

REPORT TO: Audit and Governance Committee

MEETING DATE: 26 March 2024

BY: Service Manager – Internal Audit

SUBJECT: External Quality Assessment – Internal Audit

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the findings from the recent external quality assessment of the Council's Internal Audit service.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the report.

3 BACKGROUND

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require the Council's Service Manager – Internal Audit to develop a Quality Assurance and Improvement Programme (QAIP). The purpose of the QAIP is to enable the evaluation of Internal Audit's conformance to the PSIAS. The QAIP must include annual internal self-assessments and a five yearly external assessment, carried out by an independent assessor, a further year was allowed because of the disruption caused by the COVID Pandemic.
- 3.2 The Scottish Local Authorities Chief Internal Auditors' Group has developed an external quality assessment framework to satisfy the requirement for a five yearly external assessment. The attached report sets out the findings from the external quality assessment of East Lothian Council's Internal Audit service, which was recently undertaken by the Chief Internal Auditor of Dumfries and Galloway Council.
- 3.3 The overall conclusion of the external assessment is that East Lothian Council's Internal Audit service fully conforms with the PSIAS and can be found at section 2.1 of the attached report.
- 3.4 Appendix D provides an action plan with seven recommendations made, all classified as routine recommendations. All seven recommendations will be completed during 2024 and a follow up report in conjunction with QAIP reporting will be provided to the March 2025 Audit and Governance Committee to demonstrate progress against implementation.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 External Quality Assessment 2 of East Lothian Council's Internal Audit 2023/24 attached.

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DATE	15 March 2024

EXTERNAL QUALITY ASSESSMENT 2 OF EAST LoTHIAN COUNCIL'S INTERNAL AUDIT 2023/24

Report Recipients:

Monica Patterson, Chief Executive
Sarah Fortune, Executive Director of Resources
Duncan Stainbank, Chief Audit Executive
Lee-Anne Menzies, Chair of the Audit & Governance Committee

EXECUTIVE SUMMARY

1. INTRODUCTION

- 1.1 The mandatory Public Sector Internal Audit Standards (PSIAS), published initially in April 2013 and updated most recently in March 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, which was last updated in 2019.
- 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; 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 require the Chief Audit Executive (the Service Manager Internal Audit in East Lothian Council) 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 (Internal Audit in East Lothian Council) 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.
- 1.4 To assist its members to meet the five-yearly external assessment requirement, the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) established a collaborative system of formal peer reviews. 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, local authorities with perceived / known conflicts of interest 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. Dumfries and Galloway Council was selected to carry out the external assessment in East Lothian 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 East Lothian Council's Internal Audit has been carried out by internal audit from Dumfries and Galloway Council utilising this framework.
- 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 Audit Executive, 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 assessment can be found at appendices B and C respectively.

2. OVERALL CONCLUSION

- 2.1 The overall conclusion of the external assessment is that East Lothian Council's Internal Audit fully conforms with the PSIAS. A full summary of 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	10	4	0	0

- 2.2 No significant issues were found. The process for planning individual assignments and the format of working papers could be further developed to ensure consistency. We note that the CAE is responsible for internal audit at two Councils as well as the IJB which limits the active involvement with individual assignments.
- 2.3 Full details of the assessment recommendations and management responses can be found in the Action Plan at Appendix D.

3. SECTION A – MISSION OF INTERNAL AUDIT 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.

- 3.1 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 at East Lothian Council **fully conforms** with accomplishing the Mission of Internal Audit as detailed above. We note that the mission of internal audit was not specifically stated in the Audit Charter (**Action Point 1**).

4. SECTION B – DEFINITION OF INTERNAL AUDITING

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.

- 4.1 Evidence obtained from assessing conformance with other standards in the PSIAS has been used to conclude that the Internal Audit at East Lothian Council **fully conforms** with the definition of Internal Auditing as detailed above.

5. SECTION C – 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.

- 5.1 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 East Lothian Council’s Internal Audit **fully conforms** with the requirement to comply with the Code of Ethics.

6. SECTION D – ATTRIBUTE STANDARDS

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

6.1 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.

6.1.1 PSIAS standard sets out that the purpose, authority and responsibility of the internal audit activity must be defined in an Internal Audit Charter. It should define the nature of assurance services and consulting activities as well as internal audit's position in the organisation and relationships between the Chief Audit Executive and the Board.

6.1.2 East Lothian Council's Internal Audit Charter is periodically reviewed with the most recent review taking place in November 2022. The Internal Audit Charter was approved by the Audit and Governance Committee on 29 November 2022.

6.1.3 East Lothian's Internal Audit Charter includes the majority of the key points required for PSIAS. However, the arrangements for appropriate resourcing is limited. In addition, there is not a definition of the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation. The process detailed in the Audit Charter is as follows: 'The Service Manager Internal Audit shall be accountable to the Audit and Governance Committee for: periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit function's resources; and co-ordination with other significant assurance functions.'

6.1.4 In terms of appropriate resourcing there is a limitation that the Service Manager Internal Audit is responsible for two Internal Audit Teams (East Lothian Council and Midlothian Council) and the Integrated Joint Board. This limits the amount of effective involvement he can have in each audit. In order to achieve compliance with the standards it should be for the Audit and Governance Committee to decide whether to accept the risks associated with the limitation of the Service Manager Internal Audit's involvement in audit work due to resource limitations or recommend to the Council that it requires Management to identify additional resources, and this should be detailed in the Audit Charter.

6.1.5 The nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation should also be clearly defined in the Audit Charter.

6.1.6 Based on the results of our review, it has been concluded that the Internal Audit Charter at East Lothian Council **generally conforms** with Standard 1000 on Purpose, Authority and Responsibility. We have made two recommendations for improvement in relation to this standard (**Action Point 1**).

6.2 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.

6.2.1 The Service Manager Internal Audit reports functionally to the Audit and Governance Committee and administratively to the Executive Director of Resources (S95 Officer), who is a member of the Council's Senior Management Team. The Service Manager Internal Audit does have direct and unrestricted access to the Chief Executive, the Monitoring Officer and the Chair of the Audit and Governance 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.

- 6.2.2 In support of organisational independence, the Service Manager Internal Audit attends Audit and Governance Committee meetings to present all internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and reports / executive summaries from the planned audits) to Elected Members. The reports are all submitted in the Senior Manager Internal Audit's own name.
- 6.2.3 The Service Manager Internal Audit does not have operational responsibility for the activities audited.
- 6.2.4 The PSIAS requires that the Chief Audit Executive's performance appraisals should be subject to independent scrutiny (most likely by the Chief Executive) and countersigned. We noted that the Service Manager Internal Audit's appraisal was carried out in February 2022 and more recently in September 2023 however had not been countersigned by the Chief Executive or the Chair of the Audit and Governance Committee.
- 6.2.5 All staff within the Internal Audit Team are required to complete a conflicts of interests form on an annual basis.
- 6.2.6 East Lothian Council's Internal Audit Service **fully conforms** with Standard 1100 on Independence and Objectivity. We have made one recommendation for improvement in relation to this standard (**Action Point 2**).

6.3 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.

- 6.3.1 The Service Manager Internal Audit holds a relevant professional qualification with the Chartered Institute of Public Finance and Accountancy (CIPFA). He is suitably experienced. The Service Manager Internal Audit 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), East Lothian Council's Internal Audit Service is represented on both.
- 6.3.2 To support the Service Manager Internal Audit in East Lothian Council's Internal Audit Service there are three Senior Auditors. The Senior Auditor post requires the postholders to be a qualified accountant (e.g. CIMA, CIPFA, ICAS, ACCA) and the current postholders meet this requirement. There are a total

of 5 members of staff in the Internal Audit function, including the Service Manager Internal Audit (shared with Midlothian Council), 3 Senior Auditors (FTE) and 1 Senior Audit Assistant (0.6FTE). We noted that whilst Disclosure Checks were done for all staff, this requirement was not referred to in job descriptions. The job description for the Service Manager does not refer to the mandatory nature of PSIAS (**Action Point 3**).

- 6.3.3 The Internal Audit function delivers audit services to East Lothian Integrated Joint Board in addition to East Lothian Council. East Lothian Council's Internal Audit Service does not include a dedicated qualified Information Technology Auditor. The Service Manager Internal Audit advised however that consideration will be given to contracting an external supplier to provide assurance as part of future audit plans along with further IT audit training for auditors. East Lothian Council support the Council's NFI arrangements and have a dedicated Fraud Officer.
- 6.3.4 East Lothian Council operate a corporate competency based Employee Personal Review and Development (PRD) Scheme and the Internal Audit Service follow this scheme. All internal audit staff participate in this process with the most recent review having being completed in June 2023.
- 6.3.5 The Service Manager Internal Audit and the 3 Senior Auditors have specific CPD requirements to adhere to due to their professional memberships. For all members of the Internal Audit Service personal learning plans are prepared and monitored as part of the PDR scheme. Further development of training however particularly in terms of data analytics would be beneficial (**Action Point 4**).
- 6.3.6 From the Stakeholder Questionnaires received no issues were noted in relation to the knowledge, experience or due professional care of the Internal Audit Service.
- 6.3.7 Based on the results of our review, East Lothian Council's Internal Audit Service **generally conforms** with standard 1200 on Proficiency and Due Professional Care.

6.4 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.

- 6.4.1 Internal audit reports are reviewed by the Service Manager Internal Audit prior to issue and working papers are, in general, reviewed by the Service Manager Internal Audit. Where the assignment is carried out by the Senior Audit Assistant, one of the Senior Auditors will review the working paper file.
- 6.4.2 Client feedback is actively pursued by the Internal Audit Service for assignments carried out within East Lothian Council.
- 6.4.3 One of the key performance indicators for the Internal Audit Service is completion of the annual audit plan. Progress in the completion of the plan is reported throughout the year and an 'Annual Internal Audit Report' is also submitted to the Audit and Governance Committee. The Annual report for 2022/23 was presented to Committee on 13 June 2023. The audit plan was 87.5% completed, 100% of recommendations were accepted by Management and 80% of Internal Audit staff have CCAB accounting qualifications. One audit was not completed albeit testing was substantially progressed, and another was at the draft report stage.

- 6.4.4 An external assessment against PSIAS for East Lothian Council was last carried out by the Chief Internal Auditor of Argyll and Bute in 2018.
- 6.4.5 A self assessment against the PSIAS was carried out utilising the EQA checklist in March 2023. This was referred to in the 2022/23 Internal Audit Annual Report submitted to the Audit and Governance Committee in June 2023.
- 6.4.6 East Lothian Council's Internal Audit Service **fully conforms** with Standard 1300 on Quality Assurance and Improvement Programme.

7. SECTION E – 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.

7.1 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.

- 7.1.1 An annual Internal Audit Plan is compiled by the Service Manager Internal Audit outlining the planned programme of work to be undertaken. The internal audit plan for 2023/24 and previous years is risk based and includes a range of risk assessed core financial systems, risk assessed service and corporate audits, statutory audits, best value audits, investigations including NFI work and providing services to the East Lothian Integrate Joint Board (IJB).
- 7.1.2 The planning process includes consideration of previous audit work carried out in the audit universe and checking risk registers to confirm appropriate coverage of key corporate risks and Service specific risks. We noted that whilst an audit universe is maintained this could better demonstrate the other sources of assurance available in the form of an assurance mapping exercise for the Council as a whole.
- 7.1.3 The Service Manager Internal Audit meets with the executive management team (EMT) twice a year to discuss the plan for approval and meets with all Heads of Service once a year. Evidence of consultation with the Executive Management Team (EMT) is limited as meetings are not minuted.
- 7.1.4 The 2023/24 internal audit plan was approved by the Audit and Governance Committee on 14 February 2023. A revised plan was submitted to the Committee on 26 September 2023 for approval. Reports detailing the progress with the audit plan were submitted to Committee in June, September and December 2023. An internal audit annual report is submitted to Committee each year in June.
- 7.1.5 The audit planning process could be developed to further consider the time required for audit planning and the value of other sources of assurance. PSIAS further notes the value in discussing areas of risk with Heads of Service more than once a year. The plan could usefully go to CMT for information and discussion (**Action Point 5**).
- 7.1.6 East Lothian Council's Internal Audit Service **generally conforms** with Standard 2000 on Managing the Internal Audit Activity.

7.2 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.

7.2.1 Findings related to coverage of governance, risk management and control processes are reviewed and reported as part of each audit. This is reflected in the annual plan and the audit charter on how the internal audit service will evaluate the adequacy and effectiveness of controls and delivery of the plan via individual audit reports. Whilst internal audit has involvement with the Annual Governance Statement we noted however there is no specific review of corporate governance arrangements done.

7.2.2 An audit on risk Management was completed and reported to the Audit and Governance Committee in June 2022.

7.2.3 East Lothian Council's Internal Audit Service **fully conforms** with Standard 2100 on Nature of Work.

7.3 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.

7.3.1 A Terms of Reference (TOR) template document is prepared and issued for each audit engagement in the audit plan. This sets out the scope and objectives, background, audit sponsor and key contacts, resources, timescales and reporting. The Service Manager Internal Audit reviews all TORs before they are issued to the client Service for agreement prior to the audit commencing.

7.3.2 An audit programme and control objective working papers (templates) are prepared which sets out the objective, risks, controls, tests and sample size.

7.3.3 For the three audits reviewed we noted that in two cases the TORs were not formally approved by the Service Manager Internal Audit and that there was no evidence of review of the work programmes. We also noted an inconsistency in the documentation used with a planning control checklist being used for one audit and completion checklists being used in others. The planning process may further benefit from risks being formally communicated with the Service either through the TOR or by sharing the audit plan (**Action Point 6**).

7.3.4 East Lothian Council's Internal Audit Service **generally conforms** with Standard 2200 on Engagement Planning.

7.4 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.

7.4.1 There is an audit manual in place, it was last updated in 2022 and, sets out the expected procedures in relation to undertaking a planned audit, including preparing working papers and setting up working paper files. It does not include a section on undertaking fraud and irregularity investigations or mention procedures for dealing with other types of work such as consultancy engagements.

7.4.2 Working papers for each audit were stored electronically. From the three audits reviewed we noted different working paper formats were being used. The working papers for one audit did not include risks nor were there any conclusions. The other two audits the working papers did not include the expected control, one of which did not include whether the control was also met. Recommendations were not graded on the working papers. Whilst the working papers supported the conclusions reached in the respective reports they could be further developed (**Action Point 7**).

7.4.3 Audits carried out by the three Senior Auditors are reviewed by the Service Manager Internal Audit. Audits undertaken by the Senior Audit Assistant the working papers are reviewed by one of the Senior Auditors. All Audit reports are reviewed by the Service Manager Internal Audit. As noted previously there is a limitation in the supervision however in that the Service Manager Internal Audit is responsible for two internal audit teams and the IJB. We noted that an audit review template document is not used to record the file review process, however it was clear from the evidence provided that management review was undertaken by way of tracked changes and response to these changes on the draft reports for the three audits we sampled.

7.4.4 We also noted appropriate records management arrangements and consideration of GDPR with the internal audit service complying with East Lothian Councils corporate records management retention policy.

7.4.5 East Lothian Council's Internal Audit Service **fully conforms** with Standard 2300 on Performing the Engagement.

7.5 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.

7.5.1 The internal Audit staff prepare draft reports, they are reviewed by the Service Manager Internal Audit before being issued to the Service. Exit meetings are held with the service prior to the audit report being finalised. For the three audits in our sample, we obtained evidence of exit meetings with the relevant Service.

7.5.2 The audit reporting template is structured and includes:

- An Executive Summary
- Headlines
- Areas where expected controls are met/good practice
- Detailed recommendations
- Appendix A Recommendation Grading/ overall opinion definitions
- Appendix B Resource, acknowledgements and distribution list

7.5.3 The audit report includes details of the engagement objectives and scope of the audit, an overall audit conclusion, level of assurance for each control objective, detailed findings and risk rating, recommendations and grading, along with a management response, the responsible officer and target date of completion. Final reports are issued to the appropriate Head of Service, Executive Director, and the Chief Executive. We noted whilst the complete audit report is provided to the Service, only three slides of the report is presented to the Audit and Governance Committee. We also noted that neither report formats make a statement as to whether they have been prepared in conformance with the PSIAS.

7.5.4 An Annual Controls Assurance Statement document and an Annual Internal Audit Report is presented to the Audit and Governance Committee. Both of which includes delivery of the audit plan, the work undertaken in a specific year and the adequacy and effectiveness of their systems of internal control which contributes to the opinion presented in the reports. However as noted at 7.1.2 whilst an audit universe is maintained assurance mapping could be developed and incorporated into the audit planning and reporting process.

7.5.5 East Lothian Council's Internal Audit Service **fully conforms** with Standard 2400 on Communicating Results.

7.6 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.

7.6.1 Although audit recommendations are not input into the Councils performance management system, they are input into a recommendation tracker spreadsheet maintained by the Internal Audit Team. They are allocated to a Service specific officer and followed up by Internal Audit. Follow ups are included and reported in 'Audit Reports Issued and Progress against plan reports' presented to each Audit and Governance Committee meeting. Extensions to agreed timescales must be discussed and agreed by the Internal Audit Team.

7.6.2 The follow up process contributes to the Annual Controls Assurance Statement and the Annual Internal Audit report which includes the follow up work completed during the year. For 2022/23 at least 81% of the 135 recommendations made during 2021/22 have been fully implemented.

7.6.3 East Lothian Council's Internal Audit Service **fully conforms** with Standard 2500 on Monitoring Progress.

7.7 2600 - Communicating the Acceptance of Risks

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.

7.7.1 Findings and recommendations from audit reviews are discussed with client management during the exit meeting. If recommendations were not agreed this would be noted in the detailed recommendations management response section. From the audit reports we reviewed all recommendations however were accepted.

7.7.2 The Chief Executive and S95 Officer generally attends East Lothian Council's Audit and Governance Committee. Other senior Council officers also attend these meetings.


















7.7.3 The full scope of East Lothian Councils internal audit service are reported in in the annual controls assurance statement and annual internal audit report. The Service Manager Internal Audit is consulted in relation to East Lothian Councils Annual Governance Statement.

7.7.4 East Lothian Council's Internal Audit Service **fully conforms** to the Standard on Communicating the Acceptance of Risk.

Richard Fox, CIPFA, BA (Hons)
Internal Audit Manager, Dumfries and Galloway Council

For and on behalf of: SLACIAG, 22 February 2024

APPENDIX A – SUMMARY OF ASSESSMENT

REF	PAGE No.	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				

REF	PAGE No.	ASSESSMENT AREA	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
2600		Communicating the Acceptance of Risks				
TOTALS			10	4	0	0

APPENDIX B – EVIDENCE PACK

- East Lothian Councils Internal Audit Services completed EQA Self-Assessment
- Standing Orders
- Organisational Structure
- Recruitment and Selection Policy
- Internal Audit Team Job Descriptions and Person Specifications
- Service Manager Internal Audit Job Description and Person Specification
- Internal Audit Performance Review and Development Scheme and completed forms
- Training Plans
- Recruitment and Selection Policy
- Disciplinary Code
- Records Management Record Retention Schedule
- Code of Conduct Policy
- Code of Ethics and completed annual forms
- CPD records
- Professional Qualifications Membership
- 2018 External Assessment Report
- Internal Audit Charter 2022/23
- Audit Manual
- Audit Universe
- Internal Audit Annual Plan 2022/23 and 2023/24
- Annual Internal Audit Report 2021/22 and 2022/23
- Annual Governance Statement 2021/22 Accounts and 2022/23 Draft Accounts
- Service Level Agreement between East Lothian Council and Midlothian Council (Chief Internal Auditor Services)
- Members Briefing and Induction 2022
- Risk Management Audit Report 2023
- NFI 2021 Report
- Audit files for 3 audits reviewed (key documentation, working papers and final audit reports)
- Follow ups Recommendation Tracker Spreadsheet
- Audit Reports Submitted to Audit and Governance Committee in 2022 and 2023
- Audit and Governance Committee Attendance Records in 2022 and 2023

APPENDIX C – STAKEHOLDER QUESTIONNAIRES

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

- Monica Patterson, Chief Executive
- Sarah Fortune, Executive Director of Resources (Chief Financial Officer)
- Lee-Anne Menzies, Chair of Audit and Governance Committee

APPENDIX D – ACTION PLAN

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
1	3.1; 6.1.6	The Internal Audit Charter be revised to consider the mission for internal audit, a definition of assurance services and arrangements for appropriate resourcing.	Agreed. Internal Audit Charter has already been updated to include the mission of Internal Audit as indicated in PSIAS. Additional information will be added on the definition of assurance services and arrangements for resourcing in the next charter update.	Service Manager Internal Audit November 2024.
2	6.2.6	The PSIAS requires that the Chief Executive and Chair of the Audit and Governance Committee contribute to the performance appraisal of the CAE.	Agreed. Agreement has been reached to have the performance appraisal completed by the Executive Director for Council resources and this will then be circulated for comment to the Chief Executive of both East Lothian and Midlothian Council with comments received from the Chairs of the Audit Committees.	Executive Director for Resources. June 2024.
3	6.3.2	Job descriptions should be reviewed to reflect the mandatory nature of PSIAS and the requirement for disclosure checks.	Agreed. All staff have been disclosure checked and the roles are included on the HR requirements for disclosure checking and PSIAS compliance is part of the objectives for each role. However, job descriptions will be amended to include these items for completeness.	Service Manager Internal Audit June 2024.
4	6.3.5	Further professional development in relation to data analytics would allow for improved assurance to be offered.	Agreed. All of the Senior Auditors are now attending the SLACIAG data analytics group and will be considering if further individual training in techniques is required for there individual PDP completion.	Service Manager Internal Audit June 2024.
5	7.1.5	The annual audit planning process could be developed to further consider the time required for audit planning and the value of other sources of assurance. PSIAS further notes the value in discussing areas of risk with Heads of Service more than once a year. The plan could usefully go to CMT for information and discussion.	Agreed, further consideration of developing assurance mapping processes will be given within the resources available. Direct discussion will take place with Heads of Service prior to reviewing the mid-year review of the plan. The 2024/25 plan is being presented to the CMT in March 2024.	Service Manager Internal Audit September 2024.

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
6	7.3.3	The process for planning individual assignments should be reviewed, allowing for the review by the Service Manager Internal Audit and the sharing of risks with client departments.	Agreed TOR's will be amended to include an overarching risk form the commencement of the 2024/25 audit plan and the audit programmes will be shared with client staff, which include the detailed risks.	Service Manager Internal Audit June 2024.
7	7.4.2	The format of working papers could be developed.	Agreed a format will be created to ensure consistency and ensure inclusion of risks, and expected controls against each audit objective as taken from the audit programme and ensure a conclusion is documented.	Service Manager Internal Audit June 2024.

Critical	Critical
Significant	Significant
Routine	Routine