

REPORT TO: SCRUTINY COMMITTEE – 27 JUNE 2018

REPORT ON: EXTERNAL QUALITY ASSESSMENT OF DUNDEE CITY COUNCIL – INTERNAL AUDIT

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 208-2018

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee, for information only, a report by the Internal Audit Manager of East Lothian Council on the External Quality Assessment of Dundee City Council – Internal Audit.

2.0 RECOMMENDATIONS

Members of the Committee are asked to note the information contained within this report.

3.0 FINANCIAL IMPLICATIONS

None

4.0 BACKGROUND

- 4.1** The Public Sector Internal Audit Standards (PSIAS), which came into effect from 1 April 2013, revised from 1 April 2017, apply to all internal audit service providers within the public sector and set out the requirements in respect of professional standards for these services. Professional Standard 1300, Quality Assurance and Improvement Programme (QA&IP) states that *“the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity”*. In the context of Dundee City Council, the *“chief audit executive”* is the Senior Manager – Internal Audit. To conform with the PSIAS, the QA&IP must enable evaluation of the internal audit activity’s conformance with the standards in the PSIAS, including the Definition of Internal Auditing and Code of Ethics, include both periodic internal self-assessments and five-yearly external assessments, carried out by a qualified, independent assessor from outside the organisation, and help identify opportunities for improvement.
- 4.2** 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. The peer review process 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, neighbouring local authorities 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. 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.
- 4.3** Dundee City Council’s Internal Audit Service has just received its first EQA, under the above arrangement, delivered by East Lothian Council’s Internal Audit Manager and her team. The findings from this exercise are contained in the report attached at Appendix A. It should be noted that the report is very positive, concluding that the Council’s Internal Audit Service fully conforms with 11 of the 13 standards and generally conforms with the remaining two. An Action Plan containing areas for improvement was agreed with the Senior Manager – Internal Audit along with completion dates, which will ensure all actions

are addressed by 31 March 2019. The Action Pan can be found at Section 6 of the report at Appendix A.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATIONS

The Council Management Team were consulted in the preparation of this report.

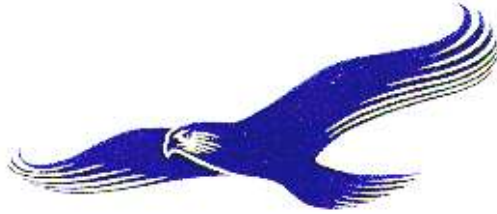
7.0 BACKGROUND PAPERS

None

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

JUNE 2018

EAST LoTHIAN COUNCIL
INTERNAL AUDIT



**EXTERNAL QUALITY ASSESSMENT
OF
DUNDEE CITY COUNCIL - INTERNAL AUDIT**

Date: May 2018

Report Recipients:

Chief Executive
Executive Director of Corporate Services
Head of Corporate Finance
Senior Manager – Internal Audit

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
EXTERNAL QUALITY ASSESSMENT**

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EAST LOTHIAN COUNCIL – INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT

1. INTRODUCTION

- 1.1 Dundee City Council (the Council) has an Internal Audit function, which provides an Internal Audit service to the Council based on the Public Sector Internal Audit Standards (PSIAS). The Standards require that the Senior Manager – Internal Audit (Senior Manager) develops a Quality Assurance and Improvement Programme (QAIP). The purpose of the QAIP is to enable evaluation of the Internal Audit team's conformance with the Standards. The QAIP must include annual internal self-assessments and five yearly external assessments carried out by an independent assessor outwith Dundee City Council.
- 1.2 The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has developed an External Quality Assessment Framework to satisfy this requirement for five yearly external assessments.
- 1.3 This report sets out the findings from the external assessment undertaken by East Lothian Council's Internal Audit Manager in March 2018.
- 1.4 The contents of this report have been agreed with the appropriate Council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the review.

2. SCOPE AND METHODOLOGY

- 2.1 The scope of the review was to establish whether Dundee City Council's Internal Audit function is complying fully with PSIAS and to identify any recommendations for improvement.
- 2.2 In order to reach an opinion on the compliance with PSIAS a range of activities were undertaken including:
- an external assessment of Internal Audit's PSIAS self-assessment
 - issuing questionnaires to key stakeholders
 - discussions with the Senior Manager – Internal Audit and members of the Internal Audit team
 - review of the Internal Audit Charter, Internal Audit Manual and other relevant governance documents
 - review of Internal Audit planning records, reports and other working papers/records

3. SUMMARY OF FINDINGS

- 3.1 Our review covered the 13 specific standards set out in the Public Sector Internal Audit Standards (see section 5).
- 3.2 We found that of the 13 standards reviewed, the Internal Audit activity within Dundee City Council **fully conforms** with 11 standards and **generally conforms** with the remaining 2 standards.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT

4. DETAILED FINDINGS AND RECOMMENDATIONS

4.1 Section A: Definition of Internal Auditing

4.1.1 The Internal Audit activity at Dundee City Council **fully conforms** with the definition of Internal Auditing, as evidenced by the findings set out in subsequent sections of this report.

4.2 Section B: Code of Ethics

4.2.1 Members of the Internal Audit team are supported by the Council and Management to perform their work in a manner, which demonstrates:

- honesty, diligence and responsibility
- objectivity
- respect for the confidentiality of data and information acquired in the course of their work

4.2.2 The Internal Audit team **fully conforms** with the requirement to comply with the Code of Ethics.

4.3 Section C: Attribute Standards

1000 Purpose, Authority and Responsibility

The Standard requires the purpose, authority and responsibility of the Internal Audit activity 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.

4.3.1 Dundee City Council's Scrutiny Committee approved the Internal Audit Charter at its meeting of June 2016 and an updated version of the Internal Audit Charter was presented to the Scrutiny Committee for approval in February 2018.

4.3.2 The Charter captures effectively the requirements of Standard 1000, however the current version of the Charter fails to make reference to the requirement for each service to report all cases of suspected fraud to Internal Audit, as required by the Council's Financial Regulations. We **recommend** that the Internal Audit Charter fully reflects the requirement for Internal Audit to be notified of all suspected or detected fraud, corruption or impropriety and sets out the role of Internal Audit in any fraud related work.

4.3.3 The Internal Audit activity **fully conforms** with Standard 1000 on Purpose, Authority and Responsibility.

1100 Independence and Objectivity

The Standard sets out the organisational and reporting lines expected to promote and preserve the organisational independence of the Internal Audit activity. It also sets out the arrangements expected to achieve individual objectivity and for dealing with potential or actual conflicts of interest.

- 4.3.4 We note that the Senior Manager presents Internal Audit reports to the Scrutiny Committee in her own name, attends meetings of the Scrutiny Committee and contributes to the meetings.
- 4.3.5 The PSIAS require that the Senior Manager's operational reporting line is to a level within the organisation that allows Internal Audit activity to fulfil its responsibilities. We note that the Senior Manager reports to the Head of Corporate Finance who is not a member of the Council Management Team. We are informed however, that the Senior Manager has regular contact with the Executive Director of Corporate Services and has regular access to the Chief Executive and Chair of the Scrutiny Committee.
- 4.3.6 Questionnaires completed by key stakeholders (Council's Chief Executive, Executive Director of Corporate Services, Head of Corporate Finance and the Chair of the Scrutiny Committee) confirmed the clear independence and objectivity of the Senior Manager and the Internal Audit team.
- 4.3.7 The Internal Audit activity **fully conforms** with Standard 1100 on Independence and Objectivity.

1200 Proficiency and Due Professional Care

The Standard sets out the necessary requirements to ensure that the Internal Audit team possesses the knowledge, skills and other competencies to effectively carry out their professional responsibilities applying due professional care.

- 4.3.8 The Senior Manager holds a relevant professional qualification and has in excess of 13 years post qualification experience – she has been in her current post since 2015 and has line management responsibility for both the Internal Audit team and the Corporate Fraud team.
- 4.3.9 Adequate processes are in place to demonstrate due professional care, although some areas have been identified with scope for improvement including the formal recording of training for all members of the Internal Audit team and the recommencement of the EP&DR process following receipt of corporate instructions. We **recommend** that formal training records are maintained for all members of the Internal Audit team and that all team members participate in the EP&DR process.
- 4.3.10 The Internal Audit team **generally conforms** with standard 1200 on Proficiency and Due Professional Care.

1300 Quality Assurance and Improvement Programme (QAIP)

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

4.3.11 We examined the arrangements in place to ensure compliance with the Standard and to monitor the performance of the Internal Audit team. We found that:

- all Internal Audit reports are reviewed by the Senior Manager prior to issue and working papers are reviewed by a member of the team (Principal Internal Auditor) not directly involved in the particular assignment;
- client feedback surveys are sent to audit clients following the issue of the final audit report and performance indicators are being developed to monitor the performance of the Internal Audit activity;
- a QAIP was initially drawn up in 2014 and the Senior Manager has been building on the initial assessment, however no specific reports have been presented to the Scrutiny Committee on the improvement actions that are outstanding and require to be implemented. We **recommend** that all specific outstanding improvement actions identified as part of the QAIP are reported to the Scrutiny Committee.

4.3.12 The Internal Audit activity **generally conforms** with Standard 1300 on Quality Assurance and Improvement Programme.

4.4 Section D: Performance Standards

2000 Managing the Internal Audit Activity

The Standard sets out the necessary requirements for the overall management of the Internal Audit activity, the preparation of the risk based Audit Plan including delivery and reporting of the Audit Plan.

4.4.1 The Internal Audit service is delivered using a mix of in-house staff and a co-sourcing arrangement with an external provider, currently KPMG.

4.4.2 An annual Internal Audit Plan is prepared by the Senior Manager outlining the planned programme of work to be undertaken by the Internal Audit service. As part of the planning process the Senior Manager undertakes consultation with key stakeholders including service management teams, the ICT extended management team and elected members.

4.4.3 The annual audit planning process includes a review of the Council's Risk Registers, however at the time of our review some of the Risk Registers in place required updating to reflect current and emerging risks relevant to the Council. We are informed that a new Corporate Risk Register and Risk Management Improvement Plan is in place and that the Internal Audit Plan for 2018/19 has been linked to the new Corporate Risk Register.

4.4.4 The Public Sector Internal Audit Standards require that the Internal Audit Plan is approved by the Board (Scrutiny Committee). Our review has highlighted that the

2017/18 Internal Audit Plan was presented to the Scrutiny Committee for noting rather than for approval. The requirements of the PSIAS were discussed with the Senior Manager and we note that the 2018/19 Internal Audit Plan was presented to the Scrutiny Committee for approval.

- 4.4.5 At present, the Scrutiny Committee does not receive regular reports on progress against the annual Internal Audit Plan as required by the Standards, although we note that regular updates are provided to the Corporate Finance Management Team and Executive Director of Corporate Services. We **recommend** that regular reports are presented to the Scrutiny Committee on progress being made against the annual Internal Audit Plan, together with target dates for completion.
- 4.4.6 The Internal Audit activity **fully conforms** with Standard 2000 on Managing the Internal Audit Activity.

2100 Nature of Work

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

- 4.4.7 From an examination of staffing structures, the audit plan and individual audit reports, we are able to conclude that the Internal Audit activity **fully conforms** with Standard 2100 on Nature of Work.

2200 Engagement Planning

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

- 4.4.8 From the sample of individual audit files examined, we found that audit objectives are outlined in the audit brief, however the existing working practices could be further enhanced by ensuring that detailed work programmes are approved prior to their implementation. The Internal Audit activity however **fully conforms** with Standard 2200 on Engagement Planning.

2300 Performing the Engagement

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

- 4.4.9 The Internal Audit Manual sets out the requirements in relation to the preparation of audit working papers including the requirement to maintain meeting notes, internal control questionnaires, policies, guidance and documentation received during the audit fieldwork. There was clear evidence of appropriate arrangements being in place for the supervision of audit engagements.
- 4.4.10 Based on the sample of individual audits examined, the Internal Audit activity **fully conforms** with Standard 2300 on Performing the Engagement.

2400 Communicating Results

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














- 4.4.11 The Internal Audit Manual sets out the arrangements for reporting on individual assignments and provides a standard report format.
- 4.4.12 We found that a clear audit trail exists providing a link from working papers to the audit reports. The Internal Audit service currently report on an exception basis and we **recommend** that consideration is given to highlighting areas of satisfactory performance in audit reports.
- 4.4.13 For each audit engagement, the Senior Manager provides an Executive Summary with key findings and conclusions to the Scrutiny Committee. On an annual basis, the Senior Manager provides an Annual Report, which summarises the reports issued during the financial year and provides an annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 4.4.14 The Internal Audit activity **fully conforms** with Standard 2400 on Communicating Results.









2500 Monitoring Progress – the Standard sets out the expected arrangements for monitoring the implementation of agreed actions or the acceptance of the risk of not implementing.

2600 Communicating the Acceptance of Risks – the Standard sets out the expected arrangements for the escalation of unacceptable risk to the Board.

- 4.4.15 The Internal Audit Manual sets out the process for following up on actions arising from Internal Audit assignments. While it is service management's responsibility to implement recommendations, Internal Audit undertake more detailed follow-up work on a sample of audit assignments to confirm the adequacy of action taken. The results of the follow-up reviews are reported to the Scrutiny Committee. In addition to the formal follow-up process, a comprehensive progress review exercise whereby formal assurances are sought from management surrounding all outstanding recommendations is carried out annually and reported to the Scrutiny Committee.
- 4.4.16 Should there be a need to escalate unacceptable risk, the Senior Manager has unrestricted access to the Chief Executive, the Executive Director of Corporate Services who is also the Council's Section 95 Officer, the Council Management Team and the Chair of the Scrutiny Committee.
- 4.4.17 The Internal Audit activity **fully conforms** with Standards 2500 and 2600 on Monitoring Progress and Communicating the Acceptance of Risks.

5. SUMMARY OF ASSESSMENT

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

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
2300	Performing the Engagement				
2400	Communicating Results				
2500	Monitoring Progress				
2600	Communicating the Acceptance of Risks				

6. ACTION PLAN

Para Ref	Recommendation	Grade	Agreed Action	Responsible Officer	Agreed Date of Completion
4.3.2	The Internal Audit Charter should fully reflect the requirement for Internal Audit to be notified of all suspected or detected fraud, corruption or impropriety and should set out the role of Internal Audit in any fraud related work.	Medium	Yes – this will be incorporated at the next Charter review date.	Senior Manager – Internal Audit	31 March 2019
4.3.9	Formal training records should be maintained for all members of the Internal Audit team and all team members should participate in the EP&DR process.	Medium	Yes – EP&DR process has commenced with the Senior Manager – Internal Audit's review completed on 4 May 2018. All training will be formally recorded on the Council's MyLearn portal.	Senior Manager – Internal Audit	30 June 2018
4.3.11	All specific outstanding improvement actions identified as part of the QAIP should be reported to the Scrutiny Committee.	Medium	Yes – this will form part of the Annual Internal Audit Report for 2017/18, to be submitted to Scrutiny Committee on 27 June 2018.	Senior Manager – Internal Audit	30 June 2018
4.4.5	Regular reports should be presented to the Scrutiny Committee on progress being made against the annual Internal Audit Plan, together with target dates for completion.	Medium	Yes – consideration will be given to how best to achieve this.	Senior Manager – Internal Audit	31 December 2018
4.4.12	Consideration should be given to highlighting areas of satisfactory performance in audit reports.	Medium	Yes – this will be considered as part of a wider review on reporting.	Senior Manager – Internal Audit	31 December 2018

7. GRADING OF RECOMMENDATIONS

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.