



External Quality Assessment of Internal Audit in Angus Council

Final Report
November 2014

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For more information about the content of this report or about CIPFA please contact:

Colin W. G. Langford
CIPFA
3rd Floor,
Lesley Exchange 2
Belfast BT1 3NR

E-mail colinwglangford@gmail.com
Telephone: 028 9026 6778 or 07786321733

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1.0 Introduction

Background and Terms of Reference

1.1 Angus Council (referred to as 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) that became effective in April 2013. These Standards replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (aka "the CIPFA Code") and represent a development in the on-going professionalism of the internal audit function as they are based on the International Standards for the Professional Practice of Internal Auditing. PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. Indeed, it should be acknowledged upfront that this particular review is very timely, given that internal audit within public bodies in Scotland became a statutory function on 10 October 2014, which brings Scotland into line with the rest of the U.K.

1.2 The PSIAS comprises a Definition of Internal Auditing, viz:

"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" ...

as well as a Code of Ethics; four Attribute Standards (characteristics of organisations and those performing internal audit work) and seven Performance Standards (the nature of internal audit activities).

1.3 Eighteen months ago, the Council introduced an innovative co-sourcing arrangement with Scott-Moncrieff for the provision of an Audit Manager resource (fulfilling the role of Chief Audit Executive (CAE) in line with the PSIAS definition). This arrangement is governed by Council procurement regulations and required Procurement Authorisation from the Council's Scrutiny and Audit Committee to vary the then extant contract for the provision of internal audit resources to supplement the in-house resources. The contract is subject to the usual contract monitoring arrangements. The Audit Manager is therefore not a direct Council employee, although the other members of the Internal Audit team are, and they sit within the Chief Executive's Unit.

1.4 The PSIAS requires, as per Standard 1300 "Quality Assurance and Improvement Programme", that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. ... External assessments can be in the form of a full external assessment or a self-assessment with independent external validation".

In order to comply with this requirement, and in order to recognise the materiality and nature of the changes (referred to above) to the service delivery model, the Council commissioned CIPFA in August 2014 to undertake a validated self-assessment of the internal audit function. Contract reference **AC/14/0323/CEX** refers. This contract was let by the Chief Executive's Unit and was sponsored by the Service Manager, Governance. The Council should be congratulated for its pro-active approach in commissioning this review at such an early stage of PSIAS' implementation, as well as seeking an External Quality Assessment of its present internal audit function some eighteen months after effecting fundamental changes to the way in which it configures its internal audit service.

1.5 The aim of this review is to:

- establish whether the Council's internal audit function is complying fully with the Standards set out in the PSIAS, and
- make recommendations for improvement, based on findings.

Scope and Methodology

1.6 In order to reach an opinion on the extent to which the internal audit function is complying with the PSIAS, CIPFA undertook a range of complementary activities, viz:

- direct meetings with the Chief Executive and the other members of the Executive Management Team
- a meeting with the Convenor of the Scrutiny and Audit Committee, as well as the Lead Officer for the Committee (the Service Manager, Governance)
- observation at a Scrutiny and Audit Committee meeting (on 30 September 2014)

- to issue questionnaires to a range of key stakeholders
- extensive discussions with the Audit Manager and the in-house internal audit team
- a review of key corporate documents including Terms of Reference of the Scrutiny and Audit Committee, minutes, the internal audit charter and work-plans, and other relevant documents
- a review of internal audit planning records, draft and final reports, and other working papers/records (a full list of documents obtained and reviewed is shown in Annex 1).

Format of this Report

1.7 The format of the remainder of this report is as follows:

- Section 2 – Overview of Internal Audit Review and overall conclusions
- Section 3 – Internal Audit Review Findings – Compliance with PSIAS
- Section 4 - Summary of Recommendations
- Annexes
Annex 1 – Full list of documents obtained and reviewed

2.0 Overview of Internal Audit Review

Introduction and Background

2.1 This review should be considered in the light of a series of significant events in the development of the governance framework of the Council. These changes included:

- the establishment; role; function (and membership) of a Scrutiny and Audit Committee at a meeting of the Council on 28 June 2012 to replace the Scrutiny and Audit Sub Committee with a remit that developed the scrutiny function within the Council by adding another independent tier of scrutiny. The remit of the newly formed Committee extends to some twenty areas and clearly sets out the Committee's role in reviewing all aspects of corporate governance, risk management and internal control and the important role of receiving high quality, risk-based assurances thereon
- changes to the Directorate structure within the Council, with effect from April 2013, realigning key officer responsibilities within a revised (streamlined) Executive Management Team. This has resulted in the appointment of a new team "at the top" and the populating of lower tiers within the Council organisational structure continuing into 2014/15. This is especially relevant to this review, as the last audit into the Council's risk management arrangements was carried out under the co-sourcing arrangement during 2011/12 (final report was issued in October 2012 and presented to Audit Committee by the Service Manager, Governance). The report concluded that risk management, at that time, was underdeveloped. There were four material findings and a limited assurance was given. This has had implications for the way in which internal audit has been able to utilise existing Council risk management documents such as the corporate risk register in planning their work. The seventeen recommendations made in the October 2012 internal audit report have been monitored on an on-going basis and it is planned to conduct a risk management processes audit in quarter four of 2014/15.
- in light of the revised structural changes, a revised corporate Risk Management strategy and resultant policy and procedures (approved in March 2014), deemed to better support the revised structure, has been introduced. At the time of writing this report this is still being rolled out in terms of Council-wide training and awareness. Whilst it is acknowledged that risk management support is provided by the Governance Unit within the Council, it is noted that the EMT acknowledges that internal audit has also been helpful in identifying areas for development of risk management within the Council. These have been taken forward with the implementation of a revised Risk

Management strategy by the Governance Unit. The current corporate risk register contains approximately eighteen corporate risks and it is recognised that the identification, evaluation and management of corporate risks is an iterative process and it is envisaged by the EMT that the number of corporate risks will reduce in the future.

Overall Conclusions

- 2.2 CIPFA has found that the Council has an enthusiastic, experienced internal audit team that is ably led by an Audit Manager who commands respect and credibility across officers and members alike. The internal audit function is seen as a key aspect in supporting and developing good governance within the Council. The areas of special mention include:
- The innovative co-sourcing arrangement of the current configuration, bringing together the best aspects of private sector professional knowledge and experience to bear to the Council's benefit in a cost-effective manner;
 - The pro-active involvement of the Convenor and members of the Council's Scrutiny and Audit Committee in helping to shape the internal audit work-plan, and their on-going engagement with internal audit in terms of support and interest;
 - The contribution of internal audit to Council-wide initiatives such as the implementation of LEAN thinking in service areas.
- 2.3 The manner in which the function is planned; executed; managed and reported/followed-up demonstrates an impressive compliance with PSIAS. During our review, CIPFA considered the positioning of internal audit within the Council's Governance Unit and found it to be an appropriate arrangement that preserves the independence of the function, whilst at the same time allowing for effective management of resources within the co-sourcing context. It is CIPFA's opinion that the definition of internal auditing, as shown in para 1.2, is currently being fulfilled.
- 2.4 CIPFA considers that, based on the evidence obtained during this review, the function is classified as being fully in compliance with PSIAS. No significant areas of non-compliance have been identified, and recommendations contained in this report are made as suggestions to further improve the efficiency and effectiveness of the function and should not be seen as actions necessary to achieve compliance with PSIAS.

- 2.5 The views of stakeholders in determining the interpretation of how internal audit can “add value” shows that there is an appetite for on-going debate that will, over time, ensure that the function continues to evolve in a dynamic fashion. It is worth noting that this debate is ever-present within and across the internal audit profession in general, as well as within the Council, as to the “ideal” mix of compliance/consultancy/advisory activities and is to be welcomed as constructive (being fuelled perhaps by the PSIAS). Based on an assessment of the nature and range of activities contained within the 2014/15 internal audit work-plan, it is CIPFA’s view that the current balance of work in terms of the ratio of compliance/consultancy/advisory activities is reasonable.
- 2.6 CIPFA also notes that there has been a recent reduction in internal audit resources (0.6 WTE) as a result of the 2014/15 savings round, and from the evidence obtained, found nothing to suggest that this has compromised the “critical mass” of the unit and has not impacted on compliance with PSIAS. Furthermore, CIPFA was made aware of the proposal to deploy, within the Governance Unit, the three staff currently involved in Benefit Fraud work and form an Internal Audit and Counter Fraud team with effect from 2015/16. It is CIPFA’s view that, in principle, such a proposal will not compromise the compliance with PSIAS. Indeed, with the appropriate management arrangements in place, we can see the advantages of the skills and knowledge of these officers being used to enhance the Council’s counter fraud capability.

3.0 Internal Audit Review Findings – Compliance with PSIAS

3.1 This review of the internal audit function in the Council compared the current arrangements as regards the planning, execution and delivery of the internal audit function against the 11 standards in the PSIAS, as well as compliance with the definition of internal auditing and the Code of Ethics. A summary of the key findings of the review, together with recommendations for improvement are summarised below.

Attribute Standard 1000: Purpose, Authority and Responsibility

3.2 This Standard is designed to ensure clarity of the role and scope of internal audit and to provide a firm foundation for its powers and rights of access etc. It is a requirement of the PSIAS that there is a formal Internal Audit Charter in place that will clearly set out the purpose; authority and responsibility of the internal audit function, and that this reviewed annually and presented to the Scrutiny and Audit Committee for final approval.

3.3 CIPFA found that there is a very well written Internal Audit Charter that fully complies with the requirements (it could be considered to be an exemplar), viz:

- there is a clear definition of “senior management”
- there is an emphasis on the requirements to comply with the PSIAS per se
- the resourcing of the internal audit function is well set out
- the stated scope and responsibility of internal audit is fully compliant with the definition of internal audit
- responsibility for fraud and corruption is explicit
- the need to develop and submit a work-plan using a risk-based methodology

- it was noted that the annual review of the Internal Charter was an agenda item at the Scrutiny and Audit Committee meeting on 30 September 2014, with members being given an opportunity to discuss it and identify any updates they considered necessary. The only minor update included in the submitted Charter for discussion was the substitution of “extended management team” to become “executive management team” to reflect the current structure. No member suggestions were considered necessary.

Attribute Standard 1100: Independence and Objectivity

- 3.4 It is essential that internal audit has an adequate degree of organisational and individual independence.
- 3.5 CIPFA found that the co-sourcing arrangements with Scott-Moncrieff work well in terms of securing access to a high quality resource and the fact that the Audit Manager is not a Council employee may be seen to strengthen the perception of independence. This relationship is managed in accordance with the Council’s procurement and contract monitoring procedures and there was due debate of the co-sourcing concept at the Scrutiny and Audit Committee, which was duly recommended to the then Strategic Policy Committee who granted the requisite Procurement Authority.
- 3.6 The other members of internal audit staff are in-house and organisationally, they sit within the Chief Executive’s Unit, which is an appropriate location. These officers are included in the Council arrangements for the setting of personal objectives and performance appraisals, with the Service Manager, Governance playing a key role in this, as it is logistically more appropriate. Currently, there is ample opportunity for the Audit Manager to input into these processes as well.
- 3.7 The Scrutiny and Audit Committee plays an active role in considering the internal audit plan (as evidenced by their widespread participation in the planning workshop held in February 2014), as well as approving the Charter, and there was no evidence to suggest that there were any examples to try to adversely influence the content of the audit plan or limit the scope of any individual audit. The Audit Manager reported that he felt that he had a good positive relationship with all stakeholders and that “the door was always open”.
- 3.8 In considering the extent of interaction with key stakeholders, questionnaire responses indicate a high level of satisfaction with the nature; volume and value of contact with all internal auditors, including the Audit Manager.

- 3.9 Objectivity is as much an attitude of mind, and this can be difficult to legislate for, or to seek evidence of compliance. However, in discussion with internal audit staff it was apparent that staff are encouraged to think for themselves and are aware of the corporate requirements regarding compliance with the Council's Code of Conduct as well as PSIAS requirements (as emphasised in the direct reference by staff to the Council's Governance Matters December 2013).
- 3.10 Evidence was obtained of active consideration of the need to declare any interests that might impair the objectivity of an individual auditor in the performance of his/her duties in general. A series of internal emails in June 2014 shows evidence of this, as well as being tested on a sample basis as regards a specific audit. (Health and Safety Governance audit). It is gratifying to see that specific reference to the absence of any conflicts is now included in audit files.

Attribute Standard 1200: Proficiency and Due Professional Care

- 3.11 Engagements must be performed with proficiency and due professional care. This requires that the designated CAE post-holder (in this, the Audit Manager) holds a professional qualification (CMIIA; CCAB or equivalent) and be suitably experienced.
- 3.12 CIPFA considers the Council to be fortunate in that the current incumbent is professionally qualified (CCAB) and has many years of extensive and wide-ranging experience across the public sector that he brings to bear in the fulfilling of his remit, having worked in internal audit and IT audit in the public sector since 1996. The value of such comprehensive experience should not be underestimated as it represents the opportunity to apply professional best practice from many sources, for the benefit of the Council.
- 3.13 In reviewing the qualifications and training records of the in-house internal audit staff, it is clear that there is a vast range of skills and experience within the team, both in terms of formal qualifications (or part qualifications) as well corporate knowledge gained through long-service (in one case over twenty six years' experience within the audit section). The stability of the team overall represents a high level of continuity and an inspection of all of the training records indicates that investment in on-going continuing professional development is taken seriously. As an observation, longevity has can sometimes have a down-side, especially in a fast-moving professional environment where new techniques and approaches are required to combine with fresh thinking. CIPFA was pleased to note that internal audit staff appear keen to move into newly focussed areas such as the implementation of LEAN techniques, and this is to welcomed and encouraged.

Attribute Standard 1300: Quality Assurance and Improvement Programme

- 3.14 The CAE must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.
- 3.15 CIPFA obtained and reviewed the Internal Audit Quality Assurance Framework self-assessment and the Checklist that had been completed internally in October 2013. Full credit must be given for the evident investment that has gone into completing this exercise, which is HM Treasury's recommended approach, at such an early juncture. As expected, the level of compliance at that time, as judged through this self-assessment, was high.
- 3.16 CIPFA regards this as one of the cornerstones of this external assessment, as being able to independently interrogate the self-assessment carried out in October 2013 can provide very valuable assurance to the Council as to the robustness of the internal process. Accordingly, it is gratifying to be able to corroborate the findings of the internal self-assessment within this report. The small number of actions originally identified within the self-assessment, have, in the main, been actioned appropriately (e.g. the development of a formal Quality Assurance and Improvement Programme followed the self-assessment exercise). Where actions remain outstanding at the time of the CIPFA review, these have been reported accordingly.
- 3.17 CIPFA found that the process of obtaining client feedback, post audit, tends to be informal. Client feedback is recognised as an important part of quality assurance and its value is accepted and welcomed. However, it is recommended that this is formalised to capture any constructive feedback that can feed into the on-going continuous improvement of the internal audit function. This can be achieved without being overly bureaucratic, perhaps by way of a short electronic questionnaire or face-to-face interview.

Performance Standard 2000: Managing the Internal Audit Activity

- 3.18 The CAE must effectively manage the internal audit activity to ensure it adds value to the organisation. The CAE must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 3.19 There has been widespread debate within the profession as to the metrics of measuring "added value" and how this translates into internal audit work-plans in terms of the balance of compliance/consultancy and advisory activities. The fundamental requirement of the CAE to provide an annual assurance as to the nature of an organisation's risk

management, control and governance processes clearly means that there must be sufficient audit resources devoted to enable an evidence-based opinion to be given. This can create tensions in any organisation as compliance type work can sometimes be seen to take priority over other kinds of work.

- 3.20 In Angus, CIPFA found that there is a healthy appetite to engage in debate to ensure that the balance of audit resources reflects the nature of work required to be completed. Through discussions with the EMT and the Audit Manager, it is clear there is evidence of an open and constructive dialogue to ensure that this balance is correct. Movements towards using internal audit resources to support officers in other Departments maximise the value of LEAN techniques is to be welcomed.
- 3.21 The collective desire of the EMT to see internal audit move towards a greater “outcomes-based” focus to audit work as a change in direction from the traditional systems-based, process-driven audit focus is to be encouraged. This effectively would mean a focus on the effectiveness of service programmes and the assessment of how service objectives have been achieved. This is very much in line with the International Framework on Public Sector Good Governance that was issued by CIPFA and IFAC in summer 2014. Indications from discussions with the Audit Manager show an appreciation of this and a commitment to continue working with the EMT in shaping the future direction of internal audit activity to ensure that the nature of audit work is reflective of this.
- 3.22 The co-sourcing arrangement with Scott-Moncrieff, whereby the Audit Manager is contracted to the Council for 80 days per annum works (typically five days on-site every three weeks) well in terms of the robustness of management oversight and accessibility/availability. This type of arrangement carries with it inherent risks. Therefore, it was a priority of this review to seek evidence in terms of the level of management support given to in-house staff and no issues at all were reported. All staff felt suitably supported by the Audit Manager and had no issues with regard to timeliness of responses to queries or requests for help etc. It is clear that there is high quality, timely and appropriate management support to the internal audit in-house team. CIPFA is glad to report that this arrangement currently works well for the Council in terms of the management of the internal audit activity and it fully complies with PSIAS. Of course, it is difficult to determine how much of the success of this arrangement can be attributed to the personal qualities of the present incumbent, which must be a factor to some extent. Continued robust contract monitoring arrangements should ensure that it remains effective.
- 3.23 The management of the internal audit activity is informed by a comprehensive and easy to follow Internal Audit Manual that is accessible to all of the internal audit staff. This key document is a cornerstone in ensuring consistency of delivery and compliance with PSIAS. CIPFA is impressed with the quality of the Council’s Internal Audit Manual, which it is noted was last updated in June 2013. This key document covers all aspects of the internal audit service across fourteen

chapters and no omissions were noted. CIPFA understands that an annual review of this Manual is to be carried out shortly, to ensure that it remains up to date. CIPFA recommends that this review is carried out before the end of 2014.

- 3.24 It is policy that all draft and final reports are reviewed by the Audit Manager prior to issue and no delays in the issue of these documents have occurred since the start of the arrangement. Similarly, EMT did not feel that the "remote" nature of the arrangement created any problems in terms of accessibility.
- 3.25 As referred above, the Council underwent a major organisational change in April 2013. A revised Risk Management strategy has been implemented to better support the new structure and training on this is still being rolled out. This means that in effect the audit opinion and recommendations regarding the previous risk management arrangements that were last formally audited in 2012/13 do not really provide a baseline for assessing the current set-up. In line with PSIAS, internal audit is required to establish risk-based plans to inform its work. In an ideal world where substantial assurance had been given as to the corporate risk management arrangements and there was a high level of corporate risk maturity, the logical starting point for the development of risk-based internal audit plans would be the corporate risk register. CIPFA spent considerable time discussing the approach taken by internal audit in developing the 2014/15 work-plan to enable an objective opinion to be reached as to whether the work-plan can truly be described as "risk-based".
- 3.26 The Audit Universe was scrutinised in detail by CIPFA as part of this review. This is an impressive planning document that is fundamental in demonstrating the effectiveness of the consideration of risk in the development of the audit work-plan. CIPFA is pleased to report that the Risk Universe spreadsheet is an extremely detailed document, containing the widest possible range of core assurance areas and the assessment of their inherent and control risk. CIPFA was advised that there had been an intensive five hour session in assessing the Audit Universe. This assessment can be seen to directly feed into the development of the 2014/15 work-plan by way of the areas selected for audited in 2014/15.
- 3.27 CIPFA was informed that the Audit Universe had been widely circulated to every member of the Management Team in each Directorate as well as Strategic Directors for their reviews and comments, as an essential part of the realignment of the Council structure. Feedback received had been incorporated into the work-plan.
- 3.28 In lieu of relying solely on extant corporate risk/assurance framework documents, as it felt that it did not fully encapsulate the entire range of risks, CIPFA found that internal audit sought alternative means of identifying risk and assurance requirements in a practical and pro-active way. In addition to engaging with senior managers, a session was held with members of the Scrutiny and Audit Committee on 4 February 2014 where nine out of thirteen members attended a workshop type event to ask the simple question to members "*what do you see as the key risks that you*

would seek assurance on in 2014/15”? CIPFA highly commends this practical approach, and from the notes taken from this session, it is clear that it was a lively and engaging event that produced some practical suggestions that were reflected in the 2014/15 work-plan. The spin-off benefits of this type of engagement cannot be over-estimated, in terms of enhancing the quality of the risk-based work-plan as well as motivating audit staff who can see more clearly the direct practical value of the work they undertake.

- 3.29 Whilst it is not a requirement of PSIAS per se, CIPFA would suggest that the on-going work on the development of a corporate Assurance Framework/Map to reflect the revised Council structure continues so that internal audit is in a position to refer to such a document in future planning in identifying assurance requirements. A structured mapping of assurances helps to ensure that there is a sufficient, continuous stream of assurances on the management of the major risks to organisational success and the delivery of improved, cost effective public services. An effective Assurance Framework provides critical supporting evidence for the production of the Governance Statement as well as facilitate the escalation of risk and control issues. CIPFA would be happy to provide additional information and/or support in this regard, on request.
- 3.30 The 2014/15 work-plan was examined and CIPFA found a plan that was well balanced in terms of the proposed areas to be audited, with a sufficient volume and range of activities that, properly executed, forms the basis for sufficient evidence to enable an annual opinion be given. The work-plan contains audit resource requirements, expressed in audit days, against eight “headline areas”. It is noted that there was a reduction of days from 2013/14 (700 days) to 2014/15 (652 days) representing a decrease of 7.4% days, as a post had been lost in the 2014/15 savings round. Whilst this is not uncommon, it clearly puts pressure on the management of the function to deliver efficiencies of this level whilst maintaining the quality of the service. In discussion with the Audit Manager, it was evident that streamlining of the delivery of the service is a high priority, as well as the requirement to live within a reduced resource. An example of streamlining the service was given, whereby the Response Protocol for management response to draft audit reports was revised, and highlighted in the Council’s Governance Matters December 2013 edition.
- 3.31 The 2014/15 work-plan is a well-constructed document and presented in a user-friendly way that is fully compliant with PSIAS. We note that planned resource utilisation is detailed against “headline areas” and acknowledge that it is important for the CAE to retain the discretion to utilise audit days using professional judgement as the work-plan is rolled out. CIPFA would suggest that consideration be given to including, in the work-plan, scheduled delivery of planned work throughout the year (and provision of resultant reports to management and the Scrutiny and Audit Committee), so that the recipients of such reports can understand the flow of work and ensure the “smoothing” of assurances.

- 3.32 The 2014 Internal Audit Capacity Plan was also examined, and we are pleased to report that, in our opinion, it has been built on valid and realistic assumptions regarding staff capacity, in terms of staff productivity. Adequate provisions have been made for training requirements etc. The 0.6 WTE reduction of internal audit resources in 2014/15 has been absorbed in such a way as to avoid compromising the critical mass of the unit and there are no indications, at the time of writing this report, that the 2014/15 work-plan will not be completely fulfilled. CIPFA suggests that it would be prudent for the Council to undertake some form of workforce planning review, as a good practice measure, after the completion of the 2014/15 work-plan to satisfy itself that this has been the case.
- 3.33 It is a requirement of PSIAS that any reliance placed on third part assurances is highlighted in the work-plan and CIPFA were advised that there is no such reliance placed at this time, so this requirement is deemed to be currently not applicable. This may change with future developments, e.g. health and social care integration.

Attribute Standard 2100: Nature of work

- 3.34 The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.
- 3.35 As previously outlined, there is much evidence of a proactive engagement by internal audit in assisting the Governance Unit in the embedding of the revised Risk Management strategy that has been developed by the Council (e.g. development of the corporate risk register). It is entirely appropriate to use the valuable audit resource in this manner as long as there is no compromise of audit independence, and CIPFA believes, from the work undertaken in this review, that there has not been any such compromise to date. The content of the 2014/15 work-plan shows an appropriate balance of work across the Council in terms of audit areas. It is noted that separate audits in respect of Performance Management and Risk Management have been included in the 2014/15 work-plan. At the time of writing this report, the Audit Brief in respect of the former has been agreed. The Risk Management audit has not yet been planned and is likely to be carried out in quarter four. From discussion with the Audit Manager, CIPFA is satisfied that areas such as risk appetite and the alignment of risk responses will be included in this piece of work.
- 3.36 It is a requirement of PSIAS that internal audit assess and make appropriate recommendations in relation to several specific governance areas (e.g. for promoting appropriate ethics and values; ensuring effective organisational performance management and accountability; communicating risk and control information; and co-ordinating the activities of and communicating information among the board, external auditors and management). In analysing the range of work undertaken and through discussion with audit staff regarding the development of audit briefs and testing

programmes, it is apparent that matters such as ethics and values are ever-present in the minds of the auditor. They are reflected in the standard audit approach and evidence can be seen in various audit files and reports.

- 3.37 In terms of the work carried out by internal audit in relation to corporate governance, CIPFA examined the approach taken to the annual Corporate Governance audit and the identification of the areas to be audited. The process of engagement with Council officers, analysing completed documentation in respect of the Questionnaire and Assurance Statement exercise, resulted in the development of a robust testing of corporate governance. The 2013/14 internal audit Proposal for conducting the corporate governance audit was examined and was found to be high quality and relevant. The cross-cutting interim review internal audit report issued in respect of this (reference 13/24) was examined and was found to reflect fully the areas identified in the Proposal and confidence can therefore be placed in the robustness of this important aspect of audit work.

Performance Standard 2200: Engagement Planning

- 3.38 Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The quality of engagement planning is vital to ensure that the audit work is of the highest quality and also to ensure that "expectations management" is exercised sensibly. The manner in which it is done is often a key indicator of the overall professionalism of the internal audit function.
- 3.39 From the responses received to the questionnaires issued as part of this review, it is clear that key stakeholders feel that they have ample opportunity to input into the planning of audit work, after the work-plan has been approved. Where there are any issues to discuss with clients regarding an audit's objectives and scope, there is space and time made available for free and frank discussions to take place and clients are encouraged to express their views. Whilst this is clearly important, it can often be a potentially difficult "balancing act" for the Audit Manager to maintain independence whilst at the same time taking on board valid views from the client. CIPFA found no evidence of any such discussions resulting in a compromise to audit independence, as outlined above.
- 3.40 From a sample inspection of recently developed audit Assignment Briefs, CIPFA is pleased to confirm that the engagement planning follows the expected format in contextualising the assignment; explicitly identifying the assignment objectives; methodology to be adopted; any relevant supplementary information and key client contacts. A useful breakdown of the scheduling of the work, including key landmarks right through to estimated date for reporting to Scrutiny and audit Committee is also included. There is also a useful section, for internal audit use only, that provides future time allocation information and tracking of the various administrative processes. This is a very well written document that fully complies with PSIAS and it is CIPFA's view that it aids the efficiency of the audit process.

- 3.41 CIPFA notes that the Assignment Brief is circulated to the appropriate client contact prior to commencement to allow for comment, in keeping with usual audit practice. However, it is not practice to ask for client response (including a “nil response”) within a specific timeframe, which may lead to delays in commencing the audit. It would be recommended that this aspect of the audit process is included in the Finalisation Protocol referred to elsewhere in this report, and therefore smooth the audit planning so that audits do not run the risk of starting late and putting pressure on the time budget.
- 3.42 It is a recommendation of PSIAS that criteria also include a value for money/best value aspect. On enquiry, CIPFA was informed that the internal audit function keep this in mind throughout their work. An example was given whereby specific value for money/best value criteria were identified in respect of a current audit (i.e. corporate Subscriptions audit).

Performance Standard 2300: Performing the Engagement

- 3.43 Internal audit must identify, analyse, evaluate and document sufficient information to achieve the engagement’s objectives. The audit approach should be evidence based so that any informed reviewer can see what has been planned and agreed and whether the evidence is sufficient, relevant and reliable to support the assurance and conclusions reached.
- 3.44 CIPFA undertook a review of the system used (MKI) within the Council to manage the audit process. This is a respected commercial product that is used across many organisations and at Angus it is used to control the engagement planning; execution/fieldwork; audit supervision and review and follow-up stages, as well as various internal management processes such as time recording. MKI has many in-built features that are designed to contribute to the efficiency of the internal audit function and CIPFA is pleased to note that these are being used effectively to assist with the smooth-running of the administration of the function. A decision was made recently not to use the reporting writing facility as it was felt that this can lead to disjointed reports and lead to the risk of missing a holistic approach to assessing audit evidence when forming recommendations and opinions. CIPFA fully endorses this decision, as any system-generated report writing facility can indeed stifle the exercise of professional judgement.
- 3.45 MKI was reviewed in terms of system security and levels of permissions/authorisations that have been set up. These were found to be appropriate. All staff have direct access laptops and are competent in the use of the system.

- 3.46 From a sample trawl through MKI, CIPFA sought evidence of the accepted internal audit cycle (i.e. development of Assignment Briefs from the approved work-plan through to an analysis of the risks and identification of expected controls to test design and execution and audit evaluation/comment and supervision/review). Working papers were found to be logically attached at audit programme level and linked at individual test level. All records were found to be well completed, with sufficient evidence of testing completed and evaluations based on said evidence. The review of records by Audit Seniors was found to be thorough and all comments/queries satisfactorily resolved before the draft reports are issued.
- 3.47 During the course of the review, it was noted that one of the Assignment Briefs was marked on the MKI system as "draft", whilst the assignment had in fact been finalised. This is a minor point, but it is worth recommending that the integrity of the audit trail is maintained by ensuring that "draft" is changed to "final" at the appropriate juncture in the engagement. This can help to ensure that there is no misunderstanding of audit objectives; scope etc of the engagement, had there been any feedback from the client to the Brief.
- 3.48 It is a requirement of PSIAS that the potentially sensitive nature of internal audit records are subject to information governance. CIPFA noted that the section operates a "clear desk" policy, which from observation, was being complied with. CIPFA was advised that any sensitive documents are maintained in a controlled (i.e. physically secure) environment.
- 3.49 It is also a requirement of PSIAS that the CAE develops a policy governing the retention of audit records. CIPFA examined the Records Retention Schedule and this was found to be a sound document, complying with professional standards.

Performance Standard 2400: Communicating Results

- 3.50 internal auditors must communicate the results of engagements. In many ways, the output from the audit process is the "shop window" of the whole function and clients' judgement of the performance of the function will be based on the quality of the audit reports.
- 3.51 CIPFA found that the quality of the reports issued from the internal audit section to be high quality, containing sufficient detail as regards the audit's objectives and scope as well as applicable conclusions/opinions, recommendations and action plans. From a sample of reports obtained, it was clear to see that the style and format of the reports are user-friendly and easily understood. This finding is corroborated by the responses from key stakeholders who value the reports highly.

- 3.52 The Finalisation Protocol allows for client feedback/response to draft reports and ensures that clients' views are taken on board before the issue of a final report. It is especially pleasing to see that the Protocol is time bounded, with a one week window to allow for client feedback regarding factual accuracy. This is an excellent approach to ensure the smooth progress of audit reporting from draft to final and is highly commended.
- 3.53 Auditors are encouraged within PSIAS to acknowledge satisfactory performance and therefore it was especially pleasing to see that the tone/language used in reports is positive and a conscious effort is made to ensure that professional judgement is used proportionately and realistically. This is enhanced by the recent decision to draft reports outside of MKI and this therefore acts as a discipline on the author to resist the "cut and paste" approach and consider wider issues by "joining the dots".
- 3.54 It was also noted during the review there was evidence of a conscious effort being made to ensure that audit reports do not merely repeat what is already known to clients. This again is to be commended as it is a common trap for auditors to regurgitate what is already common knowledge and it can be difficult to see the "added value" of the audit.
- 3.55 The central role of the CAE' annual internal audit opinion and report in informing the Governance Statement is well recognised. The contents of such a report are clearly set out in PSIAS and a review of the 2013/14 report shows compliance with requirements.
- 3.56 Within the recently developed Response Protocol, the metrics for the circulation of internal audit reports is set out and individual assignment briefs make it clear to whom reports will be issued.
- 3.57 It is a requirement of PSIAS that the CAE is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated, or for putting in place suitable delegated arrangements. It is Angus procedures that the Audit Manager has sight of every communication prior to issue. This was tested during the review in terms of logistics, given the co-sourcing arrangement in place. We are happy to report that there was no evidence of delays being caused by the co-sourcing arrangement in that there was a swift turn-around, and that any comments/queries raised were satisfactorily addressed prior to issue.

Performance Standard 2500: Monitoring Progress

- 3.58 The CAE must establish and maintain a system to monitor the disposition of results communicated to management.
- 3.59 CIPFA found that MKI is used appropriately to record recommendations made as a result of audit work as well as management's responses. There is a process of identifying, at an early stage, the timing and nature of follow-up audit work required to ensure that management action has been taken as anticipated. This robust approach to follow-up work is to be commended, as it is often the case that the real value of audit can be seen in terms of management actions.
- 3.60 CIPFA reviewed the Progress Update Reports that are furnished to the Scrutiny and Audit Committee as a standing agenda item. We were pleased to see that these reports are comprehensive and contain sufficient information to enable members to assess progress. What is especially useful is the holistic approach to progress reporting in that it is linked to the work-plan and it is clear to see the individual audit progress, not only in-year, but also issues brought forward from previous years. There can sometimes be a temptation to monitor progress on an in-year basis only and therefore there can be a risk of some audit recommendations/follow-up work to fall off the radar. Given the approach taken to monitoring progress in Angus, this risk has been mitigated effectively.

Performance Standard 2600: Communicating the Acceptance of Risks

- 3.61 When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organisation, the CAE must discuss the matter with senior management. If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the board.
- 3.62 CIPFA found there has not been any occasion where this situation has arisen. However, given the positive nature of constructive dialogue that permeates the Council vis-à-vis internal audit, there is no reason to believe that the Audit Manager would not discuss issues such as this if the need ever arose. Feedback from key stakeholders indicates that any potential issues of disagreement with internal audit would be dealt with professionally and effectively through proactive discussions. As a result, no significant issues of disagreement have arisen and there is a positive relationship based on mutual trust and respect between internal audit, officers and members. This is to be highly commended and forms the basis of a constructive on-going professional relationship that will enable the development of the internal audit function within Angus as an added value activity as the new structure matures.

4.0 Summary of Recommendations (contained in section 3 above)

- 4.1 Formalise client feedback, post-audit (para 3.17).
- 4.2 Ensure the Internal Audit Manual is reviewed before the end of 2014 (para 3.23).
- 4.3 Council should continue on-going work to develop a corporate Assurance Framework, that can be used to inform future internal audit planning (para 3.29).
- 4.4 Indicate scheduled timing of audit work (and output) as anticipated throughout the year, in the work-plan (para 3.31).
- 4.5 Undertake a form of workforce planning review after the completion of the 2014/15 work-plan (para 3.32).
- 4.6 Include dates for receipt of client comments to Assignment Briefs in the Finalisation protocol (para 3.41).
- 4.7 Ensure that "draft" status is always updated to "final" status as and when appropriate (para. 3.47).

List of documents/records reviewed:

- Internal Audit Charter
- Internal Audit Update Reports
- Internal Audit Report Finalisation Protocol
- Audit Universe spreadsheet
- Internal Audit annual report 2013/14
- Internal Audit Capacity Plan 2014
- Internal Audit Records Retention Schedule
- Internal Audit suggested KPIs/Balanced Scorecard
- PSIAS Gap Analysis and Action Plan – Oct 2013
- Internal audit QAF Self-Assessment Review – Oct 2013
- Quality Assurance & Improvement Plan
- Various Minutes of meetings
- Remit for S&AC
- Corporate Risk Management Strategy

- Governance Matters – Dec 2013
- Completed Questionnaires issued to key stakeholders
- Completed Questionnaire and Assurance Statements – Internal Financial Control & Directorate Corporate Governance
- Internal Audit Proposal for 2013/14 Corporate Governance audit
- 2014/15 Internal Audit Plan
- Various internal audit assignment briefs
- Various internal audit reports
- Internal audit Manual
- MKI System Notes
- CVs & pen portraits of internal audit staff
- Training Records for all internal audit staff
- Redacted Variation Schedule for supply of IA services between Angus Council and Scott-Moncrieff

