

REPORT TO THE AUDIT COMMITTEE – 20 SEPTEMBER 2018

EXTERNAL QUALITY ASSESMENT OF INTERNAL AUDIT

1. Recommendations

1.1 The Committee is requested to review, discuss and comment on the issues raised within this report and the attached appendices.

2. Discussion

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that a quality assurance and improvement programme is developed and maintained that covers all aspects of a local authority's internal audit activity. This should be designed to enable an evaluation of internal audit's conformance with the PSIAS Definition of Internal Audit and Standards, and an evaluation of whether internal auditors apply the Code of Ethics. The programme must include both periodic internal assessments and, at least once every five years, an external assessment by a qualified, independent assessor or assessment team from outwith the organisation.
- 2.2 The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) developed a checklist for testing compliance and this has been used for the periodic internal assessments. To satisfy the requirement for an external assessment, SLACIAG has arranged a peer review process for those Councils wishing to take part. This involves a review by another Scottish Local Authority's Internal Audit Section, with the audit teams being selected based on set parameters to ensure independence.
- 2.3 Aberdeenshire Council agreed to be part of this scheme. This involved Aberdeenshire's Chief Internal Auditor reviewing arrangements at Stirling Council, and Dundee City Council reviewing Aberdeenshire's arrangements.
- 2.4 This report advises the Committee of the outcome of the first External Quality Assessment (EQA) undertaken since the introduction of PSIAS (attached as Appendix 1 to this report).
- 2.5 The process was very thorough, and the attached report identifies areas where the auditor undertaking the review believes that improvements could be made. These have resulted in recommendations which were considered by Internal Audit and the response to each is recorded in the action plan within the attached report. The Audit Committee will be advised of progress against the agreed recommendations that have not yet been completed when Internal Audit presents its Annual Report in June 2019.
- 2.6 The overall conclusion from the review is that Aberdeenshire's Internal Audit Section generally conforms with the requirements of PSIAS which is consistent with the outcomes of the periodic internal assessments.

2.7 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report. Any comments made have been incorporated within the report and they are satisfied that the report complies with the Scheme of Governance and relevant legislation.

3. Scheme of Governance

3.1 The Committee is able to discuss this item in terms of Sections G.1.1.d and G.1.4 of the List of Committee Powers in Part 2A of the Scheme of Governance as the Committee is responsible for Internal Audit matters and reviewing the activities of Internal Audit.

4. Implications and Risk

4.1 An equality impact assessment is not required because the reason for this report is for Committee to discuss and comment on the findings of an External Quality Assessment of Internal Audit work and there will be no differential impact, as a result of this report, on people with protected characteristics.

4.2 There are no staffing or financial implications arising directly from this report.

4.3 The External Quality Assessment considers the risks of an Internal Audit Section being non-compliant with the requirements of the Public Sector Internal Audit Standards.

CHIEF INTERNAL AUDITOR

Report prepared by David Hughes, Chief Internal Auditor.
21 August 2018.



EXTERNAL ASSESSMENT OF ABERDEENSHIRE COUNCIL'S INTERNAL AUDIT SECTION

Report Recipients:

Jim Savege, Chief Executive
Ritchie Johnson, Director of Business Services
David Hughes, Chief Internal Auditor
Cllr Ross Cassie, Chair of the Audit Committee

EXECUTIVE SUMMARY

1. INTRODUCTION

- 1.1 The mandatory Public Sector Internal Audit Standards (PSIAS), published initially in April 2013 and revised most recently in April 2017, apply to all internal audit service providers in the UK public sector, whether in-house, provided via a shared service arrangement or outsourced. To supplement the PSIAS, and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a Local Government Application Note.
- 1.2 The objectives of the PSIAS are to define the nature of internal auditing within the UK public sector; set basic principles for carrying out internal audit in the UK public sector; establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; establish the basis for the evaluation of internal audit performance and drive improvement planning.
- 1.3 The PSIAS state that the Chief Audit Executive (the Chief Internal Auditor in Aberdeenshire Council) 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 outwith the organisation, and enable evaluation of the internal audit activity's (Internal Audit Section in Aberdeenshire Council) 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 Section and identify opportunities for improvement.
- 1.4 To assist its members to meet the five-yearly external assessment requirement detailed in the PSIAS, the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) established a collaborative system of formal peer reviews. This approach not only assists with ensuring that independent assessors, and their teams, have appropriate knowledge and experience of the local government internal audit environment but also removes the financial burden from councils, associated with procuring these services externally. The allocation of assessors / assessment teams to councils participating in the peer review process was undertaken autonomously, ensuring that, amongst other governing principles, 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. Dundee City Council was selected to carry out the external assessment in Aberdeenshire Council.
- 1.5 To support the peer review process, SLACIAG developed a comprehensive External Quality Assessment (EQA) framework, including an EQA Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note (EQA Checklist) and a key Stakeholder Questionnaire proforma. The external assessment of Aberdeenshire Council's Internal Audit Section has been carried out utilising this framework by Dundee City Council's, Senior Manager – Internal Audit.
- 1.6 This report provides a high level summary of requirements for each standard per the PSIAS and CIPFA Local Government Application Note and sets out the findings, conclusions and recommendations from the external assessment, which involved discussions with key members of staff, including the Chief Internal Auditor, review of the most recent self-assessment carried out utilising the EQA Checklist and consideration of other relevant supporting documentation / information (Evidence Pack) including working paper files and completed stakeholder questionnaires. A comprehensive list of supporting documentation / information and completed stakeholder questionnaires considered as part of the external assessment can be found at Appendix B and C respectively.

2. OVERALL CONCLUSION

2.1 In overall terms, based on the work undertaken, the principal conclusion drawn from the external assessment is that Aberdeenshire Council's Internal Audit Section generally conforms with the PSIAS. However, it should be noted that the Definition of Internal Audit and 2 performance standards, specifically 2200 - Engagement Planning and 2400 - Communicating Results, have been assessed as partially conforms and steps should be taken to address the associated areas for improvement in line with the action plan at Appendix D. A full summary of assessment can be found at Appendix A. The main areas for improvement highlighted in the report are as follows:

- Key documentation, including the Internal Audit Plan, Internal Audit Manual and Internal Audit Annual Report and Internal Financial Control Statement should be reviewed with a view to ensuring that the full scope of internal audit responsibilities, in particular around giving assurances re risk management, are incorporated and clearly and consistently communicated to stakeholders. It should be noted that steps have been taken to partially address this finding since the close out meeting was held with the Chief Internal Auditor in December 2017. Reference to the Statement of Internal Financial Control and the Statement of Internal Control in the Internal Audit Annual Report should be removed to avoid confusion. In addition, steps should be taken to ensure that Aberdeenshire Council's Scheme of Governance, Part 3 – Financial Regulations are updated to reflect that internal auditing in Scottish local authorities has been a statutory requirement since the Local Authority Accounts Regulations 2014 came into force on 10 October 2014. The Chief Internal Auditor has advised this this is in the process of being addressed.
- A brief containing key pieces of information regarding each audit, including specific objectives, which should be used to inform the development of the Audit Programme, is not currently utilised by the Internal Audit Section. It is recommended that the use of an Audit Brief is introduced and that this is discussed and agreed with the client going forward. The benefits surrounding this approach include buy in from management and input from key members of staff responsible for service delivery, the value of which cannot be underestimated. In addition, the introduction of an Audit Brief would provide a clear and demonstrable link from the high level scope and objective contained in the Internal Audit Plan to the detailed programme of work carried out to conclude on each objective and support a more efficient and effective file review process.
- Standard levels of assurance / audit opinions for each audit report are not currently utilised and it is recommended that consideration be given to their introduction, ultimately helping to inform the annual opinion on the overall adequacy and effectiveness of the Council's risk management, control and governance processes.
- As part of the annual planning process, input from Directors and other Chief Officers is invited via e-mail, the Corporate and Directorate / operational risk registers are considered and staff within the Internal Audit Section are consulted with. There is currently no consultation carried out as a matter of course with other key internal audit stakeholders surrounding the risks the Council is exposed to such as External Audit, the risk manager and Elected Members. Consideration should be given to widening the scope of the existing formal consultation process to carry out, as a matter of routine, consultation with these other key stakeholders. The Chief Internal Auditor has advised that, at its meeting on 28 February 2018, the Strategic Leadership Team agreed that Internal Audit would attend the service management teams going forward to discuss the Internal Audit Plan.

DETAILED FINDINGS AND RECOMMENDATIONS

3. SECTION A – DEFINITION OF INTERNAL AUDIT

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.

- 3.1 Evidence obtained from assessing conformance with other standards in the PSIAS has been used to conclude that the Internal Audit Section at Aberdeenshire Council **partially conforms** with the definition of Internal Auditing as detailed above. The main reason for this assessment, however, relates to the evaluation of the Council's risk management arrangements, to determine whether or not they are adequate and effective, and subsequent reporting of the corresponding conclusion in the annual opinion. In addition, some of the key internal audit documentation, including the Internal Audit Plan, Internal Audit Manual and Internal Audit Annual Report and Internal Financial Control Statement do not communicate this as being an internal audit responsibility. Recommendations for improvement relating to the standards informing this section are detailed throughout the report. The Chief Internal Auditor has advised that some of these areas have already been addressed.

4. SECTION B – CODE OF ETHICS

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

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

- 4.1 Evidence obtained from assessing conformance with other standards in the PSIAS, in particular 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 Aberdeenshire Council's Internal Audit Section **fully conforms** with the requirement to comply with the Code of Ethics. The completed Stakeholder Questionnaires support this conclusion.
- 4.2 An **area of good practice** in Aberdeenshire Council in relation to the Code of Ethics is the requirement for all staff within the Internal Audit Section to complete and sign an Annual Declaration of Interests and Compliance form. The form includes a Code of Ethics checklist containing a series of statements relating to Integrity, Objectivity, Confidentiality and Competency that requires the auditor to answer yes or no. In addition, the auditor is required to confirm that they have performed their work having regard to the Nolan Principles. Completion of this form is referred to within the Independence and Objectivity section of the Internal Audit Charter and para 5.3 of the Internal Audit Manual.

5. SECTION C – ATTRIBUTE STANDARDS

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

5.1 1000 - Purpose, Authority, and Responsibility

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

- *define the terms 'board' and 'senior management' for the purposes of internal audit activity;*
- *cover the arrangements for appropriate resourcing;*
- *define the role of internal audit in any fraud-related work; and*
- *describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activities.*

5.1.1 Aberdeenshire Council's Internal Audit Charter is periodically reviewed with the most recent review taking place in June 2017, following publication of the most up to date PSIAS. The Internal Audit Charter was approved by the Audit Committee on 21 June 2017.

5.1.2 Whilst the Internal Audit Charter formally defines the purpose / role, authority and responsibility of the Internal Audit Section as well as the 'board' and 'senior management' for the purposes of internal audit activity, briefly defines the role of internal audit in any fraud-related work and describes safeguards to limit impairments of independence or objectivity, it does not incorporate the formal definition of Internal Audit per the PSIAS. It should be noted, however, that the Internal Audit Manual, updated in April 2017, does include the formal definition of Internal Audit per the PSIAS.

5.1.3 In addition, whilst the Internal Audit Charter states 'Internal Audit's primary role is to provide independent and objective assurance on the Council's entire control environment (including risk management)' and that 'it should be the responsibility of Internal Audit to complete sufficient assurance work to support the annual opinion...', it is not clear from the wording in the document that the Internal Audit Section is responsible, through its work programme, for evaluating and helping to improve the effectiveness of risk management, control and governance processes or providing an annual opinion on the overall adequacy and effectiveness of each of these three areas.

5.1.4 Lastly, in the Responsibility section of the Internal Audit Charter, it states that the Internal Audit Section is responsible for completing sufficient assurance work to support the annual opinion detailed in the Council's Internal Financial Control Statement. The requirement for Scottish local authorities to compile a Statement of Internal Financial Control ceased a number of years ago with the introduction of the Statement of Internal Control. The requirement to have the latter has also subsequently been superseded and replaced with the statutory requirement for all Scottish local authorities to compile an Annual Governance Statement (AGS). Aberdeenshire Council fulfils this statutory obligation and compiles / publishes an AGS. The use of the terminology 'Internal Financial Control Statement' throughout key internal audit documentation is, for these reasons, confusing.

5.1.5 Aberdeenshire Council's Scheme of Governance, Part 3 – Financial Regulations, updated 27 January 2017, were also reviewed and it was noted, at para 4.12 - Internal Audit, they state 'The requirement for an internal audit function for local authorities is implied by Section 95 of the Local Government (Scotland) Act 1973...' and that the

'Scottish Office Circular 5/85 states that effective internal audit cover is regarded as a matter of good practice'. This has not been the case since 10 October 2014 when The Local Authority Accounts Regulations 2014 came into force and made internal auditing in Scottish local authorities a statutory requirement. It should be noted, however, that the Internal Audit Manual accurately reflects the statutory role of internal audit.

- 5.1.6 The completed Stakeholder Questionnaires in general confirm that key stakeholders have had sight of the Internal Audit Charter and that the Internal Audit Section has a high profile in the organisation. However, 5 of the key stakeholders who returned a Stakeholder Questionnaire do not fully consider the Internal Audit Section to be a key strategic partner in the organisation and 7 of the key stakeholders who returned a Stakeholder Questionnaire advised that internal audit findings and recommendations are partly valued by stakeholders. The last point here is linked to para 6.5.6 below.
- 5.1.7 The Internal Audit Charter should be updated to incorporate the formal definition of Internal Audit per the PSIAS. In addition, the wording in the Internal Audit Charter should be updated so that it is clear from the document that the Internal Audit Section is responsible, through its work programme, for evaluating and helping to improve the effectiveness of risk management, control and governance processes and providing an annual opinion on the overall adequacy and effectiveness of each of these three areas. The reference made to the Council's Internal Financial Control Statement should be removed. Lastly, steps should be taken to ensure that Aberdeenshire Council's Scheme of Governance, Part 3 – Financial Regulations are updated to reflect that internal auditing in Scottish local authorities has been a statutory requirement since the Local Authority Accounts Regulations 2014 came into force on 10 October 2014. The Chief Internal Auditor has advised this is in the process of being addressed.
- 5.1.8 Having considered the findings above, it has been concluded that the Internal Audit Section at Aberdeenshire Council **generally conforms** with Standard 1000 on Purpose, Authority and Responsibility.

5.2 1100 - Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work. Various aspects of independence and objectivity are covered in this standard as well as 1200, including reporting functional lines of the CAE, the relationship between the CAE and the board and any impairment to individual internal auditors' objectivity or independence. Reporting and management arrangements must be put in place that preserve the CAE's independence and objectivity, in particular with regard to the principle that the CAE must be independent of the audited activities.

- 5.2.1 The Chief Internal Auditor reports functionally to the Audit Committee and administratively to the Director of Business Services, who is a member of the Council's Strategic Leadership Team. The Chief Internal Auditor also has direct and unrestricted access to the Chief Executive and the Chair of the Audit Committee and this has been confirmed through the completed Stakeholder Questionnaires. These reporting / access arrangements are clearly defined in the Internal Audit Charter as are safeguards to limit impairment of independence or objectivity per para 5.1.2 above.
- 5.2.2 In support of organisational independence, the Chief Internal Auditor attends Audit Committee meetings to present all internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and executive summaries from the planned audits) to Elected Members. The reports are all submitted in the Chief Internal Auditor's name. Whilst the internal audit reports are sent to the Director of Business Services for collation purposes before they are forwarded to Committee Services, the Director of Business Services is aware that the internal audit reports cannot be amended.

- 5.2.3 The Chief Internal Auditor does not have any operational responsibility for the activities audited and this is communicated to stakeholders via the Internal Audit Charter. The Chief Internal Auditor does, however, lead a Shared Service, as described in para 5.3.3 below, also delivering internal audit services to Aberdeen City Council. In addition, the Chief Internal Auditor provides internal audit services, including the Chief Internal Auditor role to two Integration Joint Boards (Aberdeenshire and Aberdeen City) and the North East Scotland Pension Fund.
- 5.2.4 All staff within the Internal Audit Section are required to complete and sign an Annual Declaration of Interests and Compliance Form. More detail surrounding this form can be found at para 4.2 above.
- 5.2.5 Aberdeenshire Council's Internal Audit Section **fully conforms** with Standard 1100 on Independence and Objectivity.

5.3 1200 - Proficiency and Due Professional Care

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

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

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

- 5.3.1 The Chief Internal Auditor holds a relevant professional qualification, the Association of Certified Chartered Accountants (ACCA), and is suitably experienced, with over 30 years internal audit experience within a Scottish local government environment, commencing 1986 in Aberdeen District Council. The Chief Internal Auditor is a member of SLACIAG and regularly attends and contributes to meetings. In relation to the two SLACIAG Sub-groups, the Computer Audit Sub-Group (CASG) and the Scottish Local Authorities Investigators Group (SLAIG), Aberdeenshire Council's Internal Audit Section is represented on the former. The Chief Internal Auditor advised that an Assistant Auditor actively reviews SLAIG outputs and informs other Internal Audit staff about these as appropriate.
- 5.3.2 To support the Chief Internal Auditor in Aberdeenshire Council's Internal Audit Section there are two Senior Auditors, both of whom are required to hold, and do hold, relevant professional qualifications, CiPFA and ICAS. One of the Senior Auditors commenced employment with Aberdeenshire Council in 2003 as a CiPFA Trainee before taking up post in the Internal Audit Section in 2008 after working for two years as an Accountant (Roads and Property), the other trained in the private sector before joining Aberdeenshire Council in 2009 as an Accountant and subsequently moving into the Internal Audit Section as a Senior Auditor in July 2016.

- 5.3.3 There are a total of 13 members of staff in the Internal Audit Section, including the Chief Internal Auditor and two Senior Auditors. The Internal Audit Section delivers internal audit services to both Aberdeenshire Council and, through a Shared Service arrangement, Aberdeen City Council. The resource is allocated to Aberdeenshire and Aberdeen City councils to deliver the respective internal audit plans utilising a 2:1 ratio. Staff within the Internal Audit Section were recruited by the Chief Internal Auditor utilising detailed Job Descriptions and Person Specifications. There is a Career Development Scheme in place for all Assistant Auditors and progression through the grades within it is dependent on the results of quarterly reviews of the level of skills and delivery of expected outcomes. There are no qualified IT auditors or dedicated fraud investigators within Aberdeenshire Council's Internal Audit Section. However, the Chief Internal Auditor advised that a member of the Internal Audit Section previously worked as a Fraud Officer within Revenues until approximately April 2015 and holds a recognised fraud qualification. Whilst the member of staff does not attend SLAIG meetings, he is a member of the group on the Knowledge Hub, automatically receiving relevant updates. The Chief Internal Auditor also advised that Highland Council's IT Auditor could be utilised for technical / specialist IT related reviews. However, to date, this resource has not been used because it is believed that there is sufficient competence within the team. Similarly, should there be a need, Aberdeenshire could utilise Aberdeen City Council's Corporate Fraud Team. The Internal Audit Section is responsible for providing advice, guidance and operational support through the delivery of ad-hoc investigations regarding fraud related matters within the organisation.
- 5.3.4 The Employee Annual Review (EAR) is a corporate process that all members of staff in the organisation are required to complete. The Chief Internal Auditor carries out the EAR for the two Senior Internal Auditors who then, in turn, complete the EARs for the remaining 10 members of staff. The section of the EAR form containing the Personal Development Plan is returned to Support Services to demonstrate compliance with the corporate EAR process. The EAR is not supplemented with an audit specific competency based review. The Chief Internal Auditor advised that the Director of Business Services carried out his most recent EAR in June 2017 and that the Chief Executive and Chair of the Audit Committee were invited to contribute to the process.
- 5.3.5 The Internal Audit Section is represented on a number of corporate groups, including the Integrity Group and the IT Security Group.
- 5.3.6 The Chief Internal Auditor and Senior Auditors have specific CPD requirements to adhere to. In addition, staff within the Internal Audit Section receive training as and when considered appropriate, a lot of which is 'on the job training'. A training record is maintained centrally within the team.
- 5.3.7 Some areas for improvement have been identified relating to this standard, including the introduction of internal audit specific competency based reviews (possibly utilising the CiPFA publication 'The Excellent Internal Auditor: A Good Practice Guide to Skills and Competencies') to supplement and further enhance the standard corporate EAR process, representation on SLAIG and establishment of a formal plan (based on available options) to ensure that the provision of proficient advice and guidance surrounding the more technical / specialist aspects of Aberdeenshire Council's risk exposure, e.g. cyber crime / security and Brexit, could be obtained when required.
- 5.3.8 All completed Stakeholder Questionnaires confirm that the Chief Internal Auditor demonstrates sufficient knowledge and experience and that all members of the Internal Audit Section exercise due professional care.
- 5.3.9 Aberdeenshire Council's Internal Audit Section **generally conforms** with standard 1200 on Proficiency and Due Professional Care.

5.4 1300 - Quality Assurance and Improvement Programme

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

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

The public sector requirement in the PSIAS states that results of the QAIP and progress against any improvement plans must be reported in the annual report.

- 5.4.1 Internal audit reports are reviewed by the Chief Internal Auditor prior to issue and working papers are, in general, reviewed by one of the Senior Internal Auditors. Where the assignment is carried out by the Senior Internal Auditor, the Chief Internal Auditor will review the working paper file.
- 5.4.2 Client feedback is not actively pursued by the Internal Audit Section for assignments carried out within Aberdeenshire Council.
- 5.4.3 A suite of performance measures / indicators is in place to monitor the performance of the Internal Audit Section, the results of which are presented to Elected Members as an appendix to the Internal Audit Annual Report and Internal Financial Control Statement. For comparison purposes, the results are presented alongside corresponding targets and actuals from the previous financial year. These performance measures are in the process of being reviewed by the Chief Internal Auditor.
- 5.4.4 A formal self-assessment of conformance with the PSIAS was carried out on 26 April 2016 utilising the EQA Checklist and a corresponding QAIP was compiled and reported to the Scrutiny and Audit Committee on 19 May 2016 as an appendix to the Internal Audit Annual Report and Internal Financial Control Statement 2015/16. No subsequent reports have been presented to committee providing an update on the improvement actions contained within the QAIP. The Chief Internal Auditor has advised that there are no outstanding actions.
- 5.4.5 In relation to external assessments, given that Aberdeenshire Council's Internal Audit Section is a Shared Service also delivering internal audit services to Aberdeen City Council, it is considered appropriate to note here that KPMG was engaged by Aberdeen City Council to carry out an external assessment of Aberdeenshire Council's Internal Audit Section in relation to the services it receives. This was carried out in 2017 with a report containing the recommendations made by KPMG presented to Aberdeen City Council's Audit Risk and Scrutiny Committee on 23 November 2017.
- 5.4.6 It is recommended that consideration be given to introducing a client feedback questionnaire or equivalent, the results of which should help identify opportunities for continuous improvement. An update on the full implementation of the improvement actions contained within the QAIP should be reported to the Audit Committee along with any additional improvement actions identified from this external assessment process. In addition, the review of the suite of performance measures / indicators should be concluded as soon as practicable.
- 5.4.7 Aberdeenshire Council's Internal Audit Section **generally conforms** with Standard 1300 on Quality Assurance and Improvement Programme.

6. SECTION D – PERFORMANCE STANDARDS

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

6.1 2000 - Managing the Internal Audit Activity

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

- 6.1.1 Paragraph 5.3.3 above describes the resource in place within Aberdeenshire Council's Internal Audit Section and how it is apportioned over the two councils to deliver the audit plans.
- 6.1.2 An annual Internal Audit Plan is compiled by the Chief Internal Auditor outlining the planned programme of work to be undertaken. There is a desire by the Chief Internal Auditor to ensure that the Internal Audit Plan contains assignments that will give assurances to senior management and Elected Members around all levels of control, from low to strategic level. Whilst risk registers are considered as part of the planning process, see para 6.1.3 below, at the time of the EQA fieldwork, the Internal Audit Plan was not cross referenced to the Corporate Risk Register. It should be noted, however, that improvements in relation to this have recently been made with some audits contained in the Internal Audit Plan 2018/19 now being cross referenced to the Corporate Risk Register. The Internal Audit Plan also includes a risk assessment of the main risks to the Council's control environment, as considered by Internal Audit, which may, if not successfully mitigated, impact on the achievement of the Council's Strategic Priorities and Outcomes.
- 6.1.3 As part of the annual planning process, helping to inform what should be included in the Internal Audit Plan, input from Directors and other Chief Officers is invited via e-mail, the Corporate and Directorate / operational risk registers are considered and staff within the Internal Audit Section are consulted with. There is currently no consultation carried out as a matter of course with other key internal audit stakeholders, such as External Audit, the risk manager and Elected Members, surrounding the risks the Council is exposed to. The Chief Internal Auditor has advised, however, that attendance at service management teams has been offered and he believes that, as the Audit Committee approves the Internal Audit Plan, appropriate Elected Members are being consulted on its content.
- 6.1.4 The Internal Audit Plan is presented to the Strategic Leadership Team for discussion and agreement. Once agreed, it is submitted to the Audit Committee for approval in line with PSIAS requirements. The Internal Audit Plans for 2017/18 and 2018/19 were approved by the Audit Committee on 29 March 2017 and 21 March 2018 respectively.
- 6.1.5 Progress towards completion of the Internal Audit Plan, and the individual audits contained within it, is reported to the Audit Committee twice a year, once in June as part of the Internal Audit Annual Report and Internal Financial Control Statement document and once in December. During 2017/18, these reports were submitted to the Audit Committee on 21 June 2017 and 14 December 2017 respectively.

- 6.1.6 Three of the completed Stakeholder Questionnaires indicate that the role of the Internal Audit Section in adding value to the organisation could be improved and two of the completed Stakeholder Questionnaires indicate that the audits contained in the Internal Audit Plan are not clearly linked to the organisation's risk management framework, including risks and priorities. In addition, one of the key stakeholders who completed the Stakeholder Questionnaires believes that they have not been given the opportunity to feed into the planning process.
- 6.1.7 It is recommended that steps are taken to communicate the added value that the Internal Audit Section can bring to the organisation. The Council's Intranet / Internet site could be utilised for this purpose. Consideration should also be given to widening the scope of the existing formal consultation process to carry out, as a matter of routine, consultation with other key stakeholders, including External Audit, the risk manager and Elected Members.
- 6.1.8 Aberdeenshire Council's Internal Audit Section **generally conforms** with Standard 2000 on Managing the Internal Audit Activity.

6.2 2100 - Nature of Work

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

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

- 6.2.1 Having reviewed Aberdeenshire Council's Internal Audit Plans for the last three years along with other supporting documentation, including the Annual Internal Audit Report, it was identified that the Council's risk management arrangements have not been formally reviewed by the Internal Audit Section for some time. Discussions with the Chief Internal Auditor in December 2017 regarding this confirmed that the last independent review of the Council's risk management arrangements was carried out in 2014. The content of the Risk Manager's annual report on the Council's risk management arrangements is, however, considered by the Chief Internal Auditor with assurances being taken from that where considered appropriate.
- 6.2.2 It should be noted that the Internal Audit Plan for 2018/19 has addressed this finding and an audit of the Risk Management Process is scheduled to take place in Quarter 2 of 2018/19. The Chief Internal Auditor advised that risk is considered as part of every planned audit undertaken.
- 6.2.3 Aberdeenshire Council's Internal Audit Section **generally conforms** with Standard 2100 on Nature of Work.

6.3 2200 - Engagement Planning

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

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

- 6.3.1 Discussions with key members of staff, including the Chief Internal Auditor and Senior Internal Auditors, review of working paper proforma and working paper files for 4 audits confirmed that an Audit Planning Form is utilised. This form incorporates the scope and high level objective from the Internal Audit Plan along with budgeted and actual resource allocations, split over the key stages of an audit, and target dates for reporting purposes. In addition, an Audit Programme Form is utilised by auditors to document the tests to be carried out and an Audit Variation Request Form is utilised to record any variations to original resource requirements or extensions to deadlines along with the corresponding reasons.
- 6.3.2 Whilst an Audit Programme Form is being utilised to document the tests to be carried out to conclude on specific objectives also detailed on the form, it is not clear where the specific objectives have originated from or, in some cases, how they link back to the high level objective. The Chief Internal Auditor advised that the Audit Programme Form was updated in March 2017 to incorporate risks associated with the controls being reviewed. It was also noted that a brief containing key pieces of information regarding the audit, including specific objectives, which should be used to inform the development of the Audit Programme, is not currently utilised by the Internal Audit Section and it was noted that specific objectives are not being discussed and agreed with the client as a matter of course. The Chief Internal Auditor advised, however, that an e-mail is sent to auditees at the commencement of each audit, to share the high level scope and objective per the Internal Audit Plan, seek agreement for the review taking place at that time and request views surrounding related areas of concern.
- 6.3.3 It is recommended that the Internal Audit Section introduce an Audit Brief detailing key pieces of information, including specific objectives, and that this is discussed and agreed with the client going forward. The benefits surrounding this approach include buy in from management and input from key members of staff responsible for service delivery, the value of which cannot be underestimated. In addition, the introduction of an Audit Brief would provide a clear and demonstrable link from the high level scope and objective contained in the Internal Audit Plan to the detailed programme of work carried out to conclude on each objective as well as a more efficient and effective file review process.
- 6.3.4 Aberdeenshire Council's Internal Audit Section **partially conforms** with Standard 2200 on Engagement Planning.

6.4 2300 - Performing the Engagement

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

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

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

- 6.4.1 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, procedures are included in the Internal Audit Manual relating to undertaking value for money studies, investigating financial irregularities and undertaking additional work.
- 6.4.2 In relation to working paper files, the Internal Audit Section currently maintains permanent and temporary files, each of which have a standard structure controlling their content. Manual working paper files are stored in key card entry storage cupboards adjacent to where the Internal Audit Section is located.
- 6.4.3 Standard working paper proforma are utilised including an Audit Planning Form, Audit Programme Form, Audit Variation Request Form, Audit Findings proforma and Audit Review proforma in the temporary file.
- 6.4.4 As detailed at para 5.4.1, internal audit reports are reviewed by the Chief Internal Auditor prior to issue and working papers are, in general, reviewed by one of the Senior Internal Auditors. Where the assignment is carried out by one of the Senior Internal Auditors, the Chief Internal Auditor will review the working paper file. Review of working paper files for 4 audits during the external assessment identified that there was no evidence of a formal file review for one of the audits. Other than this deviation from procedure and the points noted at 6.3 above, there was evidence from the working paper files that appropriate arrangements are in place for performing and supervising an audit.
- 6.4.5 Records management arrangements are detailed at section 11 of the Internal Audit Manual. In relation to permanent files, they will be retained, subject to updates, for as long as the system continues. Temporary files will be held until the next audit of that system at which point it will be archived and superseded by a new temporary file. If the temporary file exceeds 3 years old at the date it is superseded then it will be destroyed. Strict adherence to these arrangements mean that if a system is not reviewed again for a long period of time or indeed at all that the corresponding working papers may be held indefinitely. These arrangements should be reviewed in light of GDPR, having regard, where appropriate, to the Scottish Council on Archives Record Retention Schedules. Consideration should also be given to the operational need for having both permanent and temporary files.
- 6.4.6 Aberdeenshire Council's Internal Audit Section **generally conforms** with Standard 2300 on Performing the Engagement.

6.5 2400 - Communicating Results

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

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

Each report should include the scope and purpose of the audit to help the reader to understand the extent, or limitations, of the assurance(s) provided by the report. During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the closure stage. Before issuing the final report, the internal auditor should normally discuss the contents with the appropriate levels of management to confirm the factual accuracy, to seek comments and to confirm the agreed management actions. A draft report is useful for this purpose. Recommendations should be prioritised according to risk. The recommendations and the resultant management action plans should be agreed prior to the issue of the final report. Any areas of disagreement between the internal auditor and

management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those weaknesses giving rise to significant risks that are not agreed should be brought to the attention of a more senior level of management and the board.

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

- 6.5.1 The Internal Audit Manual sets out the reporting procedure for planned audits. To support the procedure, there is a standard report proforma in place. The audit report is structured in three sections i.e. the Executive Summary, Introduction and Findings and Recommendations. Appendices are added to the report where they are considered to be appropriate. The Findings and Recommendations section of the report contains individual recommendations along with a corresponding service response / action, implementation date and responsible officer. Each recommendation is classified utilising the following standard grades, each of which have their own definitions to assist:
- Major at corporate level;
 - Major at Service level;
 - Significant within audited area; and
 - Important within audited area.
- 6.5.2 Whilst individual recommendations within each report are graded, there is no overall level of assurance / audit opinion applied to each audit report.
- 6.5.3 Senior Auditors are responsible for reviewing the working paper files and ensuring that the findings identified from the work carried out are accurately reflected within the draft report. Senior Auditors are also required to ensure that sufficient evidence is available on file to support each finding. Draft reports are then reviewed by the Chief Internal Auditor.
- 6.5.4 In general, draft internal audit reports are issued via e-mail to the client and recipients are asked to respond to the Internal Audit Section, confirming factual accuracy and providing a response to each recommendation in the report. In line with Para 4.12.5 of the Council's Financial Regulations (January 2017), services are given one calendar month to do this. Whilst offered, meetings / discussions are not held with management as a matter of course to discuss draft reports.
- 6.5.5 There is currently no formal assurance mapping exercise carried out within the Internal Audit Section to help inform the internal audit annual opinion. In addition, there is no specific mention of governance and risk management in the internal audit annual opinion (although it is acknowledged that is reference to 'the assessment of risk completed during the updating of the audit plan' in the Basis of Opinion section), which is reported to the Audit Committee in June each year as part of the Internal Audit Annual Report and Internal Financial Control Statement. It should be noted, however, that since discussing this finding with the Chief Internal Auditor in December 2017, steps were taken to address this in the 2017/18 Annual Report.
- 6.5.6 It is recommended that consideration be given to the introduction of standard levels of assurance / audit opinions for each audit report to ultimately help inform the annual opinion on the overall adequacy and effectiveness of the Council's risk management, control and governance processes. In addition, steps should be taken to develop formal assurance mapping arrangements. Lastly, consideration should be given to holding meetings (face to face, conference call or other) with management as a matter of course

to discuss draft reports. The main benefits of holding meetings to discuss the draft report are having the opportunity to openly discuss findings and recommendations with management as well as making them aware of the risks associated with not fully implementing the recommendations. It also provides management with an opportunity to ask questions surrounding the findings and offer appropriate alternative practical solutions for consideration by the Internal Audit Section where they feel what is being recommended is not pragmatic and / or does not add value.

6.5.7 In general, the completed Stakeholder Questionnaires indicate that internal audit findings and recommendations are not always valued by management and in some instances recommendations are not agreed for implementation.

6.5.8 Aberdeenshire Council's Internal Audit Section **partially conforms** with Standard 2400 on Communicating Results.

6.6 2500 - Monitoring Progress

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

6.6.1 Section 7.2 of the Internal Audit Manual details the Follow-up Procedures to be adhered to in relation to agreed recommendations. To assist with this procedure, the Internal Audit Section has an Internal Audit Control System (Access Database), which is used to record and monitor the implementation of all agreed recommendations. At the end of every month, services are contacted via e-mail and asked to provide an update on the progress made towards implementing the agreed outstanding recommendations. These updates are recorded in the Internal Audit Control System.

6.6.2 Progress towards implementing the agreed recommendations is reported to every Audit Committee.

6.6.3 Aberdeenshire Council's Internal Audit Section **fully conforms** with Standard 2500 on Monitoring Progress.

6.7 2600 - Communicating the Acceptance of Risk

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

6.7.1 Where a recommendation is made in a report to mitigate a risk and it is not agreed with management, then this is communicated to senior management via the normal reporting arrangements.

6.7.2 In addition to the ongoing progress review exercise discussed at 6.6 above, which

routinely brings to the attention of senior management and Elected Members the exposure of risk relating to recommendations that have not been implemented, the Chief Internal Auditor also has unrestricted access to the Chief Executive, S95 Officer, Monitoring Officer and Chair of the Scrutiny Committee should there be a need to take any further action.

6.7.3 The Chief Internal Auditor's Internal Audit Annual Report and Internal Financial Control Statement, which contains the overall opinion, does not cover the full scope of internal audit responsibility, including risk management and governance, and therefore it is not clear from that report whether there are any unacceptable risks relating to these areas that should be communicated to senior management and Elected Members. It is recommended that the Internal Audit Annual Report and Internal Financial Control Statement is reviewed with a view to ensuring that the full scope of internal audit responsibilities are incorporated.

6.7.4 Aberdeenshire Council's Internal Audit Section **generally conforms** with Standard 2600 on Communicating the Acceptance of Risk.

Pamela Redpath FCCA
Dundee City Council
Senior Manager – Internal Audit
August 2018

APPENDIX A – SUMMARY OF ASSESSMENT

REF	PAGE No.	ASSESSMENT AREA	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	4	Definition of Internal Auditing				
Section B	4	Code of Ethics				
Section C		ATTRIBUTE STANDARDS				
1000	5	Purpose, Authority and Responsibility				
1100	6	Independence and Objectivity				
1200	7	Proficiency and Due Professional Care				
1300	9	Quality Assurance and Improvement Programme				
Section D		PERFORMANCE STANDARDS				
2000	10	Managing the internal Audit Activity				
2100	11	Nature of Work				
2200	11	Engagement Planning				
2300	12	Performing the Engagement				
2400	13	Communicating Results				
2500	15	Monitoring Progress				
2600	15	Communicating the Acceptance of Risk				

APPENDIX B – EVIDENCE PACK

- Internal Audit Manual dated April 2017.
- Internal Audit Charter submitted to Audit Committee 21 June 2017.
- Internal Audit Plan 2016/17 presented to Scrutiny and Audit Committee 30 March 2017.
- Internal Audit Plan 2017/18 presented to Audit Committee 29 March 2017.
- Internal Audit Plan 2018/19 presented to Audit Committee 21 March 2018.
- Internal Audit Plan 2018/19 Resource Allocation Spreadsheet.
- Spreadsheet containing matrix of audits carried out since 2004/05.
- Internal Audit Annual Report and Internal Financial Control Statement for 2015/16 presented to the Scrutiny and Audit Committee 19 May 2016, including the most recent Internal Audit Improvement Action Plan.
- Internal Audit Annual Report and Internal Financial Control Statement for 2016/17 presented to the Audit Committee 21 June 2017.
- Permanent and temporary working paper files for 4 randomly selected reviews.
- Internal audit reports.
- Standard grading and corresponding definitions for recommendations.
- Audit assignment / working paper file documentation / proforma.
- Annual Declaration of Interests and Compliance process.
- Job Descriptions and Job Profiles.
- Evidence of professional qualifications held by the Chief Internal Auditor and Senior Auditors.
- Selection of Audit Committee and Scrutiny and Audit Committee papers.
- Aberdeenshire Council's Internet Site.
- Aberdeenshire Council's Scheme of Governance, Part 2A – List of Committee Powers (29 June 2017).
- Aberdeenshire Council's Scheme of Governance, Part 3 – Financial Regulations (31 January 2017).
- Aberdeenshire Council's 2016/17 Annual Governance Statement.
- Corporate Risk Register.
- Internal Audit Shared Services Contract.
- Elected Member Training.
- Employee Annual Review documentation.
- Career Development Scheme for Assistant Accountants / Auditors
- Internal Audit Control System screen prints.
- Strategy for the Prevention and Detection of Fraud, Bribery and Corruption (currently being updated).
- Disclosure of Information (Whistleblowing) Policy and Procedure.
- Fraud Referral of Matter to Police Form.
- Integrity Group Terms of Reference.
- E-mail issued re obtaining input from Chief Officers re Internal Audit Planning process.
- E-mail issued to management containing the draft report.
- E-mail containing reports for inclusion on the Audit Committee agenda to the Director of Business Services.
- Finance Management Team agendas.

APPENDIX C – STAKEHOLDER QUESTIONNAIRES

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

- Jim Savege, Chief Executive
- Ritchie Johnson, Director of Business Services
- Stephen Archer, Director of Infrastructure Services
- Maria Walker, Director of Education and Children’s Services
- Adam Coldwells, Chief Officer H&SCI
- Alan Wood, Head of Finance (S95 Officer)
- Norrie Crichton, Council Risk Manager
- Geraldine Fraser, Acting Head of Legal and Governance
- Cllr Ross Cassie, Audit Committee Chair

APPENDIX D – ACTION PLAN

Para	Recommendation	Agreed Y/N	Management Response	Responsible Officer	Target Completion Date
5.1.5 & 5.1.7	Reference to the Statement of Internal Financial Control and the Statement of Internal Control in the Internal Audit Annual Report and other internal audit documentation should be removed to avoid confusion.	Y	The Annual Report for 2018/19 will be titled the Internal Audit Annual Report and reference to the Internal Financial Control Statement will be removed to ensure that there is no confusion.	Chief Internal Auditor	June 2019
5.1.5 & 5.1.7	Steps should be taken to ensure that Aberdeenshire Council's Scheme of Governance, Part 3 – Financial Regulations are updated to reflect that internal auditing in Scottish local authorities has been a statutory requirement since the Local Authority Accounts Regulations 2014 came into force on 10 October 2014.	Y	The required change was approved by the Procedures Committee on 25 May 2018 and will now be presented to Full Council for approval in September 2018.	Accounting Finance Manager	September 2018
5.1.2 & 5.1.7	The Internal Audit Charter should be updated to incorporate the formal definition of Internal Audit per the PSIAS. In addition, the narrative in the Internal Audit Charter should be updated so that it is clear from the document that the Internal Audit Section is responsible, through its work programme, for evaluating and helping to improve the effectiveness of risk management, control and governance processes and providing an annual opinion on the overall adequacy and effectiveness of all three of these areas.	Y	Wording will be amended to tie in with the wording contained in Internal Audit's Annual Report that was presented to the Audit Committee in May 2018.	Chief Internal Auditor	December 2018

Para	Recommendation	Agreed Y/N	Management Response	Responsible Officer	Target Completion Date
5.3.4 & 5.3.7	Consideration should be given to introducing competency based reviews, possibly utilising the CIPFA publication 'The Excellent Internal Auditor: A Good Practice Guide to Skills and Competencies', to supplement and further enhance the standard corporate EAR process.	Y	The Section already uses the Finance / Internal Audit Career Development Scheme for Assistant Accountants / Auditors in undertaking quarterly reviews. This includes competencies considered necessary for Assistant Auditors to progress through the Career Development Scheme. However, the competencies included will be compared to those in "the Excellent Internal Auditor" to determine if any change is necessary.	Chief Internal Auditor	March 2019
5.3.1 & 5.3.7	Consideration should be given to attending SLAIG meetings going forward.	Y	This has been considered and, based on cost of attending and the fact that an Assistant Auditor already actively reviews output from the Group and advises the wider Internal Audit Team of relevant issues, attendance will not be pursued.	Chief Internal Auditor	Implemented
5.3.3 & 5.3.7	A formal plan should be established to ensure that the provision of proficient advice and guidance surrounding the more technical / specialist aspects of Aberdeenshire Council's risk exposure, e.g. cyber crime / security and Brexit, could be obtained when required.	Y	Should such advice and guidance be required the first point of contact would be the Scottish Local Authorities Chief Internal Auditors' Group. Should sufficient advice not be obtained through that channel, other professionals within either Aberdeenshire or Aberdeen City Councils would be approached. Failing this, external consultants would be sought through an appropriate tendering process.	Chief Internal Auditor	Implemented

Para	Recommendation	Agreed Y/N	Management Response	Responsible Officer	Target Completion Date
5.4.2 & 5.4.6	Consideration should be given to introducing a client feedback questionnaire, or equivalent, the results of which should help identify opportunities for continuous improvement.	Y	Consideration has been given to this and it has been decided that, at present, this will not be pursued. Services have the opportunity to comment on the outputs from the audit process and have given other feedback (both positive and negative) as part of that process.	Chief Internal Auditor	Implemented
5.4.4 & 5.4.6	An update on the implementation of the improvement actions contained within the QAIP should be reported to the Audit Committee along with any additional improvement actions identified from this external assessment process.	Y	This will be included in the 2018/19 Internal Audit Annual Report.	Chief Internal Auditor	June 2019
5.4.3 & 5.4.6	The review of the suite of performance measures / indicators should be concluded as soon as practicable.	Y	Following the reporting of performance measures to the Audit Committee in May 2018 this has been reviewed. In the absence of any other pertinent measures being identified, it has been decided to continue with the current suite of measures at present. However, should others be identified in future, they will be considered for adoption.	Chief Internal Auditor	Implemented
6.1.7	Steps should be taken to communicate the added value that Internal Audit can bring to the organisation. The Council's Intranet / Internet site could be utilised for this purpose.	Y	The content of the Council's Intranet will be reviewed and amended as deemed appropriate.	Chief Internal Auditor	March 2019

Para	Recommendation	Agreed Y/N	Management Response	Responsible Officer	Target Completion Date
6.1.3 & 6.1.7	The scope of the existing formal consultation process should be widened to carry out, as a matter of routine, consultation with other key stakeholders, including External Audit, the risk manager and Elected Members.	Y	The 2019/20 planning process will include consultation with the External Auditor, Risk Manager, and Chair and Vice-Chair of the Audit Committee.	Chief Internal Auditor	March 2019
6.3.2 & 6.3.3	It is recommended that the Internal Audit Section introduce an Audit Brief detailing key pieces of information, including specific objectives, and that this is discussed and agreed with the client going forward.	N	The process currently adopted within the Section of contacting Services at the start of the audit process, advising them of the scope and objective of the review, seeking input regarding any areas of management concern, and discussing any timing issues is considered adequate. Implementation of a specific brief would replicate this and is not considered necessary.	N/A	N/A
6.5.2 & 6.5.6	Consideration should be given to introducing standard levels of assurance / audit opinions for each audit report, ultimately helping to inform the annual opinion on the overall adequacy and effectiveness of the Council's risk management, control and governance processes.	Y	This has been considered in detail following a recommendation made by KPMG in relation to Aberdeen City Council. Having reported the issue to that Council's Audit, Risk and Scrutiny Committee, it was the conclusion of Internal Audit, senior management, and Elected Members that this would not add any value at present.	Chief Internal Auditor	Implemented
6.5.4 & 6.5.6	Consideration should be given to holding meetings (face to face or via conference call) as a matter of course to discuss draft reports.	Y	Consideration has been given and this will only be progressed as and when required. It will not be the default position as current arrangements are believed to be working well.	Chief Internal Auditor	Implemented

Para	Recommendation	Agreed Y/N	Management Response	Responsible Officer	Target Completion Date
6.5.5 & 6.5.6	Steps should be taken to develop formal assurance mapping arrangements.	N/A	It is considered that mapping the outcomes of the individual Internal Audit reports to the annual report is adequate. Consideration is given, as stated in the Annual Report, to the outputs from other assurance providers in forming the annual opinion. No further action is considered necessary.	N/A	N/A
3.1 & 6.7.3	Key documentation, including the Internal Audit Plan, Internal Audit Manual and Internal Audit Annual Report and Internal Financial Control Statement should be reviewed with a view to ensuring that the full scope of internal audit responsibilities, in particular around giving assurances re risk management, are incorporated and clearly and consistently communicated to stakeholders.	Y	Already implemented in respect of the Internal Audit Plan as presented to the Audit Committee in March 2018 and the Internal Audit Annual Report as presented to the Audit Committee in May 2018. The Internal Audit Manual will be reviewed and amended as appropriate.	Chief Internal Auditor Chief Internal Auditor	Implemented March 2019