

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	31 October 2023
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	2022/2023 External Quality Assessment of Internal Audit Service
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ present the 2022/2023 External Quality Assessment of South Lanarkshire Council's Internal Audit Service

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the contents of the report be noted

3. Background

- 3.1. The internal audit service within South Lanarkshire Council is delivered within the context of the Public Sector Internal Audit Standards (PSIAS). These standards require that a Quality Assurance and Improvement Programme (QAIP) is developed 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. This Programme includes periodic and ongoing internal assessments as well as an external inspection, once in each 5-year period, to confirm compliance with PSIAS.
- 3.2. To deliver the requirement of an external inspection, the Chief Internal Auditors Group within Scotland facilitate an arrangement whereby reviews are undertaken by Local Authorities on a reciprocal, no-fee basis. The allocation of the reviews is undertaken by the Chief Internal Auditors Group and, in 2022/2023, East Lothian Council were nominated as the reviewer for South Lanarkshire Council.
- 3.3. The requirement for a formal, external inspection was intimated to the Risk and Audit Scrutiny Committee in September 2022 in line with the 5-year time period that had elapsed since the last review in 2017/2018. In preparation for the inspection, a self-assessment checklist was completed by the Audit and Compliance Manager and shared with East Lothian Council along with evidence that had been collated to substantiate responses within the checklist. The external inspection included a review of this checklist and evidence as well as interviews with key stakeholders and members of the Internal Audit team.

4. Executive Summary

- 4.1. The review exercise has now concluded and a copy of the final report is attached at Appendix 1. The overall assessment is that South Lanarkshire Council's Internal

Audit function, 'fully conforms'¹ with 7 standards and 'generally conforms'² in the remaining 7 areas. This is considered to be a positive outcome with no significant areas of improvement identified.

4.2. These areas for improvement are highlighted within the report and summarised in an action plan attached to the report. The main areas for improvement are highlighted as being as follows:-

- ◆ the Chief Audit Executive (Audit and Compliance Manager) should report in their own name to the Risk and Audit Scrutiny Committee, enhancing the clarity of independence
- ◆ job profiles/descriptions should be refreshed for all Internal Audit staff to provide a clear expectation of the requirements of each role
- ◆ consideration should be given to developing a formal questionnaire or feedback mechanism from clients to obtain quantifiable client feedback
- ◆ the Audit and Compliance Manager should complete the assurance mapping exercise that is currently underway and report the findings to the Risk and Audit Scrutiny Committee.

4.3. The Committee is asked to note the contents of the report and the agreed action plan, responsibilities and timeline for delivery. Further updates will be provided to the Committee to confirm actions have been implemented with all recommendations anticipated to be delivered by March 2024.

5. Employee Implications

5.1. There are no employee implications.

6. Financial Implications

6.1. There are no financial implications.

7. Climate Change, Sustainability and Environmental Implications

7.1. There are no climate change, sustainability and environmental implications associated with this report.

8. Other Implications

8.1. There are no implications for sustainability in terms of the information contained in this report.

9. Equality Impact Assessment and Consultation Arrangements

9.1. There is no requirement to equality assess the contents of this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

13 October 2023

¹ 'Fully conforms' is defined as "internal audit activity fully complies with all aspects of the PSIAS and the Application Note. All tests have been concluded as satisfactory and areas of good practice identified".

² 'Generally conforms' is defined as "internal audit activity has the relevant structures, policies, and procedures in place and these are applied in practice in all material respects. The majority of tests have been concluded as satisfactory and there is at least partial conformance in others. General conformance does not require complete / perfect conformance. Some areas of good practice and some minor areas of improvement have been identified".

Link(s) to Council Values/Priorities/Outcomes

- ◆ Accountable, effective, efficient and transparent

Previous References

- ◆ Risk and Audit Scrutiny Forum - External Quality Assessment of Internal Audit Service, 21 March 2018
- ◆ Risk and Audit Scrutiny Committee -Internal Audit Activity as at 9 September 2022, 27 September 2022

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

Yvonne Douglas, Audit and Compliance Manager

Tel: 01698 452618

E-mail:- yvonne.douglas@southlanarkshire.gov.uk

**EXTERNAL QUALITY
ASSESSMENT 2**

OF

**SOUTH LANARKSHIRE
COUNCIL'S**

INTERNAL AUDIT FUNCTION

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 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 Audit and Compliance Manager in South Lanarkshire 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 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. East Lothian Council was selected to carry out the external assessment in South Lanarkshire 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 Lanarkshire Council's Internal Audit function has been carried out by East Lothian Council's, Service Manager Internal Audit 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 Lanarkshire Council's Internal Audit function **generally conform(s)** to the PSIAS. None of the standards have been assessed as partially or not conforming with PSIAS, however, some improvements have been recommended to assist in bringing the Internal Audit Function closer to fully conforming in relation to the seven standards assessed as generally conforming. 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	7	7	0	0

- 2.2 The main areas for improvement highlighted in the report are as follows:
- The Chief Audit Executive (Audit and Compliance Manager) reports in their own name to the Risk and Audit Scrutiny Committee, enhancing the clarity of independence.
 - Job Profiles/Descriptions should be refreshed for all Internal Audit staff to provide a clear expectation of what each role requirements are.
 - Consideration should be given to developing a formal questionnaire or feedback mechanism from clients to obtain quantifiable client feedback.
 - The Audit and Compliance Manager should complete the assurance mapping exercise that is currently underway and report the findings to the Risk and Audit Scrutiny Committee.
- 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 Function at South Lanarkshire Council **fully conforms** to 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 Function at South Lanarkshire **fully conforms** to the definition of Internal Auditing as detailed above. The main reasons for this assessment are that in addition to this definition being included in the Internal Audit Charter, interviews with the Chair of the Risk and Audit Scrutiny Committee and Senior Council Management demonstrated that the Internal Audit Function are providing this independent, objective assurance and when required consulting activity to South Lanarkshire Council.

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 Lanarkshire Council's Internal Audit Function **generally conforms** with the requirement to comply with the Code of Ethics. This is as a result of there being a small number of minor improvements, that are documented in section 6.2,6.3,7.1,and 7.3 of this report, in relation to the attribute standards highlighted, that will provide even greater assurance in relation to continued compliance with the code of ethics. Interviews with the Chair of the Risk and Audit Scrutiny Committee, Senior Council Management and members of the Internal Audit Function provided good evidence that the appropriate ethical culture is embedded in the Internal Audit Function.

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 Lanarkshire Council's Internal Audit Charter is reviewed annually with the most recent review taking place in February 2023, following publication of the most up to date PSIAS. The Internal Audit Charter was approved by the Risk and Audit Scrutiny Committee (RASC) on 7 March 2023 as appendix 2 to the 2023/2024 Internal Audit Plan.

6.1.2 Whilst the Internal Audit Charter identifies the relationship of the Audit and Compliance Manager as the Chief Internal Auditor with the Executive Director Finance and Corporate Resources and the chair of the RASC as good practice, the Internal Audit Charter does not provide the detail of the relationship with the Council Monitoring officer that is covered as recommended good practice under this standard.

6.1.3 **Recommendation 1** That the relationship between the Chief Internal Auditor and the Monitoring Officer is clarified in the next update to the Internal Audit Charter.

6.1.4 Having considered the findings above, it has been concluded that the Internal Audit Function at South Lanarkshire Council **generally conforms** to 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 South Lanarkshire Council Chief Internal Auditor (Audit and Compliance Manager) reports functionally to the Risk and Audit Scrutiny Committee and administratively to the Executive Director Finance and Corporate Resources, who is a member of the Council Management Function. The Chief Internal Auditor has direct and unrestricted access to the Chief Executive and the Chair of the Risk and Audit Scrutiny Committee and this has been confirmed through the completed Stakeholder Questionnaires and interviews. These reporting and 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 Audit and Compliance Manager attends the Audit and Risk Scrutiny Committee meetings to present all internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and executive summaries from the planned audits) to Elected Members. The reports are all submitted not in the Audit and Compliance Managers name but in the name of the Executive Director Finance and Corporate Resources. It is considered best practice for the Chief Internal Auditor to present all reports in their own name.
- 6.2.3 **Recommendation 2** That the Chief Internal Auditor (Audit and Compliance Manager) reports in their own name to the Risk and Audit Scrutiny Committee.
- 6.2.4 The Audit and Compliance Manager has operational management responsibilities outwith Internal Audit for Funding and Compliance Services. The Internal Audit Charter states that; "it is recognised that arrangements are required to be in place for any audit work in this area to allow this to be managed independently of the Audit and Compliance Manager. The specific nature of these arrangements will be reported to the RASC when audit activity in this area is planned." Whilst best practice would be for the Chief Internal Auditor to have no operational management responsibility; in this case the potential impairment to independence has been identified for the Risk and Audit Scrutiny Committee to provide assurance that independence is maintained.
- 6.2.5 Best practice would be that the annual appraisal of the Chief Internal Auditor is subject to independent scrutiny and would be most likely countersigned by the Chief Executive. The Audit and Compliance Manager is subject to an annual appraisal as part of the overall South Lanarkshire Council appraisal process and completion of an Employee Performance Appraisal Form. This form is signed on annual basis by the Executive Director Finance and Corporate Resources, there is no requirement in the Council process for a counter signatory on this form.
- 6.2.6 **Recommendation 3** Consideration should be given to the annual appraisal of the Audit and Compliance Manager being countersigned by another council officer ideally the Chief Executive.
- 6.2.7 All staff within the Internal Audit Function are required to complete a staff confirmation of independence form on an annual basis and from a sample this is completed.
- 6.2.8 South Lanarkshire Council's Internal Audit Function **generally conforms** to 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 Audit and Compliance Manager holds a relevant professional qualification with **22** years internal audit experience within a Scottish Local Government. The Audit and Compliance Manager 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), South Lanarkshire Council's Internal Audit is **represented on both**.
- 6.3.2 To support the Audit and Compliance Manager in South Lanarkshire Council's Internal Audit Function there are 3 Audit Advisors who all hold appropriate professional qualifications. There are a total of ten members of staff in the Internal Audit Function, including the Audit and Compliance Manager and 3 Audit Advisors. The Internal Audit Function delivers internal audit services to South Lanarkshire Council, Lanarkshire Valuation Joint Board, South Lanarkshire Integration Joint Board, South Lanarkshire Leisure and Culture and SEEMIS Group LLP.
- 6.3.3 All internal audit have annual Employee Performance & Development Appraisal through the South Lanarkshire Council process, competency is assessed for each individual through this process.
- 6.3.4 The Audit and Compliance Manager and the 3 Audit Advisors have specific CPD requirements to adhere to. Each staff member maintains their own CPD records and is encouraged through the Annual Appraisal process and training plan development to put forward their training needs. Examples of completed CPD certification have been provided.
- 6.3.5 A job profile was only available for the Audit Advisor role as it was advised that Job Profiles have not been updated on other Internal Audit roles since 2011 as there has been limited turnover of staff. Given the length of time since the job profiles were last updated it would be best practice to update the profiles for all of the Internal Audit positions.
- 6.3.6 **Recommendation 4** Job Profiles/Descriptions should be refreshed for all Internal Audit staff to provide a clear expectation of what each role requirements are.
- 6.3.7 The Stakeholder Questionnaires confirm that the Audit and Compliance Manager demonstrates sufficient knowledge and experience and that all members of the Internal Audit Function exercise due professional care.

6.3.8 South Lanarkshire Council's Internal Audit Function **generally conforms** to standard 1200 on Proficiency and Due Professional Care.

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 are reviewed by the Audit and Compliance Manager prior to issue and working papers and draft reports are, in general, reviewed by one of the Audit Advisors. Where the assignment is carried out by the Audit Advisors, the Audit and Compliance Manager will review the working paper file.

6.4.2 Client feedback is informally collected by the Audit and Compliance Manager and Audit Advisors, however, there is no formal framework to collect the feedback which would provide an objective method of analysis.

6.4.3 **Recommendation 5** Consideration should be given to developing a formal questionnaire or feedback mechanism from clients to obtain quantifiable client feedback.

6.4.4 Key Performance Indicators are in place covering quality, time and budget monitoring against audit assignments to monitor the performance of the Internal Audit Function with the results being reported both within regular Activity reports and annually to the Risk and Audit Scrutiny Committee.

6.4.5 A formal self-assessment of conformance with the PSIAS is carried out by the Audit and Compliance Manager on an annual basis and is reported to the Risk and Audit Scrutiny Committee as part of the Internal Audit Annual Assurance Report, which was last reported to the June 2023 Committee confirming that the Internal Audit function continues to generally conform to the PSIAS. The report also confirms that there are no significant areas of non-compliance identified, however, does not identify the areas of non-conformance that have been identified.

6.4.6 **Recommendation 6** Consideration should be given to providing the Risk and Audit Scrutiny Committee with summary details of the areas of non-conformance identified in the annual QAIP self-assessment.

6.4.7 South Lanarkshire Council's Internal Audit function **generally conforms** to 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 Audit and Compliance Manager outlining the planned programme of work to be undertaken. The planning process includes consideration of the Council Risk Registers, previous audit activity undertaken and discussions with senior management and external audit.
- 7.1.2 The Audit Plan is formally approved by the Risk and Audit Scrutiny Committee on an annual basis at the March Committee meeting. Progress against the Internal Audit Plan is then reported at each subsequent Risk and Audit Scrutiny Committee. The Internal Audit plan does not currently prioritise the assignments within the plan and this would be recommended good practice to provide assurance that core assurance tasks are undertaken in any year that the complete audit plan is not undertaken.
- 7.1.3 **Recommendation 7** Audit Activities should be prioritised as part of the South Lanarkshire Annual Audit Plan.
- 7.1.4 Stakeholder questionnaires completed for this review identified that in all cases the stakeholders believed that Internal Audit adds value to the Council, contributes to the efficiency and effectiveness of the council's arrangements for governance risk management and internal control and takes account of the council's risk management framework.
- 7.1.5 The Audit and Compliance Manager is currently undertaking an assurance mapping process to establish where assurance is provided to the Council across the 3 lines of defence. The development of a Strategic Risk Assessment map was reported to the Risk and Audit Scrutiny Committee in October 2022. Completion of this work will provide added assurance that Internal Audit coverage provides adequate assurance coverage.
- 7.1.6 **Recommendation 8** The Audit and Compliance Manager should complete the assurance mapping exercise and report the findings to the Risk and Audit Scrutiny Committee.
- 7.1.7 South Lanarkshire Council's Internal Audit function **generally conforms** to 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 Internal Audit work has adequate coverage across Governance Risk Management and Control across the Internal Audit functions processes. Stakeholder questionnaires completed for this review identified that in all cases the stakeholders believed that Internal Audit adds value to the Council, contributes to the efficiency and effectiveness of the council's arrangements for governance risk management and internal control.

7.2.2 South Lanarkshire Council's Internal Audit function **fully conforms** to 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 review of a sample of electronic audit files established that engagement planning resulted in Audit Briefs that contained detailed scope and objectives of audit activity linking back to the Annual Audit Plan. Consultation with the client was completed and agreement of the brief was provided through emails that had not been maintained in all cases on the audit file. Compilation of audit programme documented the tests to be carried out to conclusion on each of the specific objectives in the brief.

7.3.2 **Recommendation 9** Client approval of audit briefs and the factual accuracy of reports by email should be stored on the audit file and not in SLC email accounts.

7.3.3 South Lanarkshire Council's Internal Audit function **generally conforms** to 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, further procedures notes and processes provide more detailed guidance on parts of the Internal audit process. Standard procedures are in place for other types of work e.g. investigating financial irregularities and for data protection and records management.
- 7.4.2 Sample testing on Internal Audit files established that the Internal Audit Manual is adhered to in completing the Audit work and the supervisory and review processes are in place and operating for both audit files and the drafting and completion of final reports.
- 7.4.3 Standard working paper proforma are utilised for audit file completion and are utilised in most cases, however, divergence from these standard working papers will be agreed through the supervisory processes when appropriate.
- 7.4.4 The Working paper files reviewed demonstrated appropriate review processes are in place and are being operated.
- 7.4.5 South Lanarkshire Council's Internal Audit function **fully conforms** to 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 All Internal Audit Reports are developed in draft and the draft having been reviewed and then approved by the Audit and Compliance Manager, the auditor will issue the draft report to the client and hold a closing meeting whereby the client has the opportunity to comment on the draft report. Each report and each recommendation is graded using an appropriate grading structure.
- 7.5.2 Clients provide management responses to every recommendations with implementation dates and details of responsible officers.
- 7.5.3 Individual audit report findings are then assessed against the three areas of Governance, Risk Management and Internal Control and presented to provide the annual opinion based on the findings in these three areas.
- 7.5.4 All of the stakeholder questionnaires highlighted that Internal Audit reports are accurate, objective, clear, constructive, complete and timely and that the reports include all significant and relevant information and observations to support the conclusions and recommendations.

7.5.5 South Lanarkshire Council's Internal Audit function **fully conforms** to 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 All high risk recommendations and specific reviews are followed up on a risk assessed basis to ensure that the recommendations have been implemented. Internal Audit report back the findings of these follow up reviews to the Risk and Audit Scrutiny Committee at each meeting.

7.6.2 South Lanarkshire Council's Internal Audit function **fully conforms** to 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 Where a recommendation is made in a report to mitigate a risk and it is not agreed with by management the risk that is being accepted will be clearly identified to management and will be included within the final report.





7.7.2 The Audit and Compliance Manager has direct access to the Chief Executive and regularly meets the S95 Officer and the Chair of the Risk and Audit Scrutiny Committee to discuss any assurance issues that need to be brought to the attention of those officers.

7.7.3 The full scope of internal audit responsibilities are covered in the annual report to the Risk and Audit Scrutiny Committee, including full reporting on work in relation to governance, risk management and control.

7.7.4 South Lanarkshire Council's Internal Audit function **fully conforms** to Standard 2600 on Communicating the Acceptance of Risk.

Duncan Stainbank
Service Manager - Internal Audit
East Lothian Council
October 2023

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	Y			
Section B		Definition of Internal Auditing	Y			
Section C		Code of Ethics		Y		
Section D		ATTRIBUTE STANDARDS				
1000		Purpose, Authority and Responsibility		Y		
1100		Independence and Objectivity		Y		
1200		Proficiency and Due Professional Care		Y		
1300		Quality Assurance and Improvement Programme		Y		
Section E		PERFORMANCE STANDARDS				
2000		Managing the Internal Audit Activity		Y		
2100		Nature of Work	Y			
2200		Engagement Planning		Y		
2300		Performing the Engagement	Y			
2400		Communicating Results	Y			
2500		Monitoring Progress	Y			
2600		Communicating the Acceptance of Risks	Y			
TOTALS			7	7		

APPENDIX B – EVIDENCE PACK

- Terms of reference for RASC
- Reports to RASC – approval of 2021/2022 Audit Plan
- Report to RASC – approval of 2022/2023 Audit Plan
- Report to RASC, LVJB, SLC IJB, SLLC and SEEMIS – 2021/22 Annual Report
- Report to RASC, LVJB, SLC IJB, SLLC and SEEMIS – 2022/23 Annual Report
- Examples of reports provided to RASC:
 - An activity report
 - Six monthly fraud
 - Annual fraud
 - Various NFI reports
- Schedule of meetings with RASC Chair
- Extract from Financial Regulations re Internal Audit
- An organisation chart for the South Lanarkshire Council Internal Audit team
- IA Activity Reports to RASC
- Final Annual Governance Statement to RASC 2021/2022 and 2022/2023
- Copy of last PSIAS inspection report to RASC (March 2018)
- Conflict of Interest Policy
- Conflict of Interest Declarations (Template and completed examples)
- Employee Code of Conduct
- Examples of Internal Audit Team Brief Agendas 2023
- PDR Template and Sample of completed Internal Audit team PDR's
- FCR Resource Plan
- Assurance mapping documents
 - Top Risk Report (RASC)
 - Summary doc – 3 lines analysis (this is work in progress continuing into 2023/24)
- Internal Audit Annual Capacity Plan 2022/23
- South Lanarkshire Council Recruitment and Disciplinary Policies
- Sample Team Member CPD submissions
- South Lanarkshire Council Internal Audit Manual
- Audit Planning Meeting Notes with Senior Management
- Audit Planning Documentation
- LVJB Service Level Agreement
- Internal Audit Archiving policy
- Lanarkshire Valuation Joint Board Follow Up report 2021/22
- Audit Advisor Job Profile

APPENDIX C – STAKEHOLDER QUESTIONNAIRES

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

- Cleland Sneddon, Chief Executive
- Paul Manning, Executive Director Finance and Corporate Resources
- Cllr Elaine McDougall, Chair, Risk and Audit Scrutiny Committee

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

APPENDIX D – ACTION PLAN

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
1	6.1.3	That the relationship between the Chief Internal Auditor and the Monitoring Officer is clarified in the next update to the Internal Audit Charter.	Agreed. Will update and present with the 24/25 IA Plan.	Yvonne Douglas, March 2024
2	6.2.3	That the Chief Internal Auditor (Audit and Compliance Manager) reports in their own name to the Risk and Audit Scrutiny Committee.	Annual Report will continue to be in the name of the Chief Internal Auditor. In compliance with South Lanarkshire Council protocol other reports will be in the name of the Executive Director. This is not considered to impair independence.	Not applicable.
3	6.2.6	Consideration should be given to the annual appraisal of the Audit and Compliance Manager being countersigned by another council officer ideally the Chief Executive.	Agreed. PDR is currently signed by direct line manager (and the one best placed to appraise performance). To demonstrate strict compliance, PDR will be countersigned.	Yvonne Douglas, March 2024
4	6.3.6	Job Profiles/Descriptions should be refreshed for all Internal Audit staff to provide a clear expectation of what each role requirements are.	Agreed.	Yvonne Douglas, December 2023
5	6.4.3	Consideration should be given to developing a formal questionnaire or feedback mechanism from clients to obtain quantifiable client feedback.	Agreed. Annual process will be devised.	Yvonne Douglas, December 2023
6	6.4.6	Consideration should be given to providing the Risk and Audit Scrutiny Committee with summary details of the areas of non-conformance identified in the annual QAIP self-assessment.	Agreed. Areas of non-compliance are not significant but to demonstrate strict compliance, these areas will now be detailed within the annual report.	Yvonne Douglas, March 2024

SOUTH LANARKSHIRE COUNCIL: EXTERNAL REVIEW OF PSIAS CONFORMANCE SELF-ASSESSMENT

7	7.1.3	Audit Activities should be prioritised as part of the South Lanarkshire Annual Audit Plan.	Agreed. Audit activities are prioritised in practice but this is not visible within the Plan. Will revise format of the 24/25 IA Plan to evidence.	Yvonne Douglas, March 2024
8	7.1.6	The Audit and Compliance Manager should complete the assurance mapping exercise and report the findings to the Risk and Audit Scrutiny Committee.	Agreed. Programmed to complete and report in 23/24.	Yvonne Douglas, March 2024
9	7.3.2	Client approval of audit briefs and the factual accuracy of reports by email should be stored on the audit file and not in SLC email accounts.	Agreed, although not routinely stored in email accounts. Reminder to be issued.	Yvonne Douglas, September 2023

	Critical
	Significant
	Routine