

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	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 External Quality Assessment of South Lanarkshire Council's Internal Audit Service

2. Recommendation(s)

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

- (1) that the content of the report is noted

3. Background

3.1. The Internal Audit Service is delivered within the context of 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 an 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 one external inspection once in every five year period.

3.2. A formal external inspection arrangement was noted by the Forum in February 2014 and this review was undertaken by another local authority. A programme of inspections was prepared by the Chief Internal Auditors Group (SLACIAG) and, for South Lanarkshire Council, this was to be undertaken by Stirling Council's Chief Internal Auditor.

3.3. In preparation for the inspection, a self-assessment checklist was completed by the Audit and Compliance Manager. The findings from this self-assessment were provided to the Forum in September 2017. The assessment identified some minor administrative areas where compliance needed to be more clearly evidenced, together with a more effective method of gathering client feedback. These areas for improvement were not considered to have an impact upon the quality of the internal audit service delivered.

3.4. When framing the terms of the assessment, the Chief Internal Auditors' group defined four separate levels of compliance ranging from 'fully conforms' to 'does not conform'. Given that 'fully conforms' would require compliance across approximately one hundred separate criteria, it was deemed likely that the internal audit function would 'generally conform'.

- 3.5 The external inspection by Stirling Council's Chief Internal Auditor took the form of an independent validation of the Audit and Compliance Manager's self-assessment checklist and included an on-site visit to review documentation and files.
- 3.6 An update on progress of the inspection was provided to the Forum, in November 2017 and then again in January 2018. The later update confirmed that the external inspection was complete and no significant issues had been identified.
- 3.7 Stirling Council's Audit Service Manager has now prepared a report of the findings from the external assessment. This is attached to this report. The Forum is asked to note the content of the report.

4. Executive Summary

- 4.1. It is Stirling Council's Audit Service Manager's opinion that:
 - ◆ The external review supports the Audit and Compliance Manager's assertion that the South Lanarkshire Council Internal Audit function generally conforms to the Public Sector Internal Audit Standards
 - ◆ The Internal Audit function fully conforms to the Definition of Internal Auditing, the Code of Ethics and six of the Standards, and generally conforms to the remaining five Standards. There are no areas of significant non-conformance, either by nature or by volume
 - ◆ The internal audit function is effectively managed, the process for delivering the annual Internal Audit Plan is robust and the team operates sufficiently independently of management
 - ◆ Internal Audit is a key element of the Council's governance structures, and has a key role in further improving those structures. Work is planned and undertaken in line with the Internal Audit Charter and guidance set out in the Internal Audit Manual
 - ◆ Assignment and annual reporting processes are well defined, and arrangements for ensuring implementation of recommendations are well established

5. Action Plan

- 5.1. The external reviewer identified a number of areas where arrangements could be further enhanced. The actions are set out in the Action Plan included within the attached report.
- 5.2 Of the eleven recommendations where action was agreed, five are now complete. Timescales have been agreed for completion of the remaining six actions. An update on progress of these remaining actions will be provided to a future meeting of the Forum.

6. Employee Implications

- 6.1. There are no employee implications.

7. Financial Implications

- 7.1. There are no financial implications.

8. Other Implications

- 8.1. There are no implications for risk or 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)

7 March 2018

Link(s) to Council Objectives/Values/Ambitions

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ 'Public Sector Internal Audit Standards (PSIAS)', February 2014
- ◆ 'Internal Audit Activity Report', May 2016
- ◆ 'Internal Audit Activity Report', January 2017
- ◆ 'Internal Audit Annual Assurance Report 2016/2017', September 2017
- ◆ 'Internal Audit Activity Report', November 2017

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
Ext: 2618
(Tel: 01698 452618)
E-mail: yvonne.douglas@southlanarkshire.gov.uk



South Lanarkshire Council

**External Quality Assessment of
Internal Audit Service**



Issued by **Kevin O’Kane - Audit Manager**

Issue date **5 March 2018**

Issued to

Copied to

Yvonne Douglas, Audit & Compliance Manager,
South Lanarkshire Council

Paul Manning, Executive Director Finance and
Corporate Resources, South Lanarkshire
Council

Cllr Graeme Campbell, Chair, Risk and Audit
Scrutiny Forum, South Lanarkshire Council

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

1. INTRODUCTION AND SCOPE

- 1.1 The Public Sector Internal Audit Standards (the Standards) require that the Audit and Compliance Manager develops a Quality Assurance and Improvement Programme (QAIP). The purpose of the QAIP is to enable evaluation of the Internal Audit function's conformance with the Standards.
- 1.2 The QAIP must include annual internal self-assessments and five yearly external assessments, carried out by an independent assessor from out-with South Lanarkshire Council (the Council).
- 1.3 The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has developed an External Quality Assessment Framework to satisfy this requirement for five yearly external assessment. This is an evidence-based, peer review process.
- 1.4 This report sets out the findings arising from the external assessment undertaken by Stirling Council's Audit Service Manager in December 2017.

2. CONCLUSION AND EXECUTIVE SUMMARY

- 2.1 I can confirm that my review of the Audit and Compliance Manager's self-assessment supports the Manager's assertion that the South Lanarkshire Council Internal Audit function generally conforms to the Public Sector Internal Audit Standards.
- 2.2 I found that the Internal Audit function fully conforms to the Definition of Internal Auditing, the Code of Ethics and six of the Standards, and generally conforms to the remaining five Standards. There are no areas of significant non-conformance, either by nature or by volume.
- 2.3 It is clear that the function is effectively managed, and that the process for delivering the annual Internal Audit Plan is robust. The team operates sufficiently independently of management.
- 2.4 Internal Audit is a key element of the Council's governance structures, and has a key role in further improving those structures. Work is planned and undertaken in line with the Internal Audit Charter and guidance set out in the Internal Audit Manual.
- 2.5 Assignment and annual reporting processes are well defined, and arrangements for ensuring implementation of recommendations are well established.
- 2.6 However, I have identified a number of areas where arrangements could be further enhanced, and these are set out in the Action Plan at Section 4 of this report.

3. AUDIT FINDINGS

Section A: Definition of Internal Auditing

- 3.1 The Internal Audit function at South Lanarkshire Council fully conforms to the definition of Internal Auditing, as evidenced by the findings set out in subsequent sections of this report.

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Section B: Code of Ethics

- 3.2 Members of the Internal Audit function are supported by the Council and by Internal Audit management to:
- perform their work with honesty, diligence, and responsibility;
 - apply objectivity
 - respect the confidentiality of the data and information they acquire in the course of their work;
 - apply the required knowledge, skills, and experience; and
 - have regard to the Seven Principles of Public Life.
- 3.3 In addition, all members of the Internal Audit function must comply with the Codes of Ethics of any relevant professional body to which they belong.
- 3.4 The Internal Audit function fully conforms to the requirement to comply with the Code of Ethics.

Section C: Attribute Standards

Standard 1000: Purpose, Authority, and Responsibility

- 3.5 This Standard requires the purpose, authority, and responsibility of the Internal Audit function to be defined in an Internal Audit Charter. This should include a definition of assurance services and consulting activities, and should describe Internal Audit's position within the Council and its relationships with stakeholders.
- 3.6 South Lanarkshire Council's Risk and Audit Scrutiny Forum approved the Internal Audit Charter at its 18 June 2013 meeting. The Audit and Compliance Manager reviews the continuing appropriateness of the Charter annually, drawing it to the Forum's attention when the annual Internal Audit plan is submitted for approval.
- 3.7 The Charter is clear, concise, and captures effectively the requirements of Standard 1000. It is clear about the reporting lines of the Audit and Compliance Manager.
- 3.8 The Internal Audit function fully conforms to Standard 1000 on Purpose, Authority, and Responsibility.

Standard 1100: Independence and Objectivity

- 3.9 This Standard sets out the organisational and reporting lines required to promote and preserve the organisational independence of the Internal Audit function.
- 3.10 The Audit and Compliance Manager attends all meetings of the Risk and Audit Scrutiny Forum, and contributes papers to each meeting.
- 3.11 While the Audit and Compliance Manager prepares and presents reports to the Forum, the reports themselves are in the name of the Executive Director (Finance and Corporate Resources) – with the exception of the Internal Audit Annual Assurance Report, which is in the name of the Audit and Compliance

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Manager. It is also noted that, while Internal Audit agrees its finalised reports with service management, they are formally issued under cover of a memo in the Executive Director's name. This reflects internal protocols within the Council.

While my review found no suggestion whatsoever that the independence of the Audit and Compliance Manager is in any way impaired by these administrative reporting arrangements, it would more clearly demonstrate the organisational independence of Internal Audit if these reports were submitted or issued in the name of the Audit and Compliance Manager.

3.12 The Chair of the Risk and Audit Scrutiny Forum, the Executive Director (Finance and Corporate Resources) and the Head of Administration & Legal Services have confirmed the clear independence and objectivity of the Audit and Compliance Manager and her team. All Internal Audit staff are subject to the Employee Code of Conduct, and all complete and sign an annual Staff Declaration of Independence form.

3.13 The Standard requires that:

“When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong.

The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.”

The Internal Audit Charter identifies that:

“The Audit and Compliance Manager has management responsibilities outwith Internal Audit for Funding and Compliance Services. Arrangements are in place for any audit work in this area to be managed independently by an Audit Adviser with the Audit and Compliance Manager as the client.”

I note that there have been no Internal Audit assurance reports to the Risk and Audit Scrutiny Forum covering the Manager's additional area of responsibility in the 12 months prior to this report. I consider that the management of such an audit by an Audit Adviser would not be considered good practice in terms of independence, and that it would be preferable for any such review to be performed outwith the Internal Audit function (for example, by engaging an external service provider or through a reciprocal arrangement with an Internal Audit function in another authority).

3.14 At the same time, I acknowledge that the Standard may provide sufficient latitude for the arrangement that is currently in place, as long as this is transparent and the Risk and Audit Scrutiny Forum has had the opportunity to review and approve any safeguards (the Forum would need to be provided with sufficient information to do so). It is also highlighted that the Audit and Compliance Manager has advised that the Scottish Government externally verifies processes and systems at the start of each European Union

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programme and each grant claim, which provides an alternative, independent source of assurance for Funding and Compliance Services.

I recommend that this arrangement is reviewed and either (i) terminated and replaced, when required, with an arrangement that is fully external to the Council's Internal Audit function; or (ii) considered, in sufficient detail, and approved by the Risk and Audit Scrutiny Forum. The Internal Audit Charter should be reworded accordingly.

- 3.15 While members of the team do not have fixed organisational remits or responsibilities, they are precluded from working in any area where they feel that they are unable to be totally objective or impartial (for example a business area in which they were previously employed).
- 3.16 Generally, rather than specifically for South Lanarkshire Council, there has in the past been a lack of clarity as to organisational arrangements to prevent inappropriate influence over the Internal Audit function by those subject to audit. One way that the Standard suggests this might be achieved is through the inclusion of feedback from the Chair of the Resources and Audit Forum in performance appraisals of the Audit and Compliance Manager. It is understood that this has previously occurred on an informal basis, but that a more structured, formalised approach is now being considered.

It is recommended that procedures are put in place to obtain and reflect feedback from the Chair of the Risk and Audit Forum, or to otherwise evidence such feedback, as part of the normal performance and appraisal process for the Audit and Compliance Manager. This is in order to mitigate the risk that the Internal Audit function could be subject to inappropriate influence by those subject to audit.

- 3.17 It is also noted that section 22 of the Council's Financial Regulations refers to:

“Internal Audit, under the independent control and direction of the Executive Director (Finance and Corporate Resources)”

and states that:

“Officers engaged in Internal Audit will report directly to the Executive Director (Finance and Corporate Resources)”

and also vests normal internal audit rights of access in the Executive Director “or an authorised representative”. The Financial Regulations, as currently worded, do not adequately support the independence of Internal Audit, although the overall evidence of my review indicates that sufficient evidence operates in practice.

- 3.18 Overall, the evidence examined in the course of this review indicates that, in practice, the Internal Audit function operates independently of management, and that auditors are actively supported to act objectively. This could, however, be enhanced by the Audit and Compliance Manager reporting to Risk and Audit Scrutiny Forum in her own name, and reconsideration of independent assurance arrangements for Funding and Compliance activity. Further, I would advise that the wording of Financial Regulation 22 is amended to properly reflect the independence of Internal Audit and its authority. Overall, therefore, that Internal Audit generally conforms to Standard 1100 on Independence and Objectivity.

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I recommend that, at an appropriate opportunity, the wording of the Council's Financial Regulations (section 22) is amended such that the independence of Internal Audit is clearer. This could be achieved by, for example, replacing references to the "Executive Director" with "Audit and Compliance Manager."

Standard 1200: Proficiency and Due Professional Care

- 3.19 This Standard seeks to ensure that the Internal Audit function possesses the knowledge, skills, and competencies to carry out their role with due professional care.
- 3.20 The Audit and Compliance Manager holds a relevant qualification, has substantial post-qualification experience, and has been in post for over six years.
- 3.21 Job descriptions set out the roles and responsibilities of post within the function.
- 3.22 Each member of the team is subject to the Council's PDR (Personal Development Review) process, which includes a training needs assessment. This process includes regular monitoring, and facilitates continuing professional development.
- 3.23 Overall, I am able to conclude that the Internal Audit function fully conforms to Standard 1200 on Proficiency and Due Professional Care.

Standard 1300: Quality Assurance and Improvement Programme

- 3.24 This Standard sets out the requirements for the internal and external assessment of performance and compliance with Public Sector Internal Audit Standards.
- 3.25 The Audit and Compliance Manager actively and openly participated in this External Quality Assessment, building on an evidence-based self-assessment undertaken initially in August 2016, and which the Audit and Compliance Manager updated in March 2017. My review process has included checks to more recent evidence in order to ensure the currency of my conclusions.
- 3.26 The Risk and Audit Scrutiny Forum agreed to note the approach to external quality assessment at its meeting on 18 February 2014, and **I recommend that the outcomes are reported to a future meeting of the Risk and Audit Scrutiny Forum. I understand that it is the Audit and Compliance Manager's confirmed intention to do so.**
- 3.27 Key to demonstrating compliance with this Standard are the arrangements established to monitor the performance of the Internal Audit function. This is evident via, for example:
- the review of all reports by the Audit and Compliance Manager prior to issue; and,
 - the reporting of outcomes to Risk and Audit Scrutiny Forum.
- 3.28 It is noted that a review performed under the Council's EMPOWER programme in 2016 identified a small number of actions to be taken. Progress

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has been monitored through the Corporate Benefits Tracking report, and where actions are incomplete they are awaiting completion of this External Quality Assessment review before finalisation.

- 3.29 I note that the Audit and Compliance Manager's Internal Audit Annual Assurance Report to the Risk and Audit Scrutiny Forum regularly reports the overall conclusions of the ongoing Quality Assurance and Improvement Programme (QAIP) that chief internal auditors are required to ensure is in place. The Report has not, in recent years at least, identified specific actions to be taken as a result of the QAIP, although it has identified that such matters have tended to be minor administrative without an impact on the overall quality of service delivery.
- 3.30 I am able to conclude that the Internal Audit function fully conforms to Standard 1300 on Quality Assurance and Improvement Programme.

Section D: Performance Standards

Standard 2000: Managing the Internal Audit Activity

- 3.31 This Standard sets out the requirements for the preparation, delivery, and reporting of the Internal Audit Plan.
- 3.32 The approach to audit planning is clearly set out in the Audit Manual. This is based on a cascade of planning elements from the Community Plan through to the production of an Internal Audit Annual Report. The Audit and Compliance Manager consults with senior managers when preparing the annual Plan. Risk assessment is a key element of the planning process.
- 3.33 The Audit and Compliance Manager is very aware of the need to focus on areas of highest risk, and reviews the Internal Audit Plan on an ongoing basis. She is also responsible for securing the resources required to deliver the Plan. I found that the governance structures and documentation that shape the operation of the team are comprehensive and clear, that the team is well established, sufficiently independent and that their role is well understood.
- 3.34 The Internal Audit Plan 2017/18 was presented to, and endorsed by, the Risk and Audit Scrutiny Forum on 20 September 2017, and progress reports against this and previous plans have been routinely and regularly considered by the Forum.
- 3.35 I note that the strategic and annual plans for each of the three years from 2017/18 includes provision for general contingency of 50 days, compared with 205 days in the 2016/17 plan: that contingency is intended to resource, among other activities, responses "to requests for unplanned work". The allocation of 50 days seems potentially low given the local authority environment generally and the size of the internal audit function. However, I also understand that there is a potential for reduced resources as a result of future savings exercises and that there is the opportunity to adjust plans and to report this to the Risk and Audit Scrutiny Forum within the regular progress updates, and that there is potential flexibility of the contingency resource across internal audit and fraud (which provided 100 days in both years).

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- 3.36 The Audit and Compliance Manager has explained that: the contingency allowance has been reduced to accommodate additional specific requests for audit work, alongside a clearer prioritisation of the Audit Plan to facilitate the revision of the Plan, if required, as the year progresses; and that a more focused approach has been developed in relation to ad hoc requests, with Internal Audit assuming a facilitator role in some areas as opposed to performing the work itself.

I recommend that the Audit and Compliance Manager continues to monitor the sufficiency of the contingency allocation and amends this where appropriate, both 'in year' and as part of the planned annual review of the longer-term strategic plan.

- 3.37 While audit planning documentation showed clear evidence of consultation with senior management and a focus on key risks and the Council and Resource Plans, there is scope for the development of a more comprehensive, detailed 'audit universe' of the Council's auditable activities. This, linked to the planned development of assurance mapping, would properly inform an annual risk assessment upon which to base a programme of internal audit activity that properly reflects the Council's strategic risks and priorities.

It is recommended that the audit universe is further developed, in conjunction with the planned assurance mapping developments, so that it provides a robust and comprehensive basis upon which to devise an annual internal audit plan that properly reflects the Council's strategic risks and priorities.

- 3.38 In overall terms, it is clear that the Internal Audit function is effectively managed with a view to adding value to the Council through delivery of the annual plan, and generally conforms to Standard 2000.

Standard 2100: Nature of Work

- 3.39 This Standard relates to the adequacy and effectiveness of the arrangements necessary for the Internal Audit activity to contribute to the improvement of risk management, governance, and control processes.
- 3.40 The Internal Audit function is a key element of the Council's governance structures, and the 2016/17 Annual Governance Statement (which forms part of the Annual Accounts) specifically refers to the importance of the assurance that the function provides.
- 3.41 Our review of Internal Audit reports to Risk and Audit Scrutiny Forum and senior management clearly demonstrate that a value adding and well managed service is being provided, with the outcomes of relevant work reported to Elected Members and senior management.
- 3.42 The approach to planning, performing, and reporting on work is set out in the Internal Audit Manual.
- 3.43 IT risks are considered within the context of wider Internal Audit planning, and a rolling programme of audits in relation to Cyber Security is included in the current strategic and annual plans.

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- 3.44 Fraud related work is addressed via standard tests in individual audit programmes, a focus on identified fraud risks within specific planned reviews, and also by a separate programme of fraud work within the audit plan.
- 3.45 Emerging legislation, and risks to the achievement of organisational objectives, are also considered as part of the audit planning process.
- 3.46 It is clear that the Internal Audit function evaluates and contributes to the improvement of the organisation's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. I am able to conclude that the function fully conforms to this Standard.

Standard 2200: Engagement Planning

- 3.47 This Standard relates to the planning for individual audit assignments.
- 3.48 To assess compliance with this Standard (and Standards 2300 and 2400) I reviewed working paper files for the reviews of:
- City Deal; and
 - PVG (Protecting Vulnerable Groups).
- 3.49 Each review has an Assignment Remit, to be prepared by the auditor and approved by the Audit and Compliance Manager, setting out:
- background;
 - potential risk areas;
 - the primary objective of the audit;
 - the scope of the audit, including information on testing and samples;
 - the strategic or service risk that any recommendations arising will be recorded against;
 - liaison and reporting arrangements;
 - key dates and budget (days); and,
 - staff to undertake the assignment.
- 3.50 A Research Sources schedule is also prepared, which identifies background research performed as part of the assignment planning process and links this to control areas to be considered within the programme of audit testing.
- 3.51 A Planning Remit is agreed with and signed-off by a relevant client service manager at the outset of each review.
- 3.52 A detailed Audit Programme had been prepared for both assignments, setting out the work to be undertaken to allow an informed opinion to be reached on each audit objective and risk. Draft Audit Programmes are subject to review by supervising audit staff (either the Manager or an Audit Adviser). However, the files reviewed did not show clear evidence that those draft programmes had been agreed by the supervising officer (there was, however, clear evidence of supervisory review of the completion and documentation of the tests set out in each programme).

It is recommended that the Audit and Compliance Manager ensures that there is evidence of supervisory review and approval of all audit programmes.

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- 3.53 The completed Audit Programmes for both reviews had been comprehensively cross-referenced to supporting papers.
- 3.54 The Internal Audit function also provides a dedicated service to South Lanarkshire Leisure & Culture Ltd, SEEMIS, Lanarkshire Valuation Joint Board and South Lanarkshire Integration Joint Board. Service Level Agreements were in place for the first three of those in 2016/17: however, at the time of writing, there were agreements in place for only two of those.

It is recommended that Service Level Agreements are put in place for all external organisations that are serviced by the Internal Audit function, and that consideration is given as to whether single-year agreements remain appropriate.

- 3.55 A review of sampled assignment working paper files confirmed that Internal Audit develops and documents a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. Those plans consider strategies, objectives and risks relevant to the assignment. Therefore, and taking account of the findings outlined above, I conclude that the Internal Audit function generally conforms to this Standard.

Standard 2300: Performing the Engagement

- 3.56 This Standard covers arrangements for gathering, documenting, analysing, and evaluating audit evidence, and for the supervision of staff undertaking audit assignments.
- 3.57 The Internal Audit Manual sets out requirements in relation to the preparation of audit working papers.
- 3.58 I found that, for both assignment files I reviewed, there was a comprehensive and well cross referenced file of documentary evidence, comprising policies, procedures, notes of meetings, and testing schedules. There was clear evidence of appropriate supervisory review, and conclusions were supported by evidence. There was also evidence that audit quality issues were considered as part of the review process, and that where issues had been identified these had been appropriately addressed before completion of the assignment.
- 3.59 The Internal Audit function, therefore, fully conforms to this Standard.

Standard 2400: Communicating Results

- 3.60 This Standard relates to the communication of results from individual assignments and the Audit and Compliance Manager's overall annual opinion.
- 3.61 The Internal Audit Manual sets out arrangements for reporting on individual assignments, including procedures for agreement and follow-up of reports, and for escalation. The full reports are issued to services by the Executive Director Finance and Corporate Resources. Where a report has been identified as relating to a 'significant assignment', the Risk and Audit Scrutiny Forum is provided with a summary, on one page, that identifies:
- the objective of the audit assignment;

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- a 'key summary' (overall opinion on the activity reviewed);
- key findings;
- areas for improvement; and,
- any good practice identified.

3.62 The overall conclusion of those Internal Audit reports that are not considered to be a 'significant assignment' are summarised for the Risk and Audit Scrutiny Forum through the 'Assurance Info' column in the list of assignments completed since the previous update to the Forum, which is attached to each periodic Internal Audit Activity report. While this approach is not unreasonable, there is a risk that the current presentation format can mean that such findings are inadvertently obscured within the report: for example, the 'List of assignments completed 14 January to 26 May 2017' (Appendix 2 to the Internal Audit Activity report that was submitted to the Forum on 14 June 2017) lists 60 items over 6 pages, including different types of activity that support assurance in different ways – in particular, Internal Audit's participation in working groups. It may be more helpful for scrutiny purposes, particularly where there is a long list of activities, for the activities to be grouped under broad headings such as Internal Audit assurance reviews, outputs for other clients, deferred activities, fraud and other investigations, and other assurance activities.

It is recommended that the list of assignments included within the regular Internal Audit Activity Report to the Risk and Audit Scrutiny Forum is grouped under broad headings (such as Internal Audit assurance reviews, outputs for other clients, deferred activities, fraud and other investigations, and other assurance activities), particularly where there is a long list of activities.

3.63 The Audit and Compliance Manager prepares reports on findings and conclusions to the Risk and Audit Scrutiny Forum. This includes an Annual Assurance Report, which summarises all of the work undertaken by the team over the course of the year, and includes an annual opinion concluding on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control: that opinion also helps to inform the Council's Annual Governance Statement. The most recent annual report was presented to the Forum on 20 September 2017. I note that the opinion provided only indirectly addresses the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control: the opinion provided focuses on the reasonableness and effectiveness of the Council's internal financial and internal operational control systems.

I recommend that, in future, the wording of the Opinion in the Audit and Compliance Manager's Signed Statement of Assurance is more clearly aligned with the requirements of Standard 2400, that this opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

3.64 Assignment and annual reporting processes are well defined. It is clear how findings flow through from working papers into assignment reports and subsequently into reports to Risk and Audit Scrutiny Forum. There are, however, aspects of annual reporting that could be simplified. Therefore, I

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conclude that, overall, the Internal Audit function generally conforms to this Standard.

Standard 2500: Monitoring Progress

- 3.65 This Standard relates to arrangements for monitoring the implementation of agreed recommendations or the acceptance of the risk of not implementing.
- 3.66 The Internal Audit Manual includes a Follow-up Strategy for monitoring and reporting on progress against actions arising from Internal Audit assignments. Reporting arrangements include specific work that may be reported as a memo, as well as regular reporting of the completion of actions as declared by the relevant services. While the amount of follow-up work performed during 2016/17 was less than the service would have anticipated, this was clearly disclosed to the Risk and Audit Scrutiny Forum and senior management within the Annual Assurance Report.
- 3.67 In summary, the reporting of follow up actions is well defined, embedded, and transparent. Therefore, I conclude that the Internal Audit function fully conforms to this Standard.

Standard 2600: Communicating the Acceptance of Risks

- 3.68 This Standard relates to arrangements for the escalation of unacceptable risk to the 'Board' (meaning, for South Lanarkshire, the Risk and Audit Scrutiny Forum).
- 3.69 Escalation procedures are set out in both the Internal Audit Charter and the Audit Manual, and are clear and largely appropriate. While the Charter reinforces the Audit and Compliance Manager's right of access to the Chair of the Risk and Audit Scrutiny Forum, the 'Escalation' section contained therein does not clearly provide for escalation to the Forum or the Chair.
- I recommend that it is amended to do so, consistent with the Audit Manual. I also note that the majority of the 'Escalation' section does not relate to escalation, and would suggest that the next refresh of the Charter should move that content elsewhere.**
- 3.70 Overall, I conclude that the Internal Audit function generally conforms to this Standard.

**KEVIN O'KANE
AUDIT SERVICE MANAGER
STIRLING COUNCIL**

5 MARCH 2018

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Ref	Recommendation	Management response	Responsible Officer	Timescale
<p><i>Standard 1100: Independence and Objectivity</i></p> <p>This Standard sets out the organisational and reporting lines required to promote and preserve the organisational independence of the Internal Audit function.</p>				
3.11	<p>While my review found no suggestion whatsoever that the independence of the Audit and Compliance Manager is in any way impaired by these administrative reporting arrangements, it would more clearly demonstrate the organisational independence of Internal Audit if these reports were submitted or issued in the name of the Audit and Compliance Manager.</p>	<p>Reports are agreed between Internal Audit and Resources and signed before passing to the Executive Director Finance and Corporate Resources to be formally issued. Forum and Committee reports are prepared by the Audit and Compliance Manager but are formally presented in the name of the Executive Director Finance and Corporate Resources. Both practices represent internal protocols and neither impact on the function's independence. No action is proposed to be taken in respect of this recommendation.</p>	N/A	N/A
3.14	<p>The Internal Audit Charter identifies that:</p> <p>“The Audit and Compliance Manager has management responsibilities outwith Internal Audit for Funding and Compliance Services. Arrangements are in place for any audit work in this area to be managed independently by an Audit Adviser with the Audit and Compliance Manager as the client.”</p> <p>I recommend that this arrangement is reviewed and either (i) terminated and replaced, when</p>	<p>The work of Funding and Compliance is externally reviewed by the Scottish Government at periodic intervals. These reviews cover processes, systems as well as a detailed check of each grant claim. As such, the requirement to internally 'audit' is limited.</p> <p>The IA Charter has been amended to confirm that should an audit be required that this will be managed independently of the Audit and Compliance Manager and</p>	Completed	Completed

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	required, with an arrangement that is fully external to the Council's Internal Audit function; or (ii) considered, in sufficient detail, and approved by the Risk and Audit Scrutiny Forum. The Internal Audit Charter should be reworded accordingly.	that the specific nature of these arrangements will be reported to the RASF when audit activity in this area is planned.		
3.16	It is recommended that procedures are put in place to obtain and reflect feedback from the Chair of the Resources and Audit Forum, or to otherwise evidence such feedback, as part of the normal performance and appraisal process for the Audit and Compliance Manager. This is in order to mitigate the risk that the Internal Audit function could be subject to inappropriate influence by those subject to audit.	Feedback will be requested on an annual basis from the Chair of the Risk and Audit scrutiny Forum.	Yvonne Douglas, Audit and Compliance Manager	31 May 2018
3.18	I recommend that, at an appropriate opportunity, the wording of the Council's Financial Regulations (section 22) is amended such that the independence of Internal Audit is clearer. This could be achieved by, for example, replacing references to the "Executive Director" with "Audit and Compliance Manager."	The Council's Financial Regulations are framed in a manner that reflects the lead role of Executive Director across all Council activities. However, Section 22 will be reviewed (when the Financial Regulations during the mid-term review) to ensure the independence of the Internal Audit function is highlighted.	Yvonne Douglas, Audit and Compliance Manager	31 May 2019
<p><i>Standard 1300: Quality Assurance and Improvement Programme</i></p> <p>This Standard sets out the requirements for the internal and external assessment of performance and compliance with Public Sector Internal Audit Standards.</p>				
3.26	I recommend that the outcomes are reported to a future meeting of the Risk and Audit Scrutiny	Presented to 21 March 2018 meeting of the Risk and Audit Scrutiny Forum.	Completed	Completed

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	Forum. I understand that it is the Audit and Compliance Manager's confirmed intention to do so.			
<p><i>Standard 2000: Managing the Internal Audit Activity</i></p> <p>This Standard sets out the requirements for the preparation, delivery, and reporting of the Internal Audit Plan.</p>				
3.36	I recommend that the Audit and Compliance Manager continues to monitor the sufficiency of the contingency allocation and amends this where appropriate, both 'in year' and as part of the planned annual review of the longer-term strategic plan.	Arrangements are currently in place to monitor the use of contingency time. Any amendments to the level of contingency will be reported to the Risk and Audit Scrutiny Forum in conjunction with the current practice of presenting periodic reviews of the annual Audit Plan to the Risk and Audit Scrutiny Forum.	Completed	Completed
3.37	It is recommended that the audit universe is further developed, in conjunction with the planned assurance mapping developments, so that it provides a robust and comprehensive basis upon which to devise an annual internal audit plan that properly reflects the Council's strategic risks and priorities.	Existing practices to map the audit universe and areas of external assurance will continue and be further developed to inform audit planning on an annual basis.	Yvonne Douglas, Audit and Compliance Manager	30 June 2018
<p><i>Standard 2200: Engagement Planning</i></p> <p>This Standard relates to the planning for individual audit assignments.</p>				
3.52	It is recommended that the Audit and Compliance Manager ensures that there is evidence of supervisory review and approval of all audit programmes.	Files already undergo extensive review and file notes record this work. The audit programme will be initialled moving forward to formally evidence.	Completed	Completed

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3.54	It is recommended that Service Level Agreements are put in place for all external organisations that are serviced by the Internal Audit function, and that consideration is given as to whether single-year agreements remain appropriate.	<p>An SLA will be put in place for SEEMIS. It is not appropriate for an SLA to be developed with the IJB. This is governed instead by a Charter and Protocol that has been approved by the IJB.</p> <p>SLLC's SLA is currently being reviewed Council-wide and will cover multiple years.</p>	Yvonne Douglas, Audit and Compliance Manager	31 March 2018
<p><i>Standard 2400: Communicating Results</i></p> <p>This Standard relates to the communication of results from individual assignments and the Audit and Compliance Manager's overall annual opinion.</p>				
3.62	It is recommended that the list of assignments included within the regular Internal Audit Activity Report to the Risk and Audit Scrutiny Forum is grouped under broad headings (such as Internal Audit assurance reviews, outputs for other clients, deferred activities, fraud and other investigations, and other assurance activities), particularly where there is a long list of activities.	<p>Assurance information from assignments are routinely presented to the Risk and Audit Scrutiny Forum in 'final report date issued' order. Assurance information is however grouped under headings when reported as part of the annual report.</p> <p>Assurance information will now also be grouped under broad headings within the Appendix attached to the routine activity report presented to each meeting of the Risk and Audit Scrutiny Forum.</p>	Yvonne Douglas, Audit and Compliance Manager	30 June 2018
3.63	I recommend that, in future, the wording of the Opinion in the Audit and Compliance Manager's Signed Statement of Assurance is more clearly aligned with the requirements of Standard 2400, that this opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and	<p>Opinion within the annual report makes reference to the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements which informs the Council's annual governance statement.</p> <p>Existing reference (within the Signed</p>	Yvonne Douglas, Audit and Compliance Manager	31 May 2018

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	control.	Statement of Assurance) to the reasonableness and effectiveness of the Council's internal financial and operational control systems to be amended to make reference to the adequacy and effectiveness of the Council's framework of governance, risk management and control arrangements.		
<p><i>Standard 2600: Communicating the Acceptance of Risks</i></p> <p>This Standard relates to arrangements for the escalation of unacceptable risk to the 'Board' (meaning, for South Lanarkshire Council, the Risk and Audit Scrutiny Forum).</p>				
3.69	I recommend that the 'Escalation' section within the Internal Audit Charter is amended to reinforce the Audit and Compliance Manager's right of access to the Chair of the Risk and Audit Scrutiny Forum, consistent with the Audit Manual. I also note that the majority of the 'Escalation' section does not relate to escalation, and would suggest that the next refresh of the Charter should move that content elsewhere.	IA Charter has been amended to reinforce the Audit and Compliance Manager's right of access to the Chair of the Risk and Audit Scrutiny Forum and to update the 'Escalation' section as advised.	Completed	Completed