SCOTTISH LOCAL AUTHORITIES
Chief Internal Auditors' Group

Moray Council

EXTERNAL QUALITY ASSESSMENT

OF THE

INTERNAL AUDIT SERVICE

Final Report

5 April 2019

Index and Report Distribution List

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Draft Issued to:	Atholl Scott, Internal Audit Manager
Final Issued to	Atholl Scott, Internal Audit Manager
	Stakeholder Interviewees: Roddy Burns, Chief Executive, Denise Whitworth, Corporate Director (Corporate Services) Councillor Marc Macrae, Chair, Audit and Scrutiny Committee

1. EXECUTIVE SUMMARY

1.1 Introduction

The Public Sector Internal Audit Standards 2013 (PSIAS) require that an independent external quality assessment of compliance against the PSIAS (EQA) should be undertaken at least once every 5 years. This report has been prepared following a review of compliance with the PSIAS and the International Professional Practices Framework (IPPF) on which the PSIAS has been based. The purpose of this report is to provide an overview of Moray Council's arrangements for the operation and management of its Internal Audit service.

In terms of the PSIAS, the Internal Audit Manager performs the function of the Chief Audit Executive (CAE) and this terminology is referred to throughout this report. The PSIAS also refers to "the Board", for the purpose of this report the Board is the Audit and Scrutiny Committee of Moray Council.

The report details the findings from the EQA undertaken in February 2019, by the Service Manager, Audit & Risk Management of Fife Council.

1.2 Scope and Limitations

The methodology for this EQA, takes the form of a validated self-assessment. As such we have undertaken the following work in arriving at our opinion:

- review of the latest self-assessment and supporting evidence provided by the Chief Audit Executive (CAE);

- canvassed the opinions of key stakeholders such as Chair of the Audit and Scrutiny Committee and members of the Council's Corporate Management Team;

- undertook a series of tests using a standard checklist and undertook a review of guidance and process documents and a sample of files.

We have not undertaken any specific work to assess the effectiveness of the Council's Audit and Scrutiny Committee. Our view as to the extent of compliance with the PSIAS cannot be taken as any assurance on the strength of the control environment within Moray Council.

1.3 Areas of Good Practice Identified

- Good overall level of compliance with PSIAS and IPPF;

- The Internal Audit Charter is clear, concise and easy to follow. The purpose, authority and responsibility of Internal Audit, Senior Management and the Board is appropriately set out;

- Functional and administrative reporting lines for the CAE are appropriate;

- The Internal Audit team is appropriately qualified and experienced. It was acknowledged by key stakeholders that the team was knowledgeable and professional. All members of the team are aware of the professional and ethical standards required;

- Working papers system is effective for recording the Internal Audit work and reaching conclusions;

- Reports are concise and easy to follow.

1.4 Conclusion and Main Findings

The overall conclusion is arrived at following completion of the comprehensive EQA Checklist and based on the work we have undertaken, it is our opinion that the Internal Audit Service **generally conforms** with the PSIAS. 4 of the 13 Assessment areas 'Fully Conforms', 7 'Generally Conforms' and 2 'Partially Conforms'. Our review has highlighted a few areas where improvements can be made, these being:

- The PSIAS requires reports to the Audit Committee to be submitted directly by the CAE. The reports are presented in the name of the Corporate Director, although the CAE is recorded as the author of the report.

- While Internal Audit staff are clearly aware of the Code of Ethics and do notify of potential conflicts of interest, there are no formal processes in place to evidence this.

- Informal processes have developed for planning and recording of training, and employee development records are not up-to-date. Formal processes should be put in place to evidence these areas and the documentation updated.

- The Fraud Policy and the Audit Manual have not been reviewed recently.

- Work programmes are not approved at set up, or if adjustments are made during the audit, meaning there is no evidence of agreement to proceed.

- There is a lack of evidence of how the audits are selected, and no mechanism to record reliance placed on other sources of assurance.

- The PSIAS 2400.2 requires that audit reports state that the audit has been 'conducted in accordance with PSIAS'. This is not currently included in audit reports.

- The PSIAS requires the CAE to present reports to the Board on the internal audit activity's performance relative to its Audit Plan and other matters. Performance measures are not reported to Audit and Scrutiny Committee during the year or in the Annual Report. Performance reporting is to Policy and Resources Committee as part of the Corporate Services performance management framework.

A detailed evaluation of each 'Standard' can be seen in Appendix A of the report.

2. FEEDBACK AND EQA FINDINGS

2.1 Purpose, Authority and Responsibility – Action Plan reference 3.1

The PSIAS 1000.2 requires the CAE to periodically review the internal audit charter and present it to senior management and the board for approval. The internal audit charter contents were discussed with the Corporate Director, Corporate Services, prior to submission to the Audit and Scrutiny Committee (ASC), but were not communicated to other members of the Corporate Management Team (CMT).

2.2 Organisational Independence – Action Plan reference 3.2, 3.3 and 3.4

The PSIAS 1100.1 requires the CAE to present to the Audit Committee on the internal audit activity's performance relative to its Audit Plan and other matters. Reporting on audit activity is not included in the Annual Report, and while progress against plan is notified in the Report on the Work of the Internal Audit Section, this does not include performance measures. Performance reporting is to Policy and Resources Committee as part of the Corporate Services performance management framework.

The PSIAS 1100.1 requires reports from the CAE to be submitted to the Audit Committee directly by the CAE. Moray Council protocol requires all reports to Committee to be presented by a Director or Head of Service, therefore, while the CAE is the author of the reports, they are submitted to ASC in the name of the Corporate Director, Corporate Services.

The PSIAS 1100.4 suggests that the CAE's performance appraisals may include feedback from the Chief Executive and the Chair of the Board. Performance appraisals with the line manager do not currently include such feedback.

2.3 Individual Objectivity – Action Plan reference 3.5

The PSIAS 1100.6 requires that adequate arrangements are in place to inform individual auditors of their responsibilities in relation to potential conflicts of interest and promote impartial and unbiased behaviours. While it is accepted that staff notify of perceived conflicts of interest informally and are aware of the need to comply with the Code of Ethics and the Council's Code of Conduct for Employees, there is no formal process for reminding audit staff of their obligations in this regard.

2.4 Proficiency – Action Plan reference 3.6

The PSIAS 1200.5 requires confirmation that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes. An up-to-date job description was available for the auditor role, but the CAE and Senior Auditor roles require updating.

2.5 Continuing Professional Development – Action Plan reference 3.7

The PSIAS 1200.10 requires that audit staff participate in a programme of continual professional development. There are no standard training plans, recording of training is not consistent, and records are not up-to-date.

2.6 Planning and Co-ordination – Action Plan reference 3.8 and 3.9

The PSIAS 2000.2 requires the Audit Plan to be developed using an appropriate methodology. The approach is outlined in the Audit Plan report to ASC, but the use

of an audit planning checklist may be beneficial in evidencing the areas considered in producing the Audit Plan.

The PSIAS 2000.3 requires the risk-based Action Plan to take account of other sources of assurance and suggests this is likely to be evidenced by an assurance mapping exercise. No Assurance map is currently in place, but there are plans to look at assurance sources in 2018/19.

2.7 Policies and Procedures – Action Plan reference 3.10

The PSIAS 2000.12 requires internal audit policies, procedures and guidance documents to be up-to-date and reviewed regularly. The Fraud Policy and the audit manual require updating.

2.8 Engagement Planning – Action Plan reference 3.11 and 3.12

The PSIAS 2200.4 and 2200.5 require work programmes to be approved prior to the commencement of the engagement, and when any adjustments are subsequently made to the work programme. Approval is not currently formally documented.

The PSIAS 2200.6 requires, for audit engagements for parties outside the organisation, a documented agreement detailing roles and responsibilities of internal audit and the client and operational arrangements, such as access to engagement records, distribution of reports etc. No Service Level Agreement is in place and no reference is made to external bodies in the Internal Audit Charter.

2.9 Communicating Results of Engagements – Action Plan reference 3.13

The PSIAS 2400.7 suggests that audit reports should state that the engagement has been conducted in conformance with the PSIAS. Audit reports do not refer to the PSIAS.

2.10 Risk Management – Action Plan reference 3.14

We were able to confirm that the Internal Audit function is highly regarded and respected throughout the Council. It would enhance Internal Audit's planning and risk management if the Chief Audit Executive was able to attend the meetings of the Senior Management Team.

We would like to thank all staff and Members of Moray Council for the co-operation and goodwill we received during our review.

Avril Cunningham, FCCA   MIIA
Service Manager, Audit and Risk Management Services
Fife Council

26 February 2019

3.   ACTION PLAN

Ref. No.	Recommendation	Priority	Management Comment	Manager Responsible	Date to be Completed
3.1	The CAE should discuss any future updates of the internal audit charter with all members of CMT prior to submission to ASC for approval.	2	Agreed; in the past the charter has been discussed with the Corporate Director (Corporate Services) and in future will be taken through CMT	CAE	Dec 2019
3.2	The CAE should report on performance against the audit plan in the Annual Audit Report and provide ASC regularly with the results of key performance indicators.	2	Agreed, this can be incorporated into future reports to the Audit and Scrutiny Committee. Presently IA performance reporting is to Policy and Resources Committee along with other Corporate Services teams	CAE	Jun 2019
3.3	Audit reports should be submitted to ASC directly by the CAE.	2	Not agreed, currently council Financial Regulations require the Corporate Director (Corporate Services) to secure the provision of an internal audit service for the council. Also there are no provisions in the Scheme of Delegation to the Internal Audit Manager for a departure from current policy that requires committee reports to be issued in the name of a director or head of service. This will be reviewed again when the constitutional documents are next due for updating.	Corporate Director (Corporate Services)/CAE	By March 2020

3.4	Consideration should be given to seeking feedback from the Chief Executive and the Chair of the ASC for future CAE appraisals	3	Agreed, this will be done when the next appraisal (as part of the Employee Review and Development Programme) of the CAE is undertaken	Corporate Director (Corporate Services)/CAE	Sep 2019
3.5	The processes for documenting potential conflicts of interest and for retaining evidence of auditor knowledge of, and compliance with, the Code of Ethics should be formalised.	2	Agreed, this will be straight forward to implement and provide evidence that staff acknowledge the need to adhere to the audit code of ethics alongside professional codes and the council's code of conduct for employees	CAE	Apr 2019
3.6	Job descriptions for CAE and Senior Auditor posts should be up-dated.	3	Agreed, low priority but should be updated to reflect any changes in the roles	CAE	Nov 2019
3.7	A formal approach to planning and recording training should be put in place, and Employee Development Review Forms updated.	2	Agreed, a central training record will be developed –staff hold their own CPD records and to date this has not been seen as a priority	CAE	May 2019
3.8	An Audit Planning Checklist should be used to evidence the areas considered for inclusion in the Audit Plan.	2	Agreed, audit plans are derived from various sources as described in the audit plan report presented to Committee annually. The checklist will detail the sources consulted when determining items for inclusion in the plan	CAE	For 2020/21 plan
3.9	An Assurance Map should be developed to document the approach to using other sources of assurance.	2	Agreed, this would be a useful exercise to bring together the sources of assurance the internal audit team may be able to place reliance on and it is proposed this is developed over the next year	CAE	For 2020/21 plan

3.10	The Fraud Policy and the Audit Manual should be updated, and thereafter regular reviews scheduled.	2	Agreed, the Fraud policy is being updated and the audit manual will be refreshed to reference changes to practice following purchase of new audit software	CAE	Jun 2019 Dec 2019
3.11	Work Programmes should be approved prior to commencement of the audit, and if any adjustments are made during the audit.	2	Agreed in part, for established and recurring audit areas e.g. schools where the parameters of the audit are known in advance. In other areas the audit scope may be developed as the audit progresses depending on initial findings There is currently a dialogue around this which will be recorded in our systems.	CAE	May 2019
3.12	In the absence of a separate documented agreement, reference should be made to engagements for parties outside the organisation in the Moray Council Internal Audit Charter.	3	Agreed, this links to 3.1 above and reference to the MIJB and GVJB will be added into charter on its next update	CAE	Dec 2019
3.13	Audit reports should state that the engagement has been 'conducted in accordance with PSIAS'.	2	Agreed, this will now be added, given the results of this EQA review.	CAE	Apr 2019
3.14	The CAE should routinely attend the Senior Management Team meetings.	3	Agreed in part, this is an added demand on CAE time and having access to the meeting agendas and attending where appropriate is the preferred option.	Corporate Director (Corporate Services)/CAE	Apr 2019

Key to Grading of Recommendations
Priority: 1 – Critical, 2 – Requires addressing, 3 – Good Practice, 4 – Value for Money

SUMMARY OF CONFORMANCE WITH THE PSIAS – Appendix A

Reference	Assessment Area	Fully Conforms ✶	Generally Conforms ✅	Partially Conforms ⚠️	Does Not Conform ⬢
Section A	Definition of Internal Auditing		✅		
Section B	Code of Ethics	✶			
Section C	Attribute Standards				
1000	Purpose, Authority and Responsibility	✶			
1100	Independence and Objectivity		✅		
1200	Proficiency and Due Professional Care			⚠️	
1300	Quality Assurance and Improvement Programme			⚠️	
Section D	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		✅		