

Item: 5

Monitoring and Audit Committee: 21 September 2023.

Public Sector Internal Audit Standards Self-Assessment.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the self-assessment of compliance with the Public Sector Internal Audit Standards (PSIAS).

2. Recommendations

The Committee is invited to note:

2.1.

The Public Sector Internal Audit Standards require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme that covers all aspects of the internal audit activity and which must include both periodic internal self-assessments and five-yearly external assessments.

2.2.

That Internal Audit has undertaken a self-assessment of compliance with the Public Sector Internal Audit Standards.

The Committee is invited to scrutinise:

2.3.

The findings contained in the Internal Audit Self-Assessment, attached as Appendix 1 to this report, in order to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both periodic internal self-assessments and five-yearly external assessments.

3.2.

The Internal Audit Self-Assessment, attached as Appendix 1 to this report, provides a summary of requirements of the PSIAS and the Chartered Institute of Public Finance and Accountancy Local Government Application Note and sets out the findings, conclusions and recommendations from the self-assessment process.

4. Assessment Findings

4.1.

The Internal Audit Self-Assessment provides assurance that the Internal Audit Service fully conforms with the PSIAS.

4.2.

The self-assessment report, attached as Appendix 1 to this report, includes one recommendation within the action plan to address a minor issue identified during the review.

4.3.

The Committee is invited to scrutinise the assessment findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with its governance and financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officer

Andrew Paterson, Chief Internal Auditor, extension 2107, email andrew.paterson@orkney.gov.uk.

9. Appendix

Appendix 1: Internal Audit Self-Assessment.



Internal Audit

Internal Audit Self-Assessment 2023

Final issue date: 20 July 2023

Distribution list:	<p>Chief Executive</p> <p>Corporate Director for Strategy, Performance and Business Solutions</p> <p>Corporate Director for Enterprise and Sustainable Regeneration</p> <p>Head of Legal and Governance</p>
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Executive Summary

The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both periodic internal self-assessments and five-yearly external assessments.

The overall conclusion of this internal self-assessment is that the Internal Audit Team fully conforms with the PSIAS. However, it should be noted that Performance Standard 2300 – Performing the Engagement has been assessed as ‘Generally Conforms’ and one area for improvement has been identified and included in the action plan. A summary of the assessment, per assessment area, can be found at Appendix A. A summary of totals is as follows:

	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
TOTALS	13	1	0	0

The area identified for improvement was that the Internal Audit Manual should be reviewed and updated to ensure it reflects changes in the Council structure and Performance Risk software.

Full details of the assessment recommendation and action can be found in the Action Plan at Appendix B.

Introduction

The Public Sector Internal Audit Standards (PSIAS), published in April 2013 and updated in March 2017, apply to all internal audit service providers in the UK public sector. To supplement the PSIAS and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a Local Government Application Note, which was last updated in 2019.

The objectives of the PSIAS are to define the nature of internal auditing within the UK public sector; set basic principles for carrying out internal audit; establish a framework for providing internal audit services, which add value to the organisation, lead to improved organisational processes and operations; establish the basis for the evaluation of internal audit performance and drive improvement planning.

The PSIAS require the Chief Internal Auditor (CIA) to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both periodic internal self-assessments and five-yearly external assessments, carried out by a qualified, independent assessor from outwith the organisation, and enable evaluation of the internal audit activity's conformance with the PSIAS, including the Mission of Internal Audit, Definition of Internal Auditing and Code of Ethics. In addition, the QAIP should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

This report provides a summary of requirements of the PSIAS and CIPFA Local Government Application Note and sets out the findings, conclusions and recommendations from the self-assessment, which involved reviewing relevant supporting documentation and information including working paper files and completed stakeholder questionnaires.

Internal Audit Mission and Core Principles

The PSIAS state that the Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation, which is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

Taken as a whole, the Core Principles for the Professional Practice of Internal Auditing, as set out in the PSIAS, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Core Principles should be present and operating effectively. Failure to achieve any of the Core Principles would imply that an internal audit activity was not as effective as it could be in achieving the Mission of Internal Audit.

Evidence obtained from assessing conformance with other standards in the PSIAS has been used, along with specific consideration surrounding the achievement of the Core Principles, to conclude that Internal Audit fully conforms with accomplishing the Mission of Internal Audit as detailed above.

Internal Audit Definition

The PSIAS state that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation

accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Evidence obtained from assessing conformance with other standards in the PSIAS has been used to conclude that Internal Audit fully conforms with the Definition of Internal Auditing as detailed above.

Code of Ethics

The PSIAS state that the purpose of the Institute of Internal Auditor's (IIA) Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance of risk management, control and governance.

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out in the PSIAS. If individual internal auditors have membership of another professional body, then they must also comply with the relevant requirements of that organisation.

Evidence obtained from assessing conformance with other standards in the PSIAS, in particular the Attribute Standards 1000 – Purpose Authority and Responsibility, 1100 – Independence and Objectivity, 1200 – Proficiency and Due Professional Care and Professional Standards 2000 – Managing the Internal Audit Activity and 2300 – Performing the Engagement, has been used to conclude that Internal Audit fully conforms with the Code of Ethics.

Attribute Standards

Attribute Standards apply to organisations and individual internal auditors providing the internal audit services in a local authority.

1000 - Purpose, Authority, and Responsibility

The PSIAS state that the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit Charter, consistent with the Mission of Internal Audit and the mandatory elements of the IIA's International Professional Practices Framework. The CIA must periodically review the Internal Audit Charter and present it to senior management and the board for approval.

The Internal Audit Charter is periodically reviewed with the most recent review taking place in June 2022. The Internal Audit Charter was recommended for approval by the Monitoring & Audit (M&A) Committee on 9 June 2022 and approved by Full Council on 5 July 2022.

Internal Audit fully conforms with Standard 1000 on Purpose, Authority and Responsibility.

1100 - Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work. Various aspects of independence and objectivity are covered in this standard, including reporting functional lines of the CIA, the relationship between the CIA and the board and any impairment to individual internal auditors' objectivity or independence. Reporting and management arrangements must be put in place that preserve the CIA's independence and objectivity, in particular with regard to the principle that the CIA must be independent of the audited activities.

The CIA reports functionally to the M&A Committee and administratively to the Head of Legal and Governance. The CIA has direct and unrestricted access to the Chief Executive and the Chair of the M&A Committee. These reporting and access arrangements are defined in the Internal Audit Charter, as are safeguards to limit impairment of independence or objectivity.

In support of organisational independence, the CIA attends M&A Committee meetings to present all internal audit reports (including, for example, the Internal Audit Charter, the Internal Audit Annual Report and Assurance Statement, the Internal Audit Plan and reports from planned audits) to Elected Members. All reports are submitted in the CIA's name.

The CIA does not have operational responsibility for the activities audited and this is communicated to stakeholders via the Internal Audit Annual Report and Opinion.

All staff within the Internal Audit Team are required to complete a declaration of independence form on an annual basis.

Internal Audit fully conforms with Standard 1100 on Independence and Objectivity.

1200 - Proficiency and Due Professional Care

The CIA must be professionally qualified, suitably experienced and responsible, in accordance with the organisation's human resources processes, for recruiting appropriate staff. He or she is responsible for ensuring that up-to-date job descriptions exist, reflecting roles and responsibilities, and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.

The CIA should periodically assess individual auditors' skills and competencies against those set out in the relevant job descriptions and person specifications. Any training or development needs identified should be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored. In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This may be fulfilled through requirements set by professional bodies or through the organisation's own appraisal and development programme. Auditors should maintain a record of such professional training and development activities.

The internal audit activity should be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with the standards. The PSIAS states that the CIA must obtain competent advice and assistance if the activity is unable to perform all or part of an engagement.

The CIA is a Chartered Member of the Institute of Internal Auditors, holds relevant professional qualifications, and is suitably experienced, with 19 years internal audit experience within a public sector environment. The CIA is a member of the Scottish Local Authority Chief Internal Auditor's Group (SLACIAG) and regularly attends and contributes to meetings.

To support the CIA in Internal Audit there is one Internal Auditor, who is a fully qualified accountant and two Trainee Auditors who will undertake formal training with the Institute of Internal Auditors.

The OIC Employee Review & Development scheme ensures that all audit staff have annual reviews and personal development plans. Individual auditors keep a log of their training and development for their CPD requirements.

Internal Audit is represented on a number of corporate groups, including the Corporate Protection Group and Pentana Administrators Meeting.

Internal Audit fully conforms with standard 1200 on Proficiency and Due Professional Care.

1300 - Quality Assurance and Improvement Programme

The PSIAS state that the Chief Internal Auditor must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity.

The QAIP must include both periodic internal self-assessments and five-yearly external assessments, carried out by a qualified, independent assessor from outside the organisation, and enable evaluation of the internal audit activity's conformance with the PSIAS, including the Definition of Internal Auditing and Code of Ethics. In addition, the QAIP should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

The PSIAS states that results of the QAIP and progress against any improvement plans must be reported to senior management and the Board, it must also be reported in the Internal Audit Annual Report.

Internal audit briefs, reports and working papers are reviewed by the CIA prior to issue.

Client feedback is actively pursued by Internal Audit for assignments carried out. A suite of key performance indicators is in place covering quality, efficiency, delivery and resource aspects of the service. The adherence to these KPIs is reported in the Annual Internal Audit Report and Opinion.

The last formal self-assessment of conformance with the PSIAS was carried out in December 2019, following which an action plan was compiled and reported to the Monitoring & Audit Committee, all issues identified during this assessment were resolved.

An External Quality Assessment (EQA) was completed in May 2022 by Glasgow City Council Internal Audit Managers, again an action plan was compiled, and the minor areas highlighted have been addressed.

Internal Audit fully conforms with Standard 1300 on Quality Assurance and Improvement Programme.

Performance Standards

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

2000 - Managing the Internal Audit Activity

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

An Annual Internal Audit Plan is compiled by the CIA outlining the planned programme of work to be undertaken. The planning process is based on a review of risk registers and Service plans, and consultation with Corporate Directors, Heads of Service and External Audit.

The plan is discussed with the Corporate Directors and the Chief Executive then presented to the Monitoring & Audit Committee for approval.

Progress towards completion of the Internal Audit Plan is reported to the Monitoring & Audit (M&A) Committee mid-year and reports from the individual audits contained within it are all presented at M&A Committee meetings on completion.

Internal Audit fully conforms with Standard 2000 on Managing the Internal Audit Activity

2100 - Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organisation's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact.

More specifically, the internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes, evaluate the effectiveness and contribute to the improvement of risk management processes and assist the organisation in maintaining effective controls by evaluating their efficiency and effectiveness and promoting continuous improvement.

Risk registers are reviewed annually as part of the annual audit planning process. Risks are also considered during the planning of each audit assignment. An audit is performed periodically which reviews the Council's governance framework, the annual self-assessment process and the preparation of the Governance Statement. This also includes a review of the Council's arrangements for risk management including the strategy, policy and maintenance of risk registers.

Internal Audit fully conforms with Standard 2100 on Nature of Work.

2200 - Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organisation's strategies, objectives and risks relevant to the engagement.

The CIPFA Local Government Application note states that for each engagement, a brief should be prepared, discussed and agreed with relevant managers. The brief should establish the objectives, scope and timing for the assignment and its resource and reporting requirements. Audit work should be undertaken using a risk-based audit approach.

For each engagement an audit brief containing scope, detailed objectives and resource allocation is drafted and agreed following consultation with the client. An audit programme is developed to document the tests to be carried out for each of the specific objectives in the brief.

Internal Audit fully conforms with Standard 2200 on Engagement Planning.

2300 - Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence gathered to achieve the engagement objectives and support an independent and objective audit opinion. Systems should be in place to ensure that auditors obtain and record, within the working papers, sufficient evidence to support their conclusions, professional judgements and recommendations. Working papers should always be sufficiently complete and detailed to enable an experienced internal auditor with no previous connection with the audit to ascertain what work was performed, re-perform it if necessary and support the conclusions reached. The CIA should also specify how long all audit documentation should be retained, whether held in hard copy or electronically. All audit work should be subject to an appropriate internal quality review process.

Internal auditors must be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest when performing their individual audits. They must also have sufficient knowledge to identify indicators that fraud or corruption may have been committed.

The Internal Audit Manual sets out the procedure in relation to undertaking a planned audit, including preparing working papers and setting up working paper files. In addition, the manual details standard procedures for other types of work such as consultancy engagements and dealing with instances of fraud. The Internal Audit Manual also details the records management policy and relevant retention periods for reports and working papers. The manual refers to Aspireview as the system to record progress with audit actions, this section should be updated to reflect the current process using Pentana Risk.

All working papers are held in electronic format and a suite of standard templates are in use for all types of audit work. There is a system of management review in place which ensures that audits are performed to the required standards.

Recommendation

The Internal Audit Manual should be updated to reflect changes in the Council structure and the change to using Pentana Risk to track progress with audit actions.

Internal Audit generally conforms with Standard 2300 on Performing the Engagement.

2400 - Communicating Results

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

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

Each report should include the scope and purpose of the audit to help the reader understand the extent, or limitations, of the assurance provided by the report. During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take

corrective action and to avoid surprises at the closure stage. Before issuing the final report, the internal auditor should discuss the contents with the appropriate levels of management to confirm factual accuracy, to seek comments and to confirm the agreed management actions. Recommendations should be prioritised according to risk, and the resultant management action should be agreed prior to the issue of the final report. Any areas of disagreement between the internal auditor and management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those weaknesses giving rise to significant risks that are not agreed should be brought to the attention of a more senior level of management and the board.

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

Standard templates are used for reporting. These include an overall audit opinion and grading of individual recommendations.

Once the CIA has reviewed the audit file, draft reports are circulated to the clients to discuss and agree factual accuracy as well as respond to recommendations with implementation dates and details of responsible officers.

Stakeholder Questionnaires are issued to audit clients following an engagement to obtain feedback on the audit process and report.

The CIA provides an Annual Internal Audit Report and Opinion which gives an overall opinion on the adequacy and effectiveness of the organisation's governance, risk and control framework as well as a summary of the work performed throughout the year.

Internal Audit fully conforms with Standard 2400 on Communicating Results.

2500 - Monitoring Progress

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

Internal audit actions are uploaded on to the Council's Risk and Performance Management System. Each action is allocated an owner and nominated updaters are required to report progress on the action on a quarterly basis via the system. The responses provided are reviewed by internal audit and where an action has been marked as complete the evidence to support this is reviewed to confirm that the risk has been mitigated. The results of the reviews are reported to the

Corporate Leadership Team in a quarterly exception report, these are also reported biannually to the Monitoring & Audit Committee.

Internal Audit fully conforms with Standard 2500 on Monitoring Progress.

2600 - Communicating the Acceptance of Risks

When the CIA concludes that management has accepted a level of risk that may be unacceptable to the organisation, they must discuss the matter with senior management. If the CIA determines that the matter has not been resolved, they must communicate the matter to the board. It is not the responsibility of the CIA to resolve the risk.

Where a recommendation is made in a report to mitigate a risk and it is not agreed, the matter is referred to senior management. Where management decide that a recommendation will not be implemented, a Certificate of Risk Acceptance would be completed and attached to the report.

Internal Audit fully conforms to the Standard on Communicating the Acceptance of Risk.

Appendix A - Summary of Assessment

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	Mission of Internal Audit and Core Principles.	✓			
Section B	Definition of Internal Auditing.	✓			
Section C	Code of Ethics.	✓			
Section D	ATTRIBUTE STANDARDS.				
1000	Purpose, Authority and Responsibility.	✓			
1100	Independence and Objectivity.	✓			
1200	Proficiency and Due Professional Care.	✓			
1300	Quality Assurance and Improvement Programme.	✓			
Section E	PERFORMANCE STANDARDS.				
2000	Managing the internal Audit Activity.	✓			
2100	Nature of Work.	✓			
2200	Engagement Planning.	✓			
2300	Performing the Engagement.		✓		
2400	Communicating Results.	✓			
2500	Monitoring Progress.	✓			
2600	Communicating the Acceptance of Risks.	✓			
Totals		13	1	0	0

Appendix B - Action Plan

Number	Recommendation	Action	Responsible Officer	Agreed Completion Date
1	The Internal Audit Manual should be reviewed and updated to ensure it reflects changes in the Council structure and Performance Risk software.	The Internal Audit Manual has been updated following this assessment.	Chief Internal Auditor	Completed