit service providers, whether in-house, shared services or outsourced.

1.1.3. PSIAS defines internal audit as *"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"*.

1.1.4. PSIAS requires, as outlined in Standard 1300 "Quality Assurance and Improvement Programme", that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation".

1.1.5. To meet this requirement, a reciprocal arrangement to complete a programme of inspections has been developed by the Chief Internal Auditor's Group (SLACIAG) within Scotland. This has identified South Ayrshire Council as the Authority to undertake the independent review of PKC's Internal Audit function's level of compliance with PSIAS.

1.1.6. This report details the findings from the External Quality Assessment (EQA) undertaken in August 2018 by the Acting Chief Internal Auditor of South Ayrshire Council.

1.2. Scope

1.2.1. The purpose of this EQA is to provide an independent assessment of the extent to which the Internal Audit Service within PKC complies with PSIAS.

1.2.2. The methodology for this EQA takes the form of a validated self-assessment. As such, the following work was undertaken in arriving at an opinion:

- A review of the latest self-assessment and supporting evidence provided by the Chief Audit Executive (CAE);
- canvassed the opinions of key stakeholders such as Chair of the Audit Committee, Directorate, and Chief Executive;
- completed a series of tests using a standard checklist; and
- completed a review of guidance and process documents and a sample of files.

1.3. Limitations

1.3.1. No specific work has been undertaken to assess the effectiveness of the Council's Audit Committee as this was not required to assess the internal audit function's level of compliance with PSIAS. A view as to the extent of compliance with PSIAS cannot be taken as any assurance on the strength of the control environment. It should also be noted that this report does not include detailed findings from the sample file reviews undertaken but these findings have been used to support our recommendations for improvements.

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1.4. Areas of good practice identified

1.4.1. A number of areas of good practice have been identified from the review, namely:

- Use of an 'objectivity register' which lists all conflicts or potential conflicts of interest within the internal audit service, and remains under continuous review by the Chief Internal Auditor;
- Significant experience on the part of the Chief Internal Auditor as well as an overall experienced Internal Audit team; and
- Overall full compliance with PSIAS and IPPF.

1.5. Conclusion and Main Findings

1.5.1. The overall conclusion is arrived at following completion of the comprehensive EQA Checklist and, based on the work we have undertaken, it is our opinion that the Internal Audit Service, within PKC, **fully conforms** with the PSIAS. As detailed at Appendix A the majority of areas are fully compliant with the requirements of PSIAS, with one area which generally conform.

1.5.2. Aside from an overall full conformance with PSIAS, the review has highlighted some areas where enhancements could be made such as:

- Developing a suite of Key Performance Indicators to measure service delivery; and
- Developing a formal assurance mapping process to support the overall Statement of Assurance at the financial year-end.

These are detailed in full at Section 3 (Action Plan).

2. DETAILED FINDINGS AND RECOMMENDATIONS

The findings are detailed below under each heading within the checklist.

2.1. Section A: Definition of Internal Auditing

2.1.1. The internal audit function within PKC is considered to **fully conform** with the definition of internal auditing.

2.2. Section B: Code of Ethics

2.2.1. The internal audit function within PKC is considered to **fully conform** with the Code of Ethics.

2.3. Section C: Attribute Standards

1000 Purpose, Authority and Responsibility

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.

2.3.1. The internal audit function within PKC is considered to **fully conform** in terms of its purpose, authority and responsibility, with some areas for improvement to the Internal Audit Charter and Counter-Fraud and Corruption Strategy (**Action Points 1 and 2**).

1100 Independence and Objectivity

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

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arrangements expected to achieve individual objectivity and for dealing with potential and actual conflicts of interest.

2.3.2. The PSIAS requires that organisational independence is evidenced through performance appraisals for the CAE that includes feedback from the Chief Executive and the Chair of the Board. The performance appraisal of the CAE is not countersigned by the Chief Executive or the Convener of the Audit Committee. **(Action Point 3)**

2.3.3. The internal audit function within PKC is considered to **fully conform** in terms of its independence and objectivity.

1200 Proficiency and Due Professional Care

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.

2.3.4. Job descriptions were provided for internal audit team members however two of these may be out of date as they were last reviewed in 2010. **(Action Point 4)**

2.3.5. The internal audit function within PKC is considered to **generally conform** in terms of its proficiency and due care.

1300 Quality Assurance and Improvement Programme (QAIP)

The standard sets out the necessary requirements for the internal and external assessment of performance and compliance against PSIAS including the arrangements for reporting on results and disclosure of non-performance.

2.3.6. The internal audit function within PKC is considered to **fully conform** in terms of its Quality Assurance and Improvement Programme. In order to monitor the performance of the internal audit activity, the Chief Internal Auditor should consider how feedback is formalised and reported and how a performance measurement framework can be embedded. **(Action Points 5 and 6)**

2.4. Section D: Performance Standards

2000 Managing the internal audit activity

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.

2.4.1. The internal audit function within PKC is considered to **fully conform** in terms of managing the internal audit activity although some areas for improvement have been identified surrounding the assessment of the Council's overall assurance framework and an assurance mapping exercise. **(Action Point 7)**

2.4.2. An area for improvement already identified by the Chief Internal Auditor is the presentation of follow up reports to the Audit Committee. **(Action Point 8)**

2100 Nature of work

The standard sets the internal audit activity that needs to be undertaken to evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

2.4.3. The internal audit function within PKC is considered to **fully conform** in terms of the nature of its work.

2200 Engagement Planning

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The standard sets the requirements necessary to develop and plan for each engagement including the objectives, scope, timing and resource allocations.

2.4.4. The internal audit function within PKC is considered to **fully conform** with Engagement Planning.

2300 Performing the Engagement

The standard sets the requirements necessary to gather, document, analyse and evaluate evidence to achieve the engagement objectives. Supervision arrangements and records management are also covered.

2.4.5. The internal audit function within PKC is considered to **fully conform** with Performing the Engagement.

2400 Communicating Results

The standard sets the requirements necessary for the communication of results for individual engagements and the overall annual opinion.

2.4.6. The internal audit function within PKC is considered to **fully conform** in terms of communicating results.

2500 Monitoring Progress

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

2.4.7. The internal audit function within PKC is therefore considered to **fully conform** in terms of monitoring progress.

2600 Communicating the Acceptance of Risk

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

2.4.8. The internal audit function within PKC is considered to **fully conform** in terms of communicating the acceptance of risk however there should be regular diarised meetings between the Chief Internal Auditor and the Chief Executive. **(Action Point 9)**

I would like to thank PKC for the co-operation and goodwill received during the course of the review.

Laura Miller ACCA
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Wellington Square
Ayr
KA7 1DR

For and on behalf of SLACIAG

8 October 2018

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3. ACTION PLAN

	PSIAS Ref	Finding/Recommendation	Priority	Management Comment	Officer Responsible	Date to be completed
1	1000.1	The Internal Audit Charter (Sept 2017) could be improved by referring to The Local Authority Accounts (Scotland) Regulations 2014, which gives statutory authority for internal audit, '7.—(1) A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.	3	The Internal Audit Charter was based on the template from the Institute of Internal Auditors. Reference to the Local Authority Accounts (Scotland) Regulations 2014 will be added at the next review.	J Clark, Chief Internal Auditor	Sept 2019
2	1000.1	Para 4.6.1 of the Counter-fraud and Corruption Strategy says ' <i>It is the role of Internal Audit to ensure that systems and procedures are in place to prevent fraud and corruption</i> '. This is a responsibility for management. PSIAS says that internal audit evaluates risk and report on fraud risks. It is not Internal audit's responsibility to ensure that systems and procedures are in place.	2	The Counter-Fraud and Corruption Strategy review will be updated to ensure that this is documented as management's responsibility.	J Clark, Chief Internal Auditor	March 2019
3	1100.4	The performance appraisal of the Chief Internal Auditor should be countersigned by either the Chief Executive or the Convener.	2	The Employee Review and Development arrangements within Perth & Kinross Council do not facilitate this. The Head of Legal and Governance Services will ensure that the Chief Executive and Convenor are informed of any matters which may have an influence on the Chief Internal Auditors statutory role.	L Simpson, Head of Legal and Governance Services	October 2018
4	1200.4	Job descriptions for the Chief Internal Auditor and Senior Internal Auditor posts should be reviewed and updated where required.	3	The job description for the Senior and Chief Internal Auditor will be reviewed to ensure that they are up to date.	J Clark, Chief Internal Auditor	December 2018
5	1300.1	In order to monitor the performance of the internal audit activity, the Chief Internal Auditor should consider formalising how feedback is obtained and reported.	3	The arrangements for obtaining and reporting feedback will be formalised.	M Morrison, Senior Internal Auditor	December 2018

















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	PSIAS Ref	Finding/Recommendation	Priority	Management Comment	Officer Responsible	Date to be completed
6	1300.1	In order to monitor the performance of the internal audit activity, the Chief Internal Auditor should review the performance measurement framework (e.g. KPIs or balanced scorecards).	3	The Chief Internal Auditor will consider the provision of further information relating to the performance of the Internal Audit function.	J Clark Chief Internal Auditor	March 2019
7	2000.2 2000.3	While a detailed review of the Internal Audit universe (which grades systems and processes) is performed, there is scope to improve the documentation of the consideration of the organisation's overall assurance framework.	3	The Chief Internal Auditor will clearly document the consideration of the overall assurance framework when considering Internal Audit's workplan for 2019/20	J Clark Chief Internal Auditor	March 2019
8	2000.14	A review should be undertaken of follow up reports with a view to better presenting information to the Audit Committee. The views of the Convener should be sought on any proposed changes.	3	The Follow Up report will be reviewed and a revised format provided to Audit Committee for 2019/20. The Convenor will be consulted on the template.	J Clark Chief Internal Auditor	March 2019
9	2600.1	The Chief Internal Auditor should establish regular diarised meetings with the Chief Executive.	3	The Chief Internal Auditor will take this action forward with the newly appointed Chief Executive.	J Clark Chief Internal Auditor	December 2018

Key to grading of Recommendations

1. Critical
2. Requires Addressing
3. Housekeeping
4. Value for Money

SUMMARY OF CONFORMANCE WITH PSIAS

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	Definition of Internal Auditing				
Section B	Code of Ethics				
Section C	Attribute Standards				
1000	Purpose, Authority and Responsibility				
1100	Independence and Objectivity				
1200	Proficiency and Due Professional Care				
1300	Quality Assurance and Improvement Programme				
Section D	Performance Standards				
2000	Managing the Internal Audit Activity				
2100	Nature of Work				
2200	Engagement Planning				
2300	Performing the Engagement				
2400	Communicating Results				
2500	Monitoring Progress				
2600	Communicating the Acceptance of Risks	