

DATA LABEL: PUBLIC



AUDIT COMMITTEE

EXTERNAL QUALITY ASSESSMENT

REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER

A. PURPOSE OF REPORT

To inform the Audit Committee of the outcome of an external quality assessment of the internal audit function.

B. RECOMMENDATION

It is recommended that the Audit Committee notes that the external assessor has concluded that the internal audit service generally conforms with the requirements of the Public Sector Internal Audit Standards (PSIAS).

C. SUMMARY OF IMPLICATIONS

I Council Values	Being honest, open and accountable, making best use of our resources.
II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	<p>The Local Authority Accounts (Scotland) Regulations 2014 require that a local authority must from time to time assess the efficiency and effectiveness of its internal auditing, in accordance with recognised standards and practices in relation to internal auditing.</p> <p>The PSIAS require that an external assessment of the internal audit function be conducted at least once every five years.</p>
III Implications for Scheme of Delegations to Officers	None.
IV Impact on performance and performance Indicators	The external assessment provides assurance as to the effectiveness of the internal audit service.
V Relevance to Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI Resources - (Financial, Staffing and Property)	None.
VII Consideration at PDSP	None.
VIII Other consultations	None.

D. TERMS OF REPORT

The PSIAS require that Chief Audit Executive (the Audit, Risk and Counter Fraud Manager in West Lothian Council) maintains a quality assurance and improvement programme covering all aspects of internal audit activity. The quality assurance and improvement programme must include both internal and external assessments. The purpose of the programme is to demonstrate compliance with the PSIAS and the efficiency and effectiveness of the internal audit service.

The PSIAS require that an external assessment is conducted at least once every five years by a qualified, independent assessor. The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG), which exists to promote the practice of internal audit in local government in Scotland, has implemented a programme whereby member authorities are reviewed for compliance by their peers.

The previous external assessment of West Lothian's internal audit function was conducted by the Internal Audit Manager of Moray Council and was reported to the Audit Committee on 30 June 2017. For the second phase of assessments the Chief Internal Auditor of Dundee City Council was assigned to review West Lothian's internal audit function. There is no charge for this service on the basis that West Lothian will in turn conduct a review of another council's compliance with the PSIAS.

A self-assessment of our compliance against the PSIAS was undertaken, and this together with comprehensive documentary evidence in support of compliance, was provided to the Chief Internal Auditor of Dundee City Council. Her report is attached as an appendix to this report and contains an agreed action plan.

E. CONCLUSION

The Chief Internal Auditor of Dundee City Council has concluded that the internal audit service generally conforms with the requirements of the PSIAS. Of the 14 assessment areas, it has been concluded that the internal audit service fully conforms in 12 and generally conforms in two.

F. BACKGROUND REFERENCES

Report to Audit Committee 30 June 2017: External Quality Assessment

Appendices/Attachments: External Quality Assessment

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Kenneth Ribbons
Audit, Risk and Counter Fraud Manager

Date of meeting: 20 January 2023

EXTERNAL QUALITY ASSESSMENT 2 OF WEST LoTHIAN COUNCIL'S INTERNAL AUDIT RISK AND COUNTER FRAUD UNIT

Report Recipients:

Graham Hope, Chief Executive
Donald Forrest, Head of Finance and Property Services
Kenneth Ribbons, Chief Audit Executive
Angela Doran-Timson, Audit Committee Chair



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 Audit, Risk and Counter Fraud Manager in West 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, Risk and Counter Fraud Unit in West 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. Dundee City Council was selected to carry out the external assessment in West 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 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit has been carried out by Dundee City Council's Internal Audit Service 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.

2. OVERALL CONCLUSION

- 2.1 The overall conclusion of the external assessment is that West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **generally 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	12	2		

2.2 Areas of Good Practice

- Substantial compliance with PSIAS.
- Internal Audit and Counter Fraud Strategy 2018/23 is reviewed annually and progress against the eight performance indicators in the strategy scorecard and implementation of the action plan are reported to the Audit Committee.
- Audits contained in the annual internal audit plan are referenced to risks in the corporate risk register.
- A statement about the Head of Service's responsibility for risks addressed by audit actions until the action has been completed is included in individual audit reports.
- A lay member has been present on the Audit Committee since 2014. The current lay member joined the audit committee in 2020.
- Audit recommendations which are assessed as of high importance are linked to the risk registers in Pentana.
- The Internal Audit Annual Report reported to the Audit Committee each June contains comprehensive performance information.

- 2.3 The main areas for improvement highlighted in the report are as follows:

- Assurance mapping should be revisited and an overall assurance map evaluating Internal and External lines of defence should be developed and kept up to date.
- In future, the external review of risk management arrangements should be undertaken at least every 5 years.

- 2.4 Full details of the assessment recommendations and management responses can be found in the Action Plan at Appendix B.

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 the Internal Audit, Risk and Counter Fraud Unit at West Lothian Council **fully conforms** with accomplishing the Mission of Internal Audit as detailed above.

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, Risk and Counter Fraud Unit at West 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 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **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 West Lothian Council's Internal Audit Charter is periodically reviewed with the most recent review taking place in October 2018, following publication of the most up to date PSIAS. The Internal Audit Charter was approved by the Audit Committee on 8th October 2018.

6.1.2 There is an Internal Audit and Counter Fraud Strategy 2018/23, progress against which is reported to the Audit Committee annually.

6.1.3 Having considered the findings above, it has been concluded that the Internal Audit, Risk and Counter Fraud Unit at West Lothian Council **fully conforms** with Standard 1000 on Purpose, Authority and Responsibility.

6.2 1100 - Independence and Objectivity Section

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 Audit, Risk and Counter Fraud Manager reports functionally to the Audit Committee and administratively to the Head of Finance and Property Services who is a member of the Council's Corporate Management Team. The Audit, Risk and Counter Fraud Manager 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.

6.2.2 In support of organisational independence, the Audit, Risk and Counter Fraud Manager attends Audit Committee meetings to present internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and a sample of full reports from the planned audits) to Elected Members. The reports are all submitted in the Audit, Risk and Counter Fraud Manager's name, however not all internal audit reports are taken to the committee. This is discussed further at section 7.5.3.

6.2.3 The Audit, Risk and Counter Fraud Manager does not have operational responsibility for the majority of activities audited, however they do have operational responsibility for Risk Management. This is communicated clearly to stakeholders via the Internal Audit Annual Report. Arrangements are in place with Falkirk Council to undertake independent review of the Risk Management arrangements, however the last time this was undertaken and reported was in 2013. It is planned to undertake a further review in January 2023 as part of the 2022/23 internal audit plan.

- 6.2.4 In addition, if there is a requirement for the internal audit team to conduct audit work on areas which have had a material risk management input, the council's Executive Management Team has agreed that the Senior Auditor will formally sign off the audit report. This will be the process adopted for the internal audit of cyber security currently being undertaken as part of the 2022/23 internal audit plan.
- 6.2.5 All staff within the Internal Audit, Risk and Counter Fraud Unit are required to complete a Confirmation of Independence form annually.
- 6.2.6 Recommendation(s) and No(s) in Action Plan.
(R1) In future, the external review of risk management arrangements should be undertaken at least every 5 years.
- 6.2.7 West Lothian Council's Internal Audit **fully conforms** with Standard 1100 on Independence and Objectivity.

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 Audit, Risk and Counter Fraud Manager holds a relevant professional qualification, and is suitably experienced, with 33 years internal audit experience within a Scottish local government (or otherwise) environment. The Audit, Risk and Counter Fraud Manager 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), West Lothian Council's Internal Audit, Risk and Counter Fraud Unit is represented on both.
- 6.3.2 To support the Audit, Risk and Counter Fraud Manager in West Lothian Council's Internal Audit, Risk and Counter Fraud Unit there is a total of 6 members of staff in the Internal Audit, Risk and Counter Fraud Unit; the Senior Auditor (Cipfa qualified), 2 auditors (one CA qualified and the other with both a banking and risk management qualification), the Senior Counter Fraud and Compliance Officer and 2 members of the Counter Fraud Team.
- 6.3.3 The Audit, Risk and Counter Fraud Manager and the Internal Audit Team receive a formal annual Appraisal and Development Review (ADR) which includes assessment against objectives and training requirements.

- 6.3.4 The Audit, Risk and Counter Fraud Manager, the Senior Auditor and one of the Auditors have specific CPD requirements to adhere to. Records are maintained of their training and they are required to make a declaration to their relevant organisation annually. Each member of the team is also required to complete annual e-learning training including Records Management, Data Protection and Information Security.
- 6.3.5 Stakeholder questionnaires were received from the Chief Executive and the Head of Finance and Property Services. Positive comments were received from each stakeholder in support of the Audit, Risk and Counter Fraud Unit's compliance with the requirements of the PSIAS. This includes that the Audit, Risk and Counter Fraud Manager demonstrates sufficient knowledge and experience and that all members of the Internal Audit, Risk and Counter Fraud Unit collectively possess the knowledge and competencies required to perform its responsibilities and exercise due professional care.
- 6.3.6 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **fully 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 Audit, Risk and Counter Fraud Manager or Senior Internal Auditor prior to issue. Working papers are, in general, reviewed by the Senior Internal Auditor. Where the assignment is carried out by the Senior Internal Auditor, the Audit, Risk and Counter Fraud Manager will review the working paper file.
- 6.4.2 Client feedback is actively pursued by the Internal Audit, Risk and Counter Fraud Unit for assignments carried out within West Lothian Council and the results are reported to the Audit Committee in the Audit, Risk and Counter Fraud Manager's Annual Report.
- 6.4.3 The Internal Audit and Counter Fraud Strategy 2018/23 includes a performance scorecard of eight performance indicators with targets that are reported to the Audit Committee annually. Where indicators are assessed as amber or red further commentary is provided on these. An action plan, managed in Pentana, is developed as required, and progress against this is also reported to the Audit Committee. The performance indicators for Internal Audit are:
- Percentage of customers who rated the overall quality of the service provided by internal audit as good or excellent
 - Cost of internal audit per £1million of West Lothian Council's net expenditure
 - Percentage of audits in the annual plan completed for the year
 - Average length of time (in weeks) to issue draft audit reports
- 6.4.4 The report to the June meeting constitutes the annual report and includes a summary of progress on the previous year's Internal Audit Plan, confirmation of independence, and performance and benchmarking information. This includes reporting on 15 performance indicators relevant to internal audit and the Audit, Risk and Counter Fraud Unit more generally.

- 6.4.5 The Internal Audit, Risk and Counter Fraud Unit also participates in the Council - wide West Lothian Assessment Model. This involves cyclical self-assessment of strengths and weaknesses and identification of an improvement plan which is assessed by a Review Panel. The Review Panel determines the length of cycle based on results. The last review for the Unit was in 2019.
- 6.4.6 Self-assessment of conformance with PSIAS is considered annually, although when there have been no significant changes to PSIAS or operational arrangements, this is not always documented in full against the checklist. The conclusion is reported formally in the annual report. There is not a separate action plan related to PSIAS at present, although there has been in the past. Action plans are prepared as necessary for example in relation to WLAM assessments.
- 6.4.7 Non-compliance with the PSIAS in relation to assignment planning is reported to the Audit Committee.
- 6.4.8 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **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 Audit, Risk and Counter Fraud Manager outlining the planned programme of work to be undertaken.
- 7.1.2 The Annual Audit Plan is prepared and submitted by the Audit, Risk and Counter Fraud Manager and approved by the Audit Committee. The Internal Audit Plan includes detail of the methodology within its appendix and is based on the risks in the Corporate Risk Register. All risks are linked to a corporate plan priority or enabler. The Annual Internal Audit Plan is then also submitted to the Governance and Risk Board for their information.
- 7.1.3 High level assurance mapping of the Second Line of Defence, i.e. internal management activity, was undertaken in 2017. This was linked to the risk register and the impact of the conclusions was considered when developing the annual internal audit plan. The mapping spreadsheet did not draw overall conclusions as to the level of assurance provided in each case, and has not been updated since.
- 7.1.4 Progress towards completion of the Internal Audit Plan, and the individual audits contained within it is reported. There are 4 audit committees scheduled each year. A report on progress with the audit plan is provided to the Audit Committee, normally in January and June each year.

- 7.1.5 Positive comments were received in the Stakeholder Questionnaires confirming that stakeholders are given the opportunity to feed into the planning process on an annual basis
- 7.1.6 Recommendation(s) and No(s) in Action Plan.
(R2) Assurance mapping should be revisited and an overall assurance map evaluating Internal and External lines of defence should be developed and kept up to date.
- 7.1.7 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **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 The Internal Audit Plan links each audit area to a risk within the risk registers maintained by the Council. Each audit remit references the processes and controls to be reviewed against each risk.
- 7.2.2 Due to the Audit, Risk and Counter Fraud Manager having operational responsibility for Risk Management within West Lothian Council, arrangements have been put in place for Falkirk Council to carry out audits of Risk Management. The last one was carried out in 2013, however, the audit plan for 2022/23 has Risk Management in the plan and initial discussions have been held with Falkirk Council to carry out this audit prior to the end of the financial year.
- 7.2.3 Each audit report concludes on the level of the controls in place for each particular audit linked to the risk reviewed with an overall opinion provided as to whether they are effective or not.
- 7.2.4 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **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 Electronic audit checklists for planning, testing and reporting are used to co-ordinate and manage the documentation and processes for each audit assignment. An audit remit document is used for each assignment and is either linked to one of the Council's risks or reviews against specific objectives. Where an audit is a review against a risk the audit remit will review the associated processes and controls for that risk. The audit remit is agreed with the client service.

7.3.2 As noted in the self-assessment questionnaire, Service Level Agreements for audit work carried out for the Improvement Service and West Lothian Leisure could not be located.

7.3.3 The Audit, Risk and Counter Fraud Manager has previously reported in his annual report that

“There is a requirement that work programmes are approved prior to the commencement of an audit, and any adjustments to work programmes are documented and approved promptly. In my opinion internal audit staff are suitably qualified and experienced, and given the resource constraints within the audit team, I do not consider that this would add value. In my opinion this non-conformance does not have a material impact on the scope or operations of internal audit, and I therefore confirm compliance with the PSIAS.”

This appears reasonable given the level of experience in the current team and therefore no recommendation has been made about this non-conformance.

7.3.4 Recommendation(s) and No(s) in Action Plan.

(R3) Service Level Agreements for the Improvement Service and West Lothian Leisure should be established.

7.3.5 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **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 Electronic audit checklists for planning, testing and reporting are used to co-ordinate and manage the documentation and processes for each audit assignment. From review of these checklists for a sample of audits completed, there is evidence that these are used extensively and that they are used as the basis for review of any working papers by either the Senior Auditor or the Audit, Risk and Counter Fraud Manager with links provided in each one to working papers, testing schedules and other evidence gathered as part of the audit process.

7.4.2 The summary of the results of the audit testing is used as the basis for preparing the audit report and the check list for reporting is completed for each audit assignment, including approval of draft and final report issue and links to associated correspondence.

7.4.3 Records of audit files are maintained following a retention schedule for the Finance section which follows the Scottish Council on Archives Record Retention Schedules.

7.4.4 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **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 Audit reports are initially prepared by the Auditor and reviewed by the Senior Auditor. Reports are reviewed and approved for issue to the client service by the Audit, Risk and Counter Fraud Manager when the Senior Auditor has completed the fieldwork, are complex in nature, have a conclusion which is unsound or are due to be reported to the Audit Committee. Each report includes an opinion on the adequacy of the internal controls and a grading of individual recommendations.

7.5.2 The draft report is discussed with management from the client service and factual accuracy, agreement and comment sought including completion of the agreed action timescales and the responsible officer. After completion of the action plan the report is finalised and issued to the client service and other key officers.

7.5.3 All audit reports with an overall assessment of "unsound" are presented in full to the Audit Committee along with a sample of other reports. Information on the overall level of assurance is presented in the annual report for all reports.

7.5.4 The annual report also includes a conclusion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, that is used by the council to inform its annual governance statement.

7.5.5 The audit stakeholder questionnaires received both confirm from their overall assessment that the Internal Audit Service adds value to the Council.

7.5.6 Recommendation(s) and No(s) in Action Plan.

(R4) All draft reports should be reviewed by the Audit, Risk and Counter Fraud Manager prior to issue to the service

(R5) Consider issuing a summary for all audit reports not reported in full and finalised since the last meeting to each Audit Committee.

7.5.7 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **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 Formal procedures are in place to enable the service to follow up medium and high importance audit actions. Only actions which have an importance of "high" are included in Pentana. A follow up report on progress with any outstanding high importance audit actions is provided to the Audit Committee on a regular basis, normally at least 2 Audit Committees per year. Audit actions with a medium importance are reviewed regularly by members of the Internal Audit team.

7.6.2 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **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 The Audit Charter outlines that the Audit, Risk and Counter Fraud Manager has the right of access to the Chief Executive and the Chair of the Audit Committee. This is also referred to in the annual audit report to the Audit Committee. This route can be used if a recommendation is not addressed. In addition, the Audit Committee receive regular reports on progress with outstanding audit actions rated with importance of "high" or above and this is also summarised in the Annual Audit report.

7.7.2 The annual report concludes on an opinion on the Council's framework of governance, risk management and control.

















7.7.3 Individual audit reports include a statement about the Head of Service's responsibility



for risks addressed by audit actions until the action has been completed.

7.7.4 West Lothian Council's Internal Audit, Risk and Counter Fraud Unit **fully conforms** to the Standard on Communicating the Acceptance of Risk.

Cathie Wyllie
Chief Internal Auditor
Dundee City Council
January 2023

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				
2600		Communicating the Acceptance of Risks				
TOTALS			12	2		

APPENDIX B – ACTION PLAN

No.	Para Ref / PSIAS Ref	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
1	6.2.6 (1100)	In future, the external review of risk management arrangements should be undertaken at least every 5 years. (Significant)	We will ensure that an external review of West Lothian Council's risk management arrangements is undertaken at least every five years. The internal audit plan for 2022/23 includes a risk management audit to be undertaken by Falkirk Internal Audit Service and which is due to start in January 2023. The next audit would therefore be undertaken no later than financial year 2027/28.	Kenneth Ribbons & Sharon Leitch / complete
2	7.1.6 (2000)	Assurance mapping should be revisited and an overall assurance map evaluating Internal and External lines of defence should be developed and kept up to date. (Significant)	Assurance mapping will be revisited and an overall assurance map evaluating internal and external lines of defence prepared.	Kenneth Ribbons / 30 June 2023
3	7.3.4 (2200)	Service Level Agreements for the Improvement Service and West Lothian Leisure should be established. (Routine)	The audit work undertaken for both of these organisations is fairly minimal – at most one or two audits per annum. However we agree that it would be beneficial to document our interaction with these organisations, and this will be done. Such documentation to include the rights and responsibilities of the internal audit function.	Kenneth Ribbons / 30 June 2023
4	7.5.6 (2400)	All draft reports should be reviewed by the Audit, Risk and Counter Fraud Manager prior to issue to the service (Routine)	For reasons to do with workload, the task of reviewing some audit reports prior to issue has been delegated to the Senior Auditor, who is a very experienced member of the team. This practice has not caused any issues and we have had no adverse feedback from customers. In fact customer feedback has been excellent. We will however consider this matter further.	Kenneth Ribbons 31 March 2023
5	7.5.6 (2400)	Consider issuing a summary for all audit reports not reported in full and finalised since the last meeting to each Audit Committee. (Routine)	A summary of recently issued audit reports not reported in full will be provided to each Audit Committee. This to commence from the March Audit Committee.	Kenneth Ribbons 24 March 2023