South Ayrshire Council

**Report by Chief Internal Auditor
to Audit and Governance Panel
of 29 May 2024**

Subject: External Review of Internal Audit Compliance with Public Sector Internal Audit Standards

---

1.   Purpose

1.1   The purpose of this report is to update Members on the outcome of the external assessment of the Internal Audit Service's compliance with the Public Sector Internal Audit Standards (PSIAS).

2.   Recommendation

2.1   It is recommended that the Panel:

2.1.1   notes the contents of the external assessment report at Appendix 1 and resultant action plan at Annex A; and

2.1.2   agrees that the Chief Internal Auditor provides an update on progress of the actions to the meeting of 4 September 2024 and every six months thereafter until the action plan is fully implemented.

3.   Background

3.1   Internal Audit operates in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS). The standards are designed to ensure that common standards and practices are followed across all public sector bodies.

3.2   PSIAS requires Chief Internal Auditors to develop a Quality Assurance and Improvement Programme (QAIP) to provide assurance that internal audit activity is conducted in accordance with its Internal Audit Charter, that it operates in an efficient and effective manner and that it is perceived to be adding value and improving operations. To conform with PSIAS, this Programme includes periodic and ongoing internal assessments as well as an external inspection. External assessments are required to be completed once within five-year periods.

3.3   To deliver the requirement of an external inspection, the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) facilitate an arrangement whereby reviews are undertaken by Local Authorities on a reciprocal, no-fee basis. The allocation of the reviews is undertaken by SLACIAG.

3.4 The first external assessment was completed by East Renfrewshire and was reported to the Audit and Governance Panel in March 2018. Inverclyde Council were allocated as the reviewer for South Ayrshire Council's second review. Due to the changes of staff within SAC's Internal Audit Section, specifically the move of the Chief Internal Auditor to another Council, it was necessary to reallocate the Council originally allocated to perform the external assessment. This resulted in a delay in completing the external assessment, however it was started within the five-year timescale.

4. Proposals

4.1 The Panel is requested to note the full external assessment report attached at Appendix 1.

4.2 Fourteen separate areas were assessed during the external review. The overall conclusion was that Internal Audit fully conforms with 10 areas and generally conforms with 4 areas. There were no areas assessed as partially or not conforming.

4.3 Six areas for improvement are highlighted at paragraph 2.2 within the report and summarised in an action plan which is attached at Annex A . The main improvements relate to low priority 'routine' areas which will further improve compliance with the standards.

4.4 It is proposed that progress of the implementation of the action plan is reported to this Panel through the Internal Audit quarterly progress reports together with the results of the annual self assessment against PSIAS.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 Not applicable

7. Human Resources Implications

7.1 Not applicable

8. Risk

8.1 The PSIAS requires Chief internal Auditors 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. If this is not carried out there is a risk that the Internal Audit Service will fail to comply with PSIAS and engage in continuous improvement.

8.2 *Risk Implications of Adopting the Recommendations*

8.2.1 There are no risks associated with adopting the recommendations.

8.3 *Risk Implications of Rejecting the Recommendations*

8.3.1 Rejecting the recommendation could result in failure to perform a scrutiny role in relation to the application of the Public Sector Internal Audit Standards (PSIAS).

9. Equalities

9.1 The proposals in this report allow scrutiny of performance. The report does not involve proposals for policies, strategies, procedures, processes, financial decisions and activities (including service delivery), both new and at review, that affect the Council's communities and employees, therefore an equality impact assessment is not required.

10. Sustainable Development Implications

10.1 *Considering Strategic Environmental Assessment (SEA)* - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to the three priorities in the Council Plan; Spaces and Places; Live, Work, Learn and, Civic and Community Pride.

13. Results of Consultation

13.1 There has been no public consultation on the contents of this paper.

13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

Background Papers	**Public Sector Internal Audit Standards (PSIAS)**
	Report to Audit and Governance Panel of 21 March 2018 - External Review of Internal Audit Compliance with Public Sector Internal Audit Standards
Person to Contact	**Cecilia McGhee, Chief Internal Auditor** **County Buildings, Wellington Square, Ayr, KA7 1DR** **Phone 01292 612432** **E-mail Cecilia.McGhee2@south-ayrshire.gov.uk**

Date: 17 May 2024

![SLACIAG Scottish Local Authorities Chief Internal Auditors' Group logo]

EXTERNAL QUALITY ASSESSMENT 2

OF

SOUTH AYRSHIRE COUNCIL'S

INTERNAL AUDIT

FEBRUARY 2024

Report Recipients:

Cecilia McGhee, Chief Internal Auditor
Mike Newall, Chief Executive
Julie Dettbarn, Chair of Audit and Governance Panel

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 out 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 South Ayrshire 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 South Ayrshire 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. Inverclyde Council was selected to carry out the external assessment for South Ayrshire 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 South Ayrshire Council's Internal Audit service has been carried out by Inverclyde Council's Shared Service Manager – Audit & Fraud 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 considered as part of the assessment can be found at appendices B and C respectively.

2. OVERALL CONCLUSION

2.1 The overall conclusion of the external assessment is that South Ayrshire Council's Internal Audit service **fully conforms** with 10 areas of the Public Sector Internal Audit Standards and **generally conforms** in relation to 4 areas. There were no areas assessed as partial or non-conformance. A summary of totals is set out in the undernoted table and a full summary of assessment, by assessment area can be found at Appendix A:

	Fully Conforms ✴	Generally Conforms ✅	Partially Conforms ⚠	Does Not Conform ⬢
TOTALS	10	4	0	0

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

- The Chief Audit Executive has recognised the need to introduce client and other surveys to enhance the quality assurance and improvement framework. The peer review has identified that there is also scope to consider additional key performance indicators to align to balanced scorecard reporting of performance promulgated by the Institute of Internal Auditors.
- The Chief Audit Executive has recognised the need to introduce a formal assurance mapping process to enhance the preparation of the risk-based annual audit plan. The peer review has identified that there is also scope to enhance the covering report to include current risk factors influencing the proposed audit coverage for the year ahead.
- The risk and control analysis (RACA) process ensures a systematic and disciplined approach to the identification of key risks and controls. The peer review identified that although the RACA covers a number of risk areas as standard, this could be further enhanced to include other standard risk areas including management information, quality and effectiveness, systems and procedural documentation, business continuity planning arrangements, data protection arrangements and IT logical access controls which apply to most areas subject to a risk-based audit approach.
- The RACA includes the objectives highlighted in the terms of reference for the audit review. The peer review identified some improvements including undertaking an initial risk assessment to ensure the audit scope is focussed on areas of perceived higher risk. In addition, each individual risk highlighted on the RACA has a conclusion, however there is no overall conclusion for the risk and control analysis which would then support the overall audit opinion within the audit report.
- In relation to the communication of results, the peer review has identified an area for improvement in that although a table is included within the internal audit progress reports to Audit & Governance Panel, this could be enhanced by providing a summary of the key findings from the review to support the audit report opinion.
- The peer review has identified that although the results of follow up action are included in the internal audit progress reports, the annual report could be enhanced to include the results of the overall follow up process. For example, the report could include the number of recommendations made, agreed, implemented, overdue, not due by the 31st March which would support the overall audit conclusion in relation to the effectiveness of the follow up process.

- In relation to communicating the acceptance of risk, where services have not accepted the audit recommendation and therefore accepted the risk, this is communicated by email to senior management. The peer review has identified that the internal audit progress reports could be enhanced to highlight where any high or medium risk recommendations have been made but have not been accepted by management and the audit conclusion on the risk being accepted.

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 at South Ayrshire Council **fully conforms** with accomplishing the Mission of Internal Audit as detailed above. Good practice was identified in relation to reporting the review of the Internal Audit Charter as part of the Annual Audit Plan.

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 South Ayrshire Council **fully conforms** with the definition of Internal Auditing as detailed above.

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 South Ayrshire Council's Internal Audit service **fully conforms** with the requirement to comply with the Code of Ethics.

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 South Ayrshire Council's Internal Audit Charter is reviewed annually with the most recent review taking place in March 2023. The Internal Audit Charter was approved by the Audit & Governance Panel on 22 March 2023.

6.1.2 Internal Audit service South Ayrshire 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 Chief Audit Executive reports functionally to the Audit & Governance Panel and administratively to the Chief Executive. The Chief Audit Executive has direct and unrestricted access to the Chief Executive and the Chair of the Audit & Governance Panel and this has been confirmed through the Terms of Reference for the Audit & Governance Panel. These reporting/access arrangements are clearly defined in the Internal Audit Charter as are safeguards to limit impairment of independence or objectivity.

6.2.2 In support of organisational independence, the Chief Audit Executive attends Audit & Governance Panel meetings to present all internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and update reports on planned audits) to Elected Members. The reports are all submitted in the Chief Audit Executive's name. Through observation of Audit & Governance Panel meetings held via webcast during 2022/23 it was noted that the Chief Audit Executive attends each Audit & Governance Panel and presented all internal audit reports at the meeting.

6.2.3 The Chief Audit Executive has no operational responsibilities for activities subject to audit.

6.2.4 All staff within the Internal Audit service are required to complete a register of interests form on an annual basis.

6.2.5 The Chief Audit Executive has recognised the need to update some procedures and to consider rotation of audit assignments and other audit responsibilities on a periodic basis going forward. No further recommendations were made through the external assessment.

6.2.6 South Ayrshire 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 Audit Executive holds a relevant professional qualification (ACCA and IIA) and is suitably experienced. The Chief Audit Executive is a member of SLACIAG (or otherwise) 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), South Ayrshire Council's Internal Audit service is represented on both.

6.3.2 To support the Chief Audit Executive in South Ayrshire Council's Internal Audit service, there are a total of 4 members of staff in the Internal Audit service, including the Chief Audit Executive, Senior Auditor and 2 Auditors, The Internal Audit service delivers internal audit services to South Ayrshire Council and South Ayrshire Integration Joint Board.

6.3.3 The Internal Audit service has an appraisal process which is a corporate process. This is carried out on an annual basis and is in place for Internal audit staff.

6.3.4 The Chief Audit Executive and all members of the Internal Audit service have specific CPD requirements to adhere to and relevant Staff training records are maintained.

6.3.5 Throughout 2022-23, Audit & Governance Panel meetings were subject to live webcasting. These webcasts are also available as archive webcasts which were reviewed as part of the external quality assessment where it was observed that the Chief Audit Executive demonstrated sufficient knowledge and experience and that all members of the Internal Audit service had exercised due professional care.

6.3.6 South Ayrshire Council's Internal Audit service **fully conforms** with standard 1200 on Proficiency and Due Professional Care. Key stakeholder questionnaires were highly complimentary of the Chief Audit Executive and the Internal Audit team and a high level of engagement was demonstrated with members of the Audit & Governance Panel.

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 A formal self-assessment of conformance with the PSIAS was carried out in September 2023 using the EQA Checklist. This was used by Inverclyde Council as the baseline for the external quality assessment in 2023/24.

6.4.2 Internal audit reports are reviewed by the Chief Audit Executive prior to issue and working papers are, in general, reviewed by the Chief Audit Executive or Senior Auditor. Where the assignment is carried out by the Senior Auditor, the Chief Audit Executive will review the working paper file.

6.4.3 The Chief Audit Executive has recognised the need for client feedback to be pursued by the Internal Audit service for assignments carried out within South Ayrshire Council.

6.4.4 A range of performance measures are in place for the Internal Audit service which are formally reported to the Audit & Governance Panel on an annual basis as part of the Internal Audit Annual Report. However, the peer review identified that there is scope to consider additional key performance indicators to align to balanced scorecard reporting of performance by the Institute of Internal Auditors. For example, compliance with internal service standards such as timescales for issue of draft and final reports, number of audits completed on time and within budget as these can be helpful measures to assess the efficiency and effectiveness of internal audit as well as identifying any training needs, particularly for new members of staff.

6.4.5 It is recommended that consideration is given to the inclusion of additional key performance indicators to align to balanced scorecard reporting of performance promulgated by the Institute of Internal Auditors.

6.4.6 South Ayrshire Council's Internal Audit service **generally conforms** with Standard 1300 on Quality Assurance and Improvement Programme.

7.   SECTION E – PERFORMANCE STANDARDS

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

7.1   2000 - Managing the Internal Audit Activity

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

7.1.1   An annual Internal Audit Plan is compiled by the Chief Audit Executive outlining the planned programme of work to be undertaken. The planning process includes consultation with members of the Corporate Management Team on planned audit areas, a review of strategic and service risk registers, discussions with external audit to minimise duplication and maximise audit coverage for the Council and review of other local authority internal audit plans through wider discussion groups.

7.1.2   The annual Internal Audit Plan is presented to the Audit & Governance Panel for approval.

7.1.3   Progress towards completion of the Internal Audit Plan, and the individual audits contained within it is reported to Audit & Governance Panel as an update to each meeting of the Committee.

7.1.4   The Internal Audit Plan for 2022-23 was presented to the March 2022 meeting of the Audit & Governance Panel and good engagement was observed from the Committee Members in discharging their scrutiny role of the proposed audit coverage.

7.1.5   Through review of the Internal Audit Plan for 2022-23, an area for improvement was identified in relation to including the risk factors which have influenced the scope of the areas subject to risk-based audit assurance work within the body of the covering report. The Chief Audit Executive also recognised that the documentation of the overall assurance mapping process could be improved.

7.1.6   It is recommended that consideration is given to include the risk factors which have influenced the scope of the risk-based plan within the body of the covering report relating to the Annual Audit Plan. It is also recognised that the Chief Audit Executive plans to improve the documented audit assurance mapping process.

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

7.2.1 It was recognised that the Chief Audit Executive plans to update the risk and control analysis (RACA) process for minor changes identified. The peer review also identified that the RACA process could be further enhanced to include other standard risk areas including management information, quality and effectiveness, systems and procedural documentation, business continuity planning arrangements, data protection arrangements and IT logical access controls which apply to most areas being audited.

7.2.2 It is recommended that the RACA process is enhanced by including other areas of common risk including management information, quality and effectiveness, systems and procedural documentation, business continuity planning arrangements, data protection arrangements and IT logical access controls.

7.2.3 South Ayrshire Council's Internal Audit **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 A standard methodology is in place for Internal Audit engagement planning which includes an audit programme which sets out the background to the area being audited, the risks, the timing of the audit, the audit resource, the report distribution, the audit test objectives and conclusions reached.

7.3.2 The peer review identified some enhancements in relation to the overall risk and control analysis (RACA), firstly to consider including an initial risk assessment which would demonstrate audit scope is focussed on areas of higher risk and secondly, although each individual risk highlighted on the RACA has a conclusion, there is however no overall conclusion which would then support the overall opinion for the audit.

7.3.3 It is recommended that the RACA is updated to include an initial risk assessment to demonstrate that the audit scope is focussed on areas of higher risk and an overall conclusion for the RACA to support the overall audit opinion.

7.3.4 South Ayrshire 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 The Internal Audit Manual sets out the procedure in relation to undertaking a planned audit, including preparing working papers and setting up working paper files. In addition, the manual also includes standard procedures in place for dealing with other types of work e.g. advice and consultancy and investigating fraud and irregularity.

7.4.2 Standard working papers are used at each stage of the audit. Templates are referenced within the Internal Audit Manual.

7.4.3 During the course of each audit, regular discussions take place between the team carrying out the assignment and the Chief Audit Executive or Senior Auditor. This ensures that any significant issues are escalated appropriately and that the audit is on track to be delivered on time and within budget.

7.4.4 All working papers are subject to review by either the Chief Audit Executive or the Senior Auditor. This quality control process ensures that the risks and objectives of the assignment have been met and that conclusions are suitably evidenced.

7.4.5 It was recognised that the Chief Audit Executive continues to provide training and support to auditors to improve the standard of working papers and this work is ongoing. The peer review did not identify any further action required in this area.

7.4.6 A records retention and disposal schedule is in place for Internal Audit files which sets out the legal basis for retention and the timescales.

7.4.7 South Ayrshire Council's Internal Audit service **fully conforms** with Standard 2300 on Performing the Engagement.

7.5　2400 - Communicating Results

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

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

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

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

7.5.1　A standard report template is used for all audit assignments. The report includes background to the area being audited, the objectives and scope of the audit, the findings and agreed actions together with responsible owners and implementation dates. The audit report also sets out the overall opinion on the level of assurance that is being provided.

7.5.2　Draft reports are discussed with the client service to agree factual accuracy as well as allow the client to respond to recommendations with implementation dates and details of responsible officers.

7.5.3　The Internal Audit Progress Reports to Audit & Governance Panel include a table which summarises the finalised audit reports and the level of assurance provided together with number of actions arising. Although all Elected Members receive a link to all Internal Audit reports, the peer review identified that this section of the report could be expanded to provide a summary of the high and medium recommendations in order to provide context to the overall level of assurance being reported.

7.5.4　The overall level of assurance for the audit area is also included in the overall Internal Audit Annual Report which allows the Chief Audit Executive to provide an overall opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes for that year. The report also highlights that copies of final Internal Audit reports are available to all Members via SharePoint.

7.5.5 Through observation of Audit & Governance Panel meetings held via webcasting it was demonstrated that senior management value the work of Internal Audit and are committed to improving the control environment through the implementation of internal audit actions.

7.5.6 It is recommended that a summary of report findings is included in internal audit progress reports to provide context to the audit report opinions being reported to the Audit & Governance Panel.

7.5.7 South Ayrshire Council's Internal Audit **generally conforms** with Standard 2400 on Communicating Results.

7.6   2500 - Monitoring Progress

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

7.6.1 The Internal Audit Manual sets out the process for audit follow up. The completed action plan for each audit is monitored for completion through the Council's performance management system Ideagen. As part of the regular progress reporting to the Audit & Governance Panel progress against these action points is provided to the Members. Actions which are overdue or due within the next six months are included in the progress reports.

7.6.2 Through observation of Audit & Governance Panel meetings held via webcasting, it was demonstrated that there is effective challenge and scrutiny by Elected Members in relation to progress in implementing Internal Audit action plans.

7.6.3 The peer review identified that although the results of follow up action are included in the quarterly progress reports, the annual report could be enhanced to include the results of follow up processes to support the overall audit conclusion on the adequacy and effectiveness of the system of internal control.

7.6.4 It is therefore recommended that consideration is given to enhancing the annual internal audit report to include the results of the follow up process for the audit year reviewed.

7.6.5 South Ayrshire 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   Management comments are added to the action plan where no action is proposed and the risk is accepted. This is communicated to senior management when the final report is issued.

7.7.2   The Internal Audit Progress Reports to Audit & Governance Panel include a table which summarises the finalised audit reports and the level of assurance provided together with the total number of actions arising. However, this section of the report could be enhanced to provide the number of recommendations raised, the number of recommendations agreed and the number of recommendations where the risk has been accepted.

7.7.3   The Internal Audit Annual Report for 2022-23 sets out the scope of internal audit responsibilities to provide an opinion on the Council's governance, risk management and control procedures. However, the report could be enhanced to highlight any concerns regarding management's acceptance of risk which required to be brought to the attention of the Panel.

7.7.4   It is recommended that the regular progress reports to Audit & Governance Panel are enhanced to provide information on those recommendations where the risk has been accepted, particularly where the recommendations are high or medium risk and highlight to the Panel any concerns.

7.7.5   It is recommended that the annual internal audit report is enhanced to highlight any concerns regarding management's acceptance of risk which have previously been reported to the Panel.

7.7.6   South Ayrshire Council's Internal Audit service **fully conforms** to the Standard on Communicating the Acceptance of Risk.

Andi Priestman
Shared Service Manager – Audit & Fraud
Inverclyde Council
February 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			10	4		

APPENDIX B – EVIDENCE PACK

- South Ayrshire Council PSIAS Self-Assessment 2022-23
- Internal Audit Charter 2023-24
- Financial Regulations
- Minutes of Audit & Governance Panel
- Scheme of Administration
- Internal Audit Structure Chart
- Internal Audit Job Descriptions
- Internal Audit Professional Qualifications
- Internal Audit Training Records
- Internal Audit Annual Report 2022-23
- SAC Recruitment Policy
- SAC Disciplinary Policy
- SAC Performance Appraisal Process
- SAC Code of Conduct for Employees
- Staff Register of Interests
- SAC Information Security Policy
- SAC Data Protection Policy
- SAC Whistleblowing Policy
- Internal Audit Manual 2022
- Internal Audit Annual Audit Plan 2022/23
- Annual Governance Statement 2022-23
- Audit Universe
- Audit Programme working papers
- Draft Report Template
- File Review Template
- Retention Schedule
- Audit Actions Follow Up

APPENDIX C – STAKEHOLDER QUESTIONNAIRES

Stakeholder questionnaires were issued to senior management and members of the Audit & Governance Panel and overall were very complimentary of the Internal Audit Service. In addition, stakeholder engagement was also considered through review of archived webcasting of Audit & Governance Panel meetings held during 2022 to 2023 where it was observed that there is good engagement and challenge and also recognition of the support and value that is added to the organisation by the Internal Audit service by both Elected Members and senior management.

APPENDIX D – ACTION PLAN

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date	Current Status
1	6.4.5	The Chief Audit Executive has recognised the need to introduce client and other surveys to enhance the quality assurance and improvement framework. The peer review has identified that there is scope to consider additional key performance indicators to align to balanced scorecard reporting of performance promulgated by the Institute of Internal Auditors. Specifically, the annual internal audit report should be updated to include all KPIs and additional key performance indicators in relation to compliance with internal service standards e.g. timescales for issue of draft and final reports, number of audits completed on time and within budget as these can be helpful measures to assess the efficiency and effectiveness of internal audit as well as identifying any training needs, particularly for new members of staff.	**Recommendation Accepted** Additional KPIs in relation to the delivery of the overall Internal Audit Service will be developed. Performance of members of the team and identification of training needs will continue to be monitored by the Chief Internal Auditor.	Chief Internal Auditor – 30 June 2024	In progress
2	7.1.6	The Chief Audit Executive has recognised the need to introduce a formal assurance mapping process to enhance the preparation of the risk-based annual audit plan. The covering report in relation to the annual audit plan should also be updated to include	**Recommendation Accepted** An assurance mapping process has been introduced and was used as part of the 2024/25 Planning Process. The covering report in relation to the annual audit plan will be updated to include the risk factors influencing the	Complete Chief Internal Auditor – 31 March 2025	Fully Implemented Not started

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date	Current Status
		current risk factors influencing the proposed audit coverage for the year ahead.	proposed audit coverage for the year ahead going forward from the 2025/26 audit plan.		
3	7.2.2	The Chief Audit Executive plans to update the risk and control analysis (RACA) process for minor changes identified. The RACA should also be updated to include other standard risk areas such as management information, quality and effectiveness, systems and procedural documentation, business continuity planning arrangements, data protection arrangements and IT logical access controls which are common risk areas.	**Recommendation Accepted** Common risk areas will be added to the RACA template. The updated template will be used going forward from 2024/25.	Chief Internal Auditor – 1 April 2024	Fully Implemented
4	7.3.3	The RACA process should be updated firstly to include an initial risk assessment which would demonstrate audit scope is focussed on areas of higher risk and secondly, to provide no overall conclusion which would then support the overall opinion for the audit.	**Recommendation Accepted** The RACA template will be updated to include an initial risk assessment and an overall conclusion. A column will be added to rank the risks recorded in the RACA and allow the auditor to ensure the scope is focussed on high risk areas. An overall conclusions section will also be added to the template which will support the audit opinion. The updated template will used going forward from 2024/25.	Chief Internal Auditor – 1 April 2024	Fully Implemented
5	7.5.6	Summary of report findings should be included in internal audit progress reports to provide context to the audit report opinions being reported to the Audit & Governance Panel.	**Recommendation Accepted** Progress reports will be updated to include a brief summary of audit findings and conclusions which led to the overall audit opinion for the audit assignment.	Chief Internal Auditor – from September 2024 Progress report	Not Started

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date	Current Status
6	7.6.4	Although the results of follow up action are included in the internal audit progress reports, the annual report should be updated to include the results of follow up processes to support the overall audit conclusion. For example, number of recommendations made, agreed, implemented, overdue, not due at 31 March.	**Recommendation Accepted** The annual report for 2024/25 and going forward will include a summary of the progress of the implementation of audit actions. This will be split between formal follow up of actions, through audit assignments, and informal follow up using information recorded by services in Ideagen.	Chief Internal Auditor – 30 June 2024	In progress
7	7.7.4 7.7.5	The regular progress reports to Audit & Governance Panel are updated to provide information on those recommendations where the risk has been accepted, particularly where the recommendations are high or medium risk and highlight to the Panel any concerns. The annual internal audit report should be updated to highlight any concerns regarding management's acceptance of risk which have previously been reported to the Panel.	**Recommendation Accepted** The annual report for 2024/25 and going forward will note where the risk has been accepted by service managers.	Chief Internal Auditor – 30 June 2024	In progress

■	Critical
■	Significant
■	Routine