

EXTERNAL QUALITY ASSESSMENT OF INVERCLYDE COUNCIL'S INTERNAL AUDIT SERVICE

Report Recipients:

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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 the 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 Internal Auditor in Inverclyde 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 (Internal Audit Service in Inverclyde Council) 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. Renfrewshire Council was selected to carry out the external assessment in Inverclyde 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 Inverclyde Council's Internal Audit Service has been carried out by Renfrewshire Council's, Chief Auditor 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 Audit Executive, 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

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considered as part of the assessment can be found at appendices B and C respectively.

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2. OVERALL CONCLUSION

2.1 The overall conclusion of the external assessment is that Inverclyde Council's Internal Audit Service fully conforms with the PSIAS. There were some components within Standards 1100 - Independence and Objectivity, 2000 - Managing the Internal Audit Activity and 2300 - Performing the Engagement assessed as "generally conforms". We have highlighted improvements in these areas in 2.2 below. 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	11	3	0	0

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

- Organisational independence of the Chief Internal Auditor could be improved by further clarifying the Chief Internal Auditor's reporting arrangements to the Audit Committee in the Internal Audit Charter and if the Chief Internal Auditor were to report directly to the Audit Committee in her own name.
- The Audit Committee would have clarity regarding the total audit resources available to deliver the Audit Plan if the Chief Internal Auditor's time required to carry out the audit planning process as well as quality control the audit assignments and regular reporting to and attendance at the Audit Committee, were to be included in the resource plan on the Annual Plan.
- The records management framework for Internal Audit records requires to be documented on the documented policy "Information Governance and Management Framework - Policy for the Retention and Disposal of Documents and Records Paper and Electronic."

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 the Internal Audit Service Inverclyde Council **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 the Internal Audit Service at Inverclyde Council **fully conforms** with the definition of Internal Auditing as detailed above. The main reason for this assessment is that across all the standards a high level of compliance was noted with the Internal Audit Service operating in line with expectations overall. This was evidenced through a variety of means including the Internal Audit Charter, audit manual, examination of audit documents and consideration of the regular reporting of Internal Audit progress and performance to key stakeholders. Stakeholder questionnaires support this conclusion.

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 and Professional Standards 2000 – Managing the Internal Audit Activity and 2300 – Performing the Engagement, has been used to conclude that Inverclyde Council’s Internal Audit Service **fully conforms** with the requirement to comply with the Code of Ethics. There is scope to further improve existing arrangements in this area through implementation of the actions included within the action plan at Appendix D.

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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 Inverclyde Council’s Internal Audit Charter is reviewed every 5 years with the most recent review taking place in February 2023. The Internal Audit Charter was reviewed by the Corporate Management Team on 2 February 2023, prior to it being approved by the Audit Committee on 21 February 2023.

6.1.2 The majority of the mandatory elements of the PSIAS are appropriately reflected in the current Internal Audit Charter. However, some of the public sector specific elements referred to in the PSIAS have not been clearly defined, as follows:

- For the purposes of internal audit activity, the terms ‘board’ and ‘senior management’ have not been specifically defined in the Charter.
- The role of internal audit in relation to fraud-related activity is included in the Charter, specifically referencing “Undertaking National Fraud Initiative and other investigations of suspected frauds and irregularities and contributing to the promotion of an anti-fraud culture within the Council.” However, there is no specific requirement for internal audit to be notified of all suspected or detected fraud, corruption or impropriety.
- The charter states that the Internal Audit activity is to provide independent, objective assurance and advisory services designed to add value and improve the Council’s operations. The definition and nature of the advisory services is not clear in the charter.

6.1.3 It is recommended, that at the next review of the Internal Audit Charter, the following additions should be made for clarity:

- The terms ‘board’ and ‘senior management’ are specifically defined.
- The requirement that internal audit should be notified of all suspected or detected fraud, corruption or impropriety.
- The definition and nature of the internal audit advisory services is made clear in the charter.

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- 6.1.4 Having considered the findings above, it has been concluded that the Internal Audit Service at Inverclyde Council **fully 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 PSIAS states that "organisational independence is effectively achieved when the chief audit executive reports functionally to the board". The Internal Audit Charter states that the Chief Internal Auditor reports functionally to the Council's Monitoring Officer. The Monitoring Officer is a member of the Corporate Management Team.
- 6.2.2 The Chief Internal Auditor has direct and unrestricted access to the Chief Executive and the Chair of the Audit Committee, and this has been confirmed through the completed Stakeholder Questionnaires. These reporting and access arrangements are clearly defined in the Internal Audit Charter, and in general so are safeguards to limit impairment of independence or objectivity.
- 6.2.3 In support of organisational independence, the Chief Internal Auditor attends the Audit Committee meetings to present all internal audit reports including, the Internal Audit Charter, Annual Report, Internal Audit Strategy and Plan and reports arising from the planned audits to Elected Members. The reports are not submitted in the Chief Internal Auditor's name, instead they are submitted in the name of the Head of Legal and Democratic Services, who is the Chief Internal Auditor's direct line manager.
- 6.2.4 All staff within the Internal Audit team are required to complete a confirmation of independence form on an annual basis. The Annual Internal Audit Report confirms the independence and objectivity of the team.
- 6.2.5 At the time of this review, a new appraisal process "positive conversations" was being rolled out across the Council. The PSIAS states that to ensure the Chief Internal Auditor's performance assessment is not inappropriately influenced by those subject to audit, the Chief Executive should undertake, countersign and contribute feedback to or review the performance appraisal of the Chief Internal Auditor and that feedback is also sought from the Chair of the Audit Committee. It is understood that the Chief Executive and the Chair of the Audit Committee do not currently have input to the Chief Internal Auditor's performance appraisal.
- 6.2.6 To improve organisational independence, it is recommended that;
- Consideration is given to amending the stated reporting relationships for the Chief Internal Auditor to the Audit Committee and Monitoring Officer to provide further clarification in the Internal Audit Charter, along the lines of the Chief Internal Auditor, reports to the Audit Committee and administratively to the Monitoring officer.
 - Consideration is given to having the reports on internal audit activities to the Audit Committee in the name of the Chief Internal Auditor.
 - It should be considered how feedback from the Chief Executive and the Chair of the Audit Committee could be incorporated into the appraisal process for the Chief Internal Auditor.

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- 6.2.7 Inverclyde Council's Internal Audit Service **generally 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 Internal Auditor holds a relevant professional qualification, and is suitably experienced, with 17 years internal audit experience within Scottish local government and further relevant experience gained in the private sector environment. The Chief Internal 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), Inverclyde Council's Internal Audit team is represented on both.
- 6.3.2 To support the Chief Internal Auditor in Inverclyde Council's Internal Audit Service there are two Internal Audit Practitioners and a Counter Fraud Investigator. The team is relatively small and therefore, it is possible that there could be a gap in specific skills required to review some risk areas. It is not clearly documented how such a gap would be addressed if it were to arise.
- 6.3.3 There is a corporate approach to performance management and appraisal. All of the Internal Audit team have participated in the new appraisal process "Positive-conversations" in the last year. The audit plan provides time for the team to undertake any necessary training.
- 6.3.4 There is a comprehensive Internal Audit Manual in place to guide the team through the stages of the audit process and provides standard templates for recording work completed, evidence gathered, and conclusions reached.
- 6.3.5 It is recommended that how the Internal Audit Service would propose to address any skills gap identified during the planning process should be formally documented, most likely in the Internal Audit Charter.
- 6.3.6 Inverclyde Council's Internal Audit Service **fully conforms** with standard 1200 on Proficiency and Due Professional Care.

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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 reports and working papers are reviewed by the Chief Internal Auditor at all stages of the audit process.
- 6.4.2 Client feedback is actively pursued by the Internal Audit Section for assignments carried out within Inverclyde Council.
- 6.4.3 The Internal Audit Service has a number of performance measures in place, and these are reported annually to the Audit Committee in the Chief Internal Auditor's Annual Report. An annual internal self-assessment of internal audit practices is undertaken by the Chief Internal Auditor, with improvements identified and implemented as appropriate.
- 6.4.4 PSIAS requires that "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation". The first external review was due to be carried out during 2020-21 however this was deferred due to the pandemic. This report is the outcome of Inverclyde Council's first external evaluation of conformance against the PSIAS. Appropriate disclosures have been made in the Annual Report regarding the absence of an external assessment. The internal self-assessment exercise for 2022-2023 confirms a high level of compliance and that the Internal Audit Section fully conforms with the requirements of PSIAS, other than two specific areas identified for improvement, including the absence of an external assessment.
- 6.4.5 As the external assessment has now been concluded, Inverclyde Council's Internal Audit Service **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

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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 An annual Internal Audit Strategy and Plan is compiled by the Chief Internal Auditor outlining the planned programme of work to be undertaken. The internal audit approach to annual audit planning is risk-based and all areas which may be subject to audit review are contained within an Audit Universe which is subject to formal review, at least annually.
- 7.1.2 The risk scoring system against clear criteria is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk. Account is also taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan.
- 7.1.3 The Internal Audit Strategy and Plan is considered and approved by the Corporate Management Team and the Audit Committee. Progress towards completion of the Internal Audit Plan, and the individual audits contained within it is reported quarterly to the Audit Committee.
- 7.1.4 Completed stakeholder questionnaires from the Chief Executive, the Head of Legal, Democratic, Digital & Customer Services and the Vice Chair of the Audit Committee confirm that they consider that the Internal Audit Service adds value and that they are given appropriate opportunity to feed into the audit planning process.
- 7.1.5 The Chief Internal Auditor does not directly carry out the assignments included in the Annual Audit Plan but provides the quality review and delivery oversight of the overall plan. As such, no direct time is included within the plan, in relation to the audit planning and quality control process or for attendance at the Audit Committee.
- 7.1.6 The Internal Audit Strategy and Plan does not currently set out the approach to be taken when using other sources of assurance or how any material changes arising will be reported to the Audit Committee.
- 7.1.7 It is recommended that the Internal Audit Strategy and Plan provides for the Chief Internal Auditor's time required to carry out the audit planning process effectively as well as quality control and regular reporting to and attendance of the Board.
- 7.1.8 It is further recommended that the Internal Audit Strategy and Plan explicitly documents the approach to be taken when using other sources of assurance and how material changes to the plan will be reported to the Audit Committee.
- 7.1.9 Inverclyde Council's Internal Audit Service **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

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assist the organisation in maintaining effective controls by evaluating their efficiency and effectiveness and promoting continuous improvement.

- 7.2.1 The Internal Audit Charter, Audit Manual and the Internal Audit Strategy and Plan sets out how the Internal Audit Service will evaluate the adequacy and effectiveness of governance, internal control and risk management across the organisation. Delivery of the plan via individual audit reports and the Internal Audit Annual Report and Assurance Statement confirms this approach is delivered in practice.
- 7.2.2 Inverclyde Council's Internal Audit Service **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 Planning briefs are completed for each audit assignment. There is a standard template used which includes the requirements of the PSIAS and the conclusion documents the Auditor's judgment on the level of inherent risk. Client management feed into the planning process through a discussion on key risks and this is documented on the planning brief. The objectives of the audit assignment are scoped following completion of the brief. A detailed risk analysis is undertaken as part of the work control schedule and after walkthrough the identified controls are evaluated in terms of mitigation against the identified risks.
- 7.3.2 Inverclyde Council's Internal Audit Service **fully 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 There is a clear methodology for undertaking the Internal Audit activities as set out in the Internal Audit Manual. From the sample of working papers reviewed, it was found that working papers were, clear and concise. Work undertaken is recorded on

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standard templates which are filed in a secure Internal Audit folder on the network.

- 7.4.2 Each audit assignment follows a standard approach including planning documentation, walkthroughs and testing. All working papers, draft and final reports are reviewed by the Chief Internal Auditor.
- 7.4.3 The PSIAS requires that “The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties”.
- 7.4.4 A review of the Information Governance and Management Framework - Policy for the Retention and Disposal of Documents and Records Paper and Electronic (September 2020) highlighted that it does not appear to include a section for the Internal Audit Service. The Chief Internal Auditor did confirm that an exercise had been undertaken to review and destroy appropriate records.
- 7.4.5 The circumstances under which engagement results would be released to parties outside of the organisation, and the limitations on the distribution and use of the results does not appear to be is clearly documented.
- 7.4.6 It is recommended that, a section covering the Internal Audit records is included in the Information Governance and Management Framework - Policy for the Retention and Disposal of Documents and Records Paper and Electronic.
- 7.4.7 The circumstances under which the results of internal audit assignments would be released to parties outside of the organisation, and the limitations on the distribution and use of those results should be clearly documented within the policy.
- 7.4.8 Inverclyde Council’s Internal Audit Service **generally 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

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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 A standard report template is used for reporting on audit assignments which includes:
- objectives of the audit
 - audit scope and approach
 - details of all findings which are graded red, amber and green
 - overall audit opinion for the area being reviewed
 - an executive summary, detailing key findings
 - agreed action plans with responsibility and completion dates
 - highlighting areas of good practice within the overall conclusion where appropriate, and
 - details of the overall assurance levels and audit opinion
- 7.5.2 At the conclusion of the audit fieldwork, the draft findings are issued as points arising to management for review and comment. This gives management an opportunity to review the finding, risk and recommendation and provide comments, agreed action, responsibility and timescale. The points arising are then used to populate the draft report and the draft report is then issued to the relevant Head of Service and Service Manager for further comment prior to issuing the report as final to relevant senior management and external audit.
- 7.5.3 The Annual Report and Assurance Statement contains the overall opinion on the organisation's governance, risk management and internal control arrangements. It is normally finalised by end of May each year. The assignments completed are listed in the report together with their individual control environment opinions and a key is attached as an appendix which sets out how the overall audit opinion is arrived at.
- 7.5.4 All stakeholder's who complete a questionnaire agreed that Internal Audit findings and recommendations were valued by stakeholders and helped the Council achieve its objectives.
- 7.5.5 Inverclyde Council's Internal Audit Service **fully 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 There is a follow up process in place where agreed actions are followed up with

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management in the month they fall due. Reports on audit actions are provided to each Audit Committee meeting and are discussed with the Corporate Management Team.

- 7.6.2 Inverclyde Council's Internal Audit Service **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 The Chief Internal Auditor co-ordinates the completion of the Annual Governance Statement and the Internal Audit Annual Report and Assurance Statement is used to inform the Statement. Audit assignments that have been rated unsatisfactory or requires improvement are disclosed in the Annual Governance Statement.
- 7.7.2 It is recognised that the Chief Internal Auditor has a good working relationship with the Chief Executive, S95 Officer and the Chair of the Audit Committee and there are regular reports on the progress of audit actions to the Corporate Management Team and the Audit Committee for formal escalation of matters of concern.
- 7.7.3 Inverclyde Council's Internal Audit Service **fully conforms** to the Standard on Communicating the Acceptance of Risk.

Karen Campbell
Interim Chief Auditor
Renfrewshire Council
July 2024

APPENDIX A – SUMMARY OF ASSESSMENT

REF	PAGE No.	ASSESSMENT AREA	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A		Mission of Internal Audit and Core Principles	✓			
Section B		Definition of Internal Auditing	✓			
Section C		Code of Ethics	✓			
Section D		ATTRIBUTE STANDARDS				
1000		Purpose, Authority and Responsibility	✓			
1100		Independence and Objectivity		✓		
1200		Proficiency and Due Professional Care	✓			
1300		Quality Assurance and Improvement Programme	✓			
Section E		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	✓			
TOTALS						

APPENDIX B – EVIDENCE PACK

- Internal Audit Charter
- Internal Audit Manual
- Job descriptions and person specifications
- Independence Statements
- Annual Internal Audit Strategy and Plan 2022/23
- Annual Internal Audit Report and Assurance Statement 2022/23
- Internal Audit Progress Reports
- Local Code of Corporate Governance
- Employee Code of Conduct
- Retention Policy
- Audit planning methodology
- Audit file structure
- Planning Brief
- Terms of Reference
- Risk Matrix
- Work Control Schedule
- Points Arising Form
- Post Audit Questionnaire
- Draft Report
- Final Report
- Evidence of planning meetings
- Evidence of performance appraisals
- Evidence of training days available
- Evidence of Chief Auditor's qualification

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APPENDIX C – STAKEHOLDER QUESTIONNAIRES

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

- Louise Long, Chief Executive
- Iain Strachan, Head of Legal, Democratic, Digital & Customer Services
- David Wilson, Vice Chair of the Audit Committee

APPENDIX D – ACTION PLAN

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
1	6.1.3	<p>It is recommended, that at the next review of the Internal Audit Charter, the following additions should be made for clarity:</p> <ul style="list-style-type: none"> • The terms 'board' and 'senior management' are specifically defined. • The requirement that internal audit should be notified of all suspected or detected fraud, corruption or impropriety. • The definition and nature of the internal audit advisory services is made clear in the charter. 	<p>Internal Audit Charter to be revised to take account of recommended changes, and present to Audit committee as part of the approval process for the annual Internal Audit plan process.</p>	<p>Chief Internal Auditor February 2025</p>
2	6.2.6	<p>To improve organisational independence, it is recommended that;</p> <ul style="list-style-type: none"> • Consideration is given to amending the stated reporting relationships for the Chief Internal Auditor to the Audit Committee and Monitoring Officer in the Internal Audit Charter to provide further clarification, along the lines of the Chief Internal Auditor, reports to the Audit Committee and administratively to the Monitoring officer. • Consideration is given to having the reports on internal audit activities to the Audit Committee in the name of the Chief Internal Auditor. • It should be considered how feedback from the Chief Executive and the Chair of the Audit Committee could be incorporated into the appraisal process for the Chief Internal Auditor. 	<p>Internal Audit Charter to be revised to take account of recommended changes, and present to Audit committee as part of the approval process for the annual Internal Audit plan process.</p> <p>Change to be considered to reports being in the name of the Chief Internal Auditor</p> <p>Process of feedback involving Chief Internal Auditor, Chief Executive and Committee Chair to be considered.</p>	<p>Chief Internal Auditor February 2025</p> <p>October 2024</p> <p>March 2025</p>
3	6.3.5	<p>It is recommended that how the Internal Audit Service would propose to address any skills gap identified</p>	<p>Internal Audit Charter to be revised to take account of recommended changes, and present to Audit committee as</p>	<p>Chief Internal Auditor February 2025</p>

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		during the planning process should be formally documented, most likely in the Internal Audit Charter.	part of the approval process for the annual Internal Audit plan process.	
4	7.1.7	It is recommended that the Internal Audit Strategy and Plan provides for the Chief Internal Auditor's time required to carry out the audit planning process effectively as well as quality control and regular reporting to and attendance of the Board.	To be included as part of the process for preparing the annual Internal Audit plan and being approved by committee	Chief Internal Auditor February 2025
5	7.1.8	It is further recommended that the Internal Audit Strategy and Plan explicitly documents the approach to be taken when using other sources of assurance and how material changes to the plan will be reported to the Audit Committee.	To be included as part of the process for preparing the annual Internal Audit plan and being approved by committee	Chief Internal Auditor February 2025
6	7.4.6	It is recommended that, a section covering the Internal Audit records is included in the Information Governance and Management Framework - Policy for the Retention and Disposal of Documents and Records Paper and Electronic.	Retention policy to be updated to include provision for Internal Audit records	Chief Internal Auditor March 2025
7	7.4.7	The circumstances under which the results of internal audit assignments would be released to parties outside of the organisation, and the limitations on the distribution and use of those results should be clearly documented within the policy.	Retention policy to be updated to include guidance on releasing audit information to third parties	Chief Internal Auditor March 2025

	Critical
	Significant
	Routine