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**Report to: Audit & Scrutiny Committee**

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**Date of Meeting: 18 April 2024**

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**Subject: External Quality Assessment of Internal Audit**

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**Report by: Internal Audit Manager**

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## **1.0 Purpose**

- 1.1 This report provides the findings arising from a recent External Quality Assessment of the Internal Audit section's compliance with Public Sector Internal Audit Standards.

## **2.0 Recommendations**

- 2.1 It is recommended that the Committee:
- (1) notes the findings and action plan arising from the External Quality Assessment;
  - (2) takes reassurance from the overall conclusion that Clackmannanshire Council Internal Audit section fully conforms with Public Sector Internal Audit Standards; and
  - (3) records its thanks to the Chief Internal Auditor at Argyll and Bute Council for carrying out the assessment.

## **3.0 Background**

- 3.1 Internal Audit seeks to operate in compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS). PSIAS were first established in 2013 and updated in 2017, and apply to all Internal Audit service providers in the public sector. They have the following four objectives:
- to define the nature of Internal Auditing within the UK public sector;
  - to set basic principles for carrying out Internal Audit in the UK public sector;
  - to establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
  - to establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.

3.2 One of the requirements of PSIAS is that the Internal Audit Manager develops a Quality Assurance and Improvement Programme (QAIP) to enable evaluation of the section's conformance. This must include an annual self assessment and five yearly independent external assessment.

#### **4.0 Compliance With Public Sector Internal Audit Standards**

4.1 The Internal Audit Manager undertook a detailed self assessment against PSIAS in March 2023. This concluded that the Internal Audit team operates in compliance with the Standards.

4.2 The external quality assessment element of the Standards seeks to provide independent assurance on the level of compliance. To satisfy the requirement for five yearly external assessment, Clackmannanshire Council participates in a national review process established by the Scottish Local Authorities Chief Internal Auditors' Group. This allows Clackmannanshire Council to act as assessor, and to be assessed at no financial cost to any participants.

4.3 A previous external assessment was undertaken (in conjunction with Falkirk Council's Internal Audit service) by the Scottish Prison Service's (SPS) Head of Audit and Assurance, who concluded that the Council's Internal Audit section was broadly compliant with PSIAS (this is equivalent to 'Substantial Assurance'). While there were a number of recommendations raised in the report, these were designed to support continuous improvement rather than address any material non-compliance.

4.4 In line with the requirement, a further review was undertaken from November 2022 to January 2023 by the Chief Internal Auditor at Argyll and Bute Council.

4.5 The Standards comprise of 14 separate sections, which are detailed within the report. The reviewer has stated that the team fully conforms with 12 sections and generally conforms with 2 sections. The report concludes, therefore, that Clackmannanshire Council's Internal Audit team fully conforms with the Standards. This is a positive outcome and provides the Audit and Scrutiny Committee with independent assurance in line with the requirements of the Scheme of Delegation.

4.6 As well as providing assurance on compliance with the Standards, the external quality assessment process helps drive continuous improvement. 10 recommendations have been made in the report to improve or add additional supportive processes to promote the Standards. There are three main areas for improvement highlighted in the report and a further seven areas for consideration / implementation which have been graded as 'routine'.

4.7 A copy of the report is at Appendix 1.

#### **5.0 Conclusions**

5.1 PSIAS require a five yearly independent external quality assessment of compliance. This has been undertaken by the Chief Internal Auditor at Argyll and Bute Council, who has concluded that Clackmannanshire Council Internal Audit section fully conforms with the Standards.

## 6.0 Sustainability Implications

6.1 None Noted.

## 7.0 Resource Implications

### *Financial Details*

7.1 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

7.2 Finance have been consulted and have agreed the financial implications as set out in the report. Yes

### *Staffing*

7.3 No implications other than those set out in the report.

## 8.0 Exempt Reports

8.1 Is this report exempt? Yes  (please detail the reasons for exemption below) No

## 9.0 Declarations

9.1 The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities** (Please double click on the check box )
- Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all
- Our families; children and young people will have the best possible start in life
- Women and girls will be confident and aspirational, and achieve their full potential
- Our communities will be resilient and empowered so that they can thrive and flourish

(2) **Council Policies** (Please detail)

## 10.0 Equalities Impact

10.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes  No  Not applicable

## 11.0 Legality

11.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

## 12.0 Appendices

- 12.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix 1: External Quality Assessment 2 of Clackmannanshire Council's Internal Audit Service

## 13.0 Background Papers

- 13.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes  (please list the documents below) No

### Author(s)

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Isabel Wright	Internal Audit Manager	01324 506342

### Approved by

NAME	DESIGNATION	SIGNATURE
Stuart Crickmar	Strategic Director Partnerships and Performance	

# EXTERNAL QUALITY ASSESSMENT 2

OF



**Clackmannanshire  
Council**

Comhairle Siorrachd  
Chlach Mhanann

[www.clacks.gov.uk](http://www.clacks.gov.uk)

# CLACKMANNANSHIRE COUNCIL'S INTERNAL AUDIT SERVICE

## Report Recipients:

Cllr J Rennie, Chair of the Audit and Scrutiny Committee  
Cllr D Coyne, Vice Chair of the Audit and Scrutiny Committee  
Nikki Bridle, Chief Executive  
Stuart Crickmar, Strategic Director (Partnership and Performance)

## EXECUTIVE SUMMARY

Isabel Wright, Internal Audit, Risk, and Corporate Fraud Manager –  
Shared Service – Falkirk Council

### 1. INTRODUCTION

- 1.1 The mandatory Public Sector Internal Audit Standards (PSIAS), initially published in April 2013 and updated in March 2017, apply to all internal audit service providers in the UK public sector. To supplement the PSIAS, and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a Local Government Application Note, last updated in 2019.
- 1.2 The objectives of the PSIAS are:
- to define the nature of internal auditing within the UK public sector;
  - to set basic principles for carrying out internal audit services;
  - to establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations;
  - to establish the basis for the evaluation of internal audit performance; and
  - to drive improvement planning.
- 1.3 The PSIAS require the Chief Audit Executive (the Internal Audit, Risk, and Corporate Fraud Manager in Falkirk Council who provides the service in Clackmannanshire Council and is known as the Internal Audit Manager in that Council (IAM)) to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both periodic internal self-assessments and five-yearly external assessments. The external assessments must be carried out by a qualified, independent assessor from outwith the organisation, and enable evaluation of the internal audit activity's conformance with the PSIAS, including the Mission of Internal Audit, Definition of Internal Auditing and Code of Ethics. In addition, the QAIP should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.
- 1.4 To assist its members in meeting 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 independence of assessors was considered when allocating assessment teams to councils participating in the peer review process, 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. Argyll & Bute Council was selected to carry out the external assessment of Clackmannanshire.
- 1.5 To support the peer review process, SLACIAG developed a comprehensive External Quality Assessment (EQA) framework, including an EQA Checklist for Assessing

## EXECUTIVE SUMMARY

Conformance with the PSIAS and the Local Government Application Note (EQA Checklist) and a key Stakeholder Questionnaire proforma. Argyll & Bute Council's Internal Audit service has carried out the external assessment of Clackmannanshire 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 details findings, conclusions and recommendations from the external assessment. This assessment has 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.
- 1.7 The Assessor would like to thank the IAM for the further information that was provided via interview and on request and for access to the Internal Audit Team member(s) – this all enabled a smooth and efficient audit process. Thanks is also extended to all who gave up their time to complete the stakeholder questionnaires and to be interviewed – this enhanced the quality of the audit, allowing a fuller picture of the Internal Audit Service to be obtained and thus a more accurate assessment.
- 1.8 In terms of context the Internal Audit Service at Clackmannanshire Council is managed and delivered through a shared service agreement with Falkirk Council. The current agreement is for one year ending on 31 March 2024. Clackmannanshire Council employ one full time Internal Auditor who co-ordinates their work through the IAM at Falkirk Council.

## 2. OVERALL CONCLUSION

2.1 The overall conclusion of the external assessment is that Clackmannanshire Council's Internal Audit service **fully conforms** with the PSIAS. We have made 10 recommendations as a result of our assessment. A number are made to improve or add additional supportive processes to promote the Standards contained within 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	0	0

2.2 There are three main areas for improvement highlighted in the report and a further seven areas for consideration/implementation and which we have graded as 'routine' as follows:

- All audit recommendations which have not been uploaded onto the Pentana system be added as a matter of priority in order to appropriately monitor progress at a corporate level within the Council.
- The Monitoring Officer of Clackmannanshire Council should arrange for the IAM to routinely obtain access to any reports relating to fraud and any other irregularity to enable the IAM build a better profile of potential risk and tailor audit resource where that is required.
- The IAM discuss the risks associated with the increase in 'limited assurance' opinions contained within Internal Audit reports with the Chief Executive, Section 95 Officer and the Strategic Director (Partnership & Performance) and consider, if this trend continues, that a narrative is recorded in the Annual Governance Statement (AGS).
- The Training Needs Analysis (TNA) prepared as a result of the exercise undertaken by the Audit and Scrutiny Committee to identify specific training and development issues be addressed within a reasonable timeframe.
- The IAM in consultation with the A&S Committee and Senior Management determine the most appropriate way of gauging client feedback of the service within Clackmannanshire Council.
- The IAM should be routinely provided with the agendas and minutes of senior management meetings in order to keep abreast of any emerging issues.
- A formal managerial protocol should be established in respect of the auditor employed at Clackmannanshire Council with the IAM at Falkirk Council. This should cover at the very least, Employee Conversations (Annual Performance Review), training, direct reporting lines, use of the IA resources on other non-audit work and the management of risks associated with that, to ensure that objectivity and independence can be fully demonstrated.
- A review of the file retention and disposal process in relation to internal audit files and documents requires to be undertaken and where appropriate, files out with any retention period, are disposed of in terms of the relevant policy in place. (This applies to be both manual and electronic records).



## DETAILED FINDINGS AND RECOMMENDATIONS

- Whilst the Internal Audit Manual is available to all staff and comprehensively covers key business areas of the IA service. We noted that there have been minor changes in job titles and which the IAM is aware. The manual at the next scheduled review should be updated to reflect these and any other changes as required.
- The IAM should formally note any discussions that are taken regarding her Annual Report findings and what will be reflected in the AGS.

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 the Internal Audit service at Clackmannanshire **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 service at Clackmannanshire Council **fully conforms** with the definition of Internal Auditing as detailed above. The main reason for this assessment has been the review of the activities, approach and status of the Internal Audit service throughout the independent review. Completed Stakeholder Questionnaires on the whole support this conclusion.
- 4.2 The Internal Audit service has not been approached to perform additional consulting activity; however, the Internal Audit Charter makes provision for the possibility of the service carrying out such work and specifies the parameters for accepting consulting engagements. Internal Audit, however, do respond to audit enquiries and members of the team have sat on working groups recently.
- 4.3 The Internal Audit service has in place an Internal Audit Charter and the definition of Internal Auditing included in this document mirrors the PSIAS definition. Furthermore, the Internal Audit Plan takes into account the PSIAS requirements, ensuring that the plan of work aligns to PSIAS.

### 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 have been used to conclude that Clackmannanshire Council's Internal Audit service

**fully conforms** with the requirement to comply with the Code of Ethics. The following standards have been considered in particular:

The Attribute Standards -

- 1000 – Purpose Authority and Responsibility,
- 1100 – Independence and Objectivity, and
- 1200 – Proficiency and Due Professional Care.

The Performance Standards -

- 2000 – Managing the Internal Audit Activity and
- 2300 – Performing the Engagement.

5.2 Completed Stakeholder Questionnaires also largely support the conclusion. In addition, the Audit Charter was reviewed and confirmed as being in line with good practice, adhering to the guidance.

## 6. SECTION D – ATTRIBUTE STANDARDS

**Attribute Standards apply to organisations and to individual internal auditors providing the internal audit service 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 Clackmannanshire Council’s Internal Audit Charter is periodically reviewed, with the most recent review taking place in August 2022. The requirements referred to above are adhered to in the Charter, and the Charter was approved by the A&S Committee on 25 August 2022.

6.1.2 Having considered the findings above, it has been concluded that the Internal Audit service at Clackmannanshire Council **fully conforms** with Standard 1000 on Purpose, Authority and Responsibility.

### 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 auditor's 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 IAM reports functionally to the A&S Committee and administratively to the Strategic Director (Partnership and Performance), who attends the Council's Strategic Management Team. The IAM has direct and unrestricted access to the Chief Executive and the Chair of the A&S Committee, however, through the completed Stakeholder Questionnaires, there seems to be inconsistent views in relation to this option/avenue for the IAM. **See Appendix D – Action 1.** Whilst these reporting and access arrangements are clearly defined in the Internal Audit Charter and other relevant audit and organisational documents as are safeguards to limit impairment of independence or objectivity, this needs to be clearly understood by all of the key stakeholders. This is likely to be a training issue but will need to be addressed so that all relevant Officers and Members are aware of the rights of reporting, access and discussions that the IAM may have during the course of their work and/or should any aspect require escalation. It therefore may be helpful to progress the training and development plan, which is in place, for the Committee.
- 6.2.2 In support of organisational independence, the IAM attends A&S Committee meetings to present all internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and reports from the planned audits) to Elected Members. The reports are submitted in the IAM name.
- 6.2.3 The IAM has operational responsibility for Corporate Fraud and Risk within Falkirk Council but does not have any of these responsibilities in their role within the shared service within Clackmannanshire Council. This is communicated to stakeholders via the Internal Audit Charter.
- 6.2.4 Clackmannanshire Council's Internal Audit service **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 IAM is required to and does hold a relevant CCAB professional accountancy or IIA qualification, specifically, Chartered Member of the Institute of Internal Auditors (CMIIA), and is suitably experienced. The IAM is a member of SLACIAG and regularly attends and contributes to meetings. Clackmannanshire Council's Internal Audit service is represented on the two SLACIAG Sub-groups: the Computer Audit Sub-Group (CASG) and the Scottish Local Authorities Investigators Group (SLAIG). The IAM has a well-established background in the public sector and in particular internal audit. Questionnaires received from stakeholders have confirmed the opinion that the IAM is suitably experienced with 25 years of experience in public sector internal audit. Indeed, the shared service team have a good breadth of experience, qualifications and skills.
- 6.3.2 For the role of the one member of staff employed directly by Clackmannanshire Council's Internal Audit service, there is a job and person specification in place. The Joint Working Agreement (JWA) is for the equivalent of one person (and is made up of the time of these other five Falkirk staff) including the IAM. The Internal Audit service delivers internal audit services to the Council, IJB and Central Scotland Assessors. The team is well qualified with a training plan in place to address any skills gaps within the team.
- 6.3.3 The Internal Audit Team participate in a Performance Review and Development process within Clackmannanshire Council. Although, we understand that the title of this may soon change, the system of annual review will remain in place.
- 6.3.4 The IAM and Audit Team have specific CPD requirements to adhere to. Each Auditor is a member of a professional body and is required to maintain a CPD file and in terms of any annual declaration of compliance. The Internal Auditor employed directly by Clackmannanshire Council was recently selected for a random check of his CPD file by the Institute of Internal Audit and successfully passed review.
- 6.3.5 Clackmannanshire Council's Internal Audit service **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 IAM prior to issue and working papers are reviewed by the IAM and/or qualified and experienced staff.
- 6.4.2 We understand that post audit surveys have not been used in the past. Surveys are an acceptable way whereby they are issued to audit contacts after the completion of each audit in order to assess the performance and quality of reports. We noted that this process has not been a feature within Clackmannanshire Council and no monitoring of client satisfaction through questionnaires takes place at an audit review level. The use

of questionnaires is a common option used to assess performance and feedback from clients of internal audit on each assignment. However, I understand that satisfaction with the service is determined at a strategic level, through discussions with senior management. The IAM has outlined that her personal experience of the use of questionnaires has been limited in terms of value, I do, however, think that some form of continuous monitoring client satisfaction within the Council is required and should be considered in whatever format may be helpful in order to gauge that opinion. **See Appendix D – Action 2.**

- 6.4.3 Internal Audit monitor their development plan and the status of all development actions using a standard template. I was provided with a copy of the Training and Development plan for 2023/24 which provided a comprehensive view of all staff and their current and ongoing training and development needs. Furthermore, in terms of additional benchmarking across Scotland, the CIPFA Directors of Finance Performance Indicators are completed and submitted, this monitors two areas of audit performance,
- 6.4.4 An external assessment against Public Sector Internal Audit Standards was previously carried out by the Head of Audit and Assurance employed by the Scottish Prison Service and reported to the then Audit Committee in June 2018. The internal audit service was concluded as broadly demonstrating compliance with PSIAS requirements, whilst four areas were identified for improvement in this assessment, and a further four identified in the self-assessment, totalling eight areas for improvement. An action plan was developed to address these areas; we found that whilst the vast majority appeared to have been implemented, one out of the eight recommendations made at that time reflects one of our finding in paragraph 6.4.2 of this report.
- 6.4.5 Notwithstanding these potential areas for development, Clackmannanshire 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 IAM outlining the planned programme of work to be undertaken. Whilst the IAM does not attend strategic management team meetings or similar forums, she does meet with the Strategic Director (Partnership & Performance) regularly and should further discussion be required, has access to other senior staff. Given the joint service arrangement it can be more difficult to attend such meetings, however, the IAM should be provided with access to the agendas and minutes of these meetings in order to keep abreast of emerging issues. **See Appendix D – Action 3.**

- 7.1.2 The IAM directs the full time Auditor employed by Clackmannanshire Council in terms of the work and agreed audit plan. Such overview, direction and support normally extends to employee performance review input and views on any requests for staff to be deployed in any non-audit duties, which could affect audit independence. In order to clarify the managerial oversight and input of the IAM, I believe that a formal protocol covering normal oversight of staff be established to prevent any misunderstandings or Internal Audit staff resources being diverted without her input and agreement. **See Appendix D – Action 4**
- 7.1.3 Public sector bodies should only retain information relating to its work for specific periods of time and this also requires internal audit to comply with this legislation. From the information made available to me, such a review has not been undertaken to determine whether retention periods for information have been assessed and complied with; this compliance applies to electronic information as well as any traditional manual/paper files. In order to comply with file retention periods a review of all internal audit records should be undertaken and where these records have exceeded any disposal timeframes, they should be disposed of in accordance with any corporate guidance. **See Appendix D – Action 5**
- 7.1.4 The Council has an Internal Audit Manual which comprehensively covers key business activities of the section. We noted that there have been some minor changes in job titles which the IAM is fully aware. The manual at the next scheduled review should be updated to reflect these and any other changes as required. **See Appendix D – Action 6**
- 7.1.5 The A&S Committee agrees and endorses the Internal Audit Plan.
- 7.1.6 The Internal audit service reports on performance to the A&S Committee on at least a quarterly basis, including summaries of audit reports finalised and issued, and details of all internal audit activity since the last A&S Committee. Progress implementing audit recommendations and action taken to reduce and highlight the number of duplicate payments is reported six monthly. Performance against agreed performance indicators is provided as part of the annual assurance work and confirmed via the Progress Reports which reflect all internal audit activity.
- 7.1.7 Clackmannanshire Council's Internal Audit service **fully 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 Audit work regularly focuses on areas of governance such as robustness of policies and procedures, performance reporting (which focuses on the achievement of strategic objectives), budget monitoring (financial information), and compliance with relevant legislation.

- 7.2.2 An audit assessing compliance with the Council's risk management arrangements is approached in the context of other reviews. We understand that the last internal audit review of risk management was undertaken in 2021/22 and reported in May 2022. I am advised that the IAM liaises with the Risk Co-ordinator at Clackmannanshire Council and this helps to build and maintain a picture of any changes to the risk environment which may change the risk profile of the Council and, subsequently, areas for audit focus.
- 7.2.3 Controls are assessed through the internal audit plan and through considerations on individual assignments.
- 7.2.4 Fraud risks and knowledge of any previous and ongoing matters relevant to the overall risk picture need to be available to the IAM in consideration of identifying where resources should be focused. We noted that the IAM does not routinely receive copies of any fraud, theft or irregularity reports which whilst not directly part of her remit, are nevertheless important in terms of overall organisational risk awareness. This helps to assess the control environment and the development of good controls in relation to reducing the risk of fraud or other irregularity. **See Appendix D – Action 7**
- 7.2.5 Clackmannanshire Council's Internal Audit service **generally 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 Terms of Reference planning documents are in place which include objectives, scope, timing, resources allocated and consideration of the organisation's strategies, objectives and risks relevant to the engagement. The final Terms of Reference document is agreed with the relevant Director or other senior officer.
- 7.3.4 Clackmannanshire Council's Internal Audit service **fully 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 The Internal Audit Manual sets out the procedure in relation to undertaking a planned audit, including preparing working papers and setting up working paper files.
- 7.4.2 Electronic engagement records are kept in a restricted folder held on the system server. ICT are responsible for the security controls, and the IAM is responsible for specifying who should have access to this via permission being set up.
- 7.4.3 Working papers and Internal Control Questionnaires have been standardised. These detail the test of control, the work performed, results, conclusion, issues raised and risk.
- 7.4.4 A standard template is also utilised for the IAM performing a review of the file – a Management Review Schedule (MRS), where any questions the IAM or reviewing staff member may have are noted for the auditor to answer.
- 7.4.5 Clackmannanshire 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 Each report issued by Internal Audit outlines the auditors' conclusions and significant issues identified. Reviews which identify significant or serious control weaknesses form part of the annual reporting and formal opinion reached in terms of the control environment.
- 7.5.2 As part of the standard audit approach, the team member carrying out the audit will have a feedback meeting with the key audit contact to discuss the arising issues. There will also be iterative communication with the key contact to clear the audit report. These communications are primarily made by e-mail or via Microsoft Teams.
- 7.5.3 With regards to handling disagreements, it is rare that a manager would not implement a recommendation. Internal Audit always aim to find common ground in relation to recommendations and implementation. In instances of unresolvable disagreement, the report would highlight that agreement could not be reached and the potential risk to the organisation. This would be reported to the A&S Committee.
- 7.5.4 We understand that the IAM discusses the Annual Governance Statement (AGS) preparation with Strategic Director (Partnership & Performance). This is an opportunity for the IAM to escalate or raise specific issues which may need to be reflected in the AGS and which have arisen from the work of the Internal Audit team in that specific financial year. Whilst we were not able to review any communications of such meetings(s) we believe that it would be helpful that a formal note be kept of the meeting going forward to evidence that the discussions have taken place and where any matters which the IAM believes need reflected within the AGS, this is clearly outlined in the note and retained by the IAM. **See Appendix D – Action 8.** I noted that there has been a recent trend in internal audit reports which have been marked as 'limited assurance' and understand that this has been discussed and is being monitored, both at an individual audit basis but also within the senior management of the Council. Whilst we are satisfied that such issues have been identified and monitored effectively, the IAM may need to consider the need to raise any such further trend within the AGS, making specific reference to the reviews. **See Appendix D – Action 9**
- 7.5.5 Clackmannanshire 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 Whilst there is a comprehensive follow up process in place, this involves agreed recommendations contained within internal audit reports being provided to a member of staff outwith internal audit who then uploads the information onto the 'Pentana' system. This allows responsible officers across the Council the opportunity to update

progress against the agreed completion dates contained within the action plans of the internal audit reports. However, we identified that whilst this process was in place for audit recommendation monitoring, the member of staff outwith internal audit had left the Council, this resulted in a significant backlog of audit recommendations not being uploaded onto the Pentana system. This has resulted in a delay in the monitoring and reporting of progress in relation to those items affected by the backlog. Whilst we understand that progress is being made to address the backlog and indeed may now be complete, it is our responsibility to highlight this within the report. **See Appendix D – Action 10**

- 7.6.2 Progress with actions is reported to the A&S Committee on a quarterly basis. Follow-up results are also taken into account and referred to in the annual report.
- 7.6.3 Clackmannanshire Council's Internal Audit service **generally 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 IAM has unrestricted access to the Chief Executive and Chair of the A&S Committee and can provide assurance that, should it be required, she can escalate issues directly to them and also of other senior staff should that be required. The IAM also attends meetings with the key point of contact, within Clackmannanshire Council, specifically, the Strategic Director (Partnership & Performance) and has access to other senior management as required. This provides the opportunity to escalate any issues, problems or concerns that require to be addressed, if these were to be identified.
- 7.7.2 All audit reports are taken to the A&S Committee.
- 7.7.3 The IAM contributes to the annual governance statement and the annual audit opinion is reported to the A&S Committee.
- 7.7.4 Clackmannanshire Council's Internal Audit service **fully conforms** to the Standard on Communicating the Acceptance of Risk.

Paul Macaskill BA FCPFA CMIIA

Chief Internal Auditor  
Argyll and Bute Council  
11<sup>th</sup> March 2024

## APPENDIX A – SUMMARY OF ASSESSMENT

REF	PAGE No.	ASSESSMENT AREA	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	6	Mission of Internal Audit and Core Principles				
Section B	6	Definition of Internal Auditing				
Section C	6	Code of Ethics				
Section D	7	<b>ATTRIBUTE STANDARDS</b>				
1000	7	Purpose, Authority and Responsibility				
1100	7	Independence and Objectivity				
1200	8	Proficiency and Due Professional Care				
1300	9	Quality Assurance and Improvement Programme				
Section E	10	<b>PERFORMANCE STANDARDS</b>				
2000	10	Managing the internal Audit Activity				
2100	11	Nature of Work				
2200	12	Engagement Planning				
2300	12	Performing the Engagement				
2400	13	Communicating Results				
2500	14	Monitoring Progress				

2600	14	Communicating the Acceptance of Risks				
TOTALS			12	2	0	0

## **APPENDIX B – EVIDENCE PACK**

**The following represent the main sources of evidence that were considered in the course of the review:**

- Minutes and papers from A&S Committee
- Audit Manual and Charter
- Stakeholder Questionnaires
- Interviews with the IAM and members of the audit team
- Job Descriptions
- Code of Conduct
- Training and Development Plan
- Evidence of qualification
- Organisational chart
- CPD records
- Prior EQA report
- Audit Plan Consultation
- Assurance Mapping
- Audit Universe
- Audit Plan
- A sample of audit files
- Contract Documentation
- Annual Housekeeping Documentation
- Annual Feedback Survey Documentation

## APPENDIX C – STAKEHOLDER QUESTIONNAIRES

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

- Cllr J Rennie, Chair of the A&S Committee
- Cllr D Coyne, Vice-Chair of the A&S Committee
- Nikki Bridle, Chief Executive
- Stuart Crickmar, Strategic Director (Partnership and Performance)

## APPENDIX D – ACTION PLAN

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
1	6.2.1	<b>The Training Needs Analysis (TNA) prepared as a result of the exercise undertaken by the Committee to identify specific training and development issues be addressed within a reasonable timeframe.</b>	The dates for delivery of the TNA were agreed by Council as per the schedule in the report of December 2023. These will be scheduled and delivered by 30 June 2024.	Strategic Director (Partnership & Performance)  30 June 2024
2	6.4.2	<b>The IAM in consultation with the A&amp;S Committee and Senior Management determine the most appropriate way of gauging client feedback of the service within Clackmannanshire Council.</b>	Options will be explored and we will look to introduce ways of gauging client feedback. This will involve sample testing auditees during the year.	Internal Audit Manager  30 June 2024
3	7.1.1	<b>The IAM should be routinely provided with the agendas and minutes of senior management meetings in order to keep abreast of any emerging issues.</b>	The minutes and agenda for Senior Leadership Group (SLG) and Extended Senior Leadership Group (ESLG) will be provided.	Strategic Director (Partnership & Performance)  31 March 2024
4	7.1.2	<b>A formal managerial protocol should be established in respect of the auditor employed at Clackmannanshire Council with the IAM at Falkirk Council – This should cover at the very least, Employee Conversations (Annual Performance Review), training, direct reporting lines, use of the IA resources on other non-audit work and the management of risks associated with that, to ensure that objectivity and independence can be fully demonstrated.</b>	Agreed.	Strategic Director (Partnership & Performance)  30 April 2024
5	7.1.3	<b>A review of the file retention and disposal process in relation to internal audit files and documents requires to be undertaken and where appropriate, files out with any retention period, are disposed of in terms of the relevant policy in place. (This applies to both manual</b>	Agreed. This was already on the self-assessment Action Plan and the exercise is underway.	Internal Audit Manager  30 April 2024



No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
		and electronic records).		
6	7.1.5	<b>Whilst the Internal Audit Manual is available to all staff and comprehensively covers key business areas of the IA service. We noted that there have been minor changes in job titles and which the IAM is aware. The manual at the next scheduled review should be updated to reflect these and any other changes as required.</b>	Agreed. This was already on the self-assessment Action Plan to take forward. Only minor changes are required. This will be reported to the Audit and Scrutiny Committee.	Internal Audit Manager  30 September 2024.
7	7.2.4	<b>The Monitoring Officer of Clackmannanshire Council should arrange for the IAM to routinely obtain access to any reports relating to fraud and any other irregularity in order that the IAM can build up a better profile of potential risk and tailor audit resource where that is required.</b>	Agreed.	Monitoring Officer  31 March 2024
8	7.5.4	<b>The IAM should formally note any discussions that are taken regarding her Annual Report findings and what will be reflected in the AGS.</b>	Agreed.	Internal Audit Manager  30 September 2024
9	7.5.4	<b>The IAM discuss the risks associated with the increase in 'limited assurance' opinions contained within Internal Audit reports with the Chief Executive, Section 95 Officer and the Strategic Director (Partnership &amp; Performance) and consider, if this trend continues, that a narrative is recorded in the AGS.</b>	Agreed. These discussions are already underway. The Internal Audit service will work with Senior Officers to advise on key improvements required.  The Chief Executive has confirmed that this issue has been escalated and discussed accordingly with SLG and ESLG.	Internal Audit Manager  30 September 2024
10	7.6.1	<b>All audit recommendations which have not been uploaded onto the Pentana system be added as a matter of priority in order to appropriately monitor progress at a corporate level.</b>	Agreed. This is an ongoing task that requires a wider pool of staff to be trained.	Strategic Director, Partnership & Performance

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
				30 June 2024

Critical		Significant		Routine	
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SCOTTISH LOCAL AUTHORITIES

Chief Internal Auditors' Group

# EXTERNAL QUALITY ASSESSMENT 2

## OF



**Clackmannanshire  
Council**

Comhairle Siorrachd  
Chlach Mhanann

[www.clacks.gov.uk](http://www.clacks.gov.uk)

# CLACKMANNANSHIRE COUNCIL'S INTERNAL AUDIT SERVICE

## **Report Recipients:**

Cllr J Rennie, Chair of the Audit and Scrutiny Committee

Cllr D Coyne, Vice Chair of the Audit and Scrutiny Committee

Nikki Bridle, Chief Executive

Stuart Crickmar, Strategic Director (Partnership and Performance)

Isabel Wright, Internal Audit, Risk, and Corporate Fraud Manager –  
Shared Service – Falkirk Council

# EXECUTIVE SUMMARY

## 1. INTRODUCTION

- 1.1 The mandatory Public Sector Internal Audit Standards (PSIAS), initially published in April 2013 and updated in March 2017, apply to all internal audit service providers in the UK public sector. To supplement the PSIAS, and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a Local Government Application Note, last updated in 2019.
- 1.2 The objectives of the PSIAS are:
- to define the nature of internal auditing within the UK public sector;
  - to set basic principles for carrying out internal audit services;
  - to establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations;
  - to establish the basis for the evaluation of internal audit performance; and
  - to drive improvement planning.
- 1.3 The PSIAS require the Chief Audit Executive (the Internal Audit, Risk, and Corporate Fraud Manager in Falkirk Council who provides the service in Clackmannanshire Council and is known as the Internal Audit Manager in that Council (IAM)) to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both periodic internal self-assessments and five-yearly external assessments. The external assessments must be carried out by a qualified, independent assessor from outwith the organisation, and enable evaluation of the internal audit activity's conformance with the PSIAS, including the Mission of Internal Audit, Definition of Internal Auditing and Code of Ethics. In addition, the QAIP should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.
- 1.4 To assist its members in meeting 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 independence of assessors was considered when allocating assessment teams to councils participating in the peer review process, 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. Argyll & Bute Council was selected to carry out the external assessment of Clackmannanshire.
- 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. Argyll & Bute Council's Internal Audit service has carried out the external assessment of Clackmannanshire 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 details findings, conclusions and recommendations from the external assessment. This assessment has involved


## EXECUTIVE SUMMARY

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.

- 1.7 The Assessor would like to thank the IAM for the further information that was provided via interview and on request and for access to the Internal Audit Team member(s) – this all enabled a smooth and efficient audit process. Thanks is also extended to all who gave up their time to complete the stakeholder questionnaires and to be interviewed – this enhanced the quality of the audit, allowing a fuller picture of the Internal Audit Service to be obtained and thus a more accurate assessment.
- 1.8 In terms of context the Internal Audit Service at Clackmannanshire Council is managed and delivered through a shared service agreement with Falkirk Council. The current agreement is for one year ending on 31 March 2024. Clackmannanshire Council employ one full time Internal Auditor who co-ordinates their work through the IAM at Falkirk Council.

## 2. OVERALL CONCLUSION

2.1 The overall conclusion of the external assessment is that Clackmannanshire Council's Internal Audit service **fully conforms** with the PSIAS. We have made 10 recommendations as a result of our assessment. A number are made to improve or add additional supportive processes to promote the Standards contained within the PSIAS. A full summary of assessment, per assessment area, can be found at Appendix A. A summary of totals is as follows:

	<b>Fully Conforms</b> 	<b>Generally Conforms</b> 	<b>Partially Conforms</b> 	<b>Does Not Conform</b> 
TOTALS	12	2	0	0

2.2 There are three main areas for improvement highlighted in the report and a further seven areas for consideration/implementation and which we have graded as 'routine' as follows:

- All audit recommendations which have not been uploaded onto the Pentana system be added as a matter of priority in order to appropriately monitor progress at a corporate level within the Council.
- The Monitoring Officer of Clackmannanshire Council should arrange for the IAM to routinely obtain access to any reports relating to fraud and any other irregularity to enable the IAM build a better profile of potential risk and tailor audit resource where that is required.
- The IAM discuss the risks associated with the increase in 'limited assurance' opinions contained within Internal Audit reports with the Chief Executive, Section 95 Officer and the Strategic Director (Partnership & Performance) and consider, if this trend continues, that a narrative is recorded in the Annual Governance Statement (AGS).
- The Training Needs Analysis (TNA) prepared as a result of the exercise undertaken by the Audit and Scrutiny Committee to identify specific training and development issues be addressed within a reasonable timeframe.
- The IAM in consultation with the A&S Committee and Senior Management determine the most appropriate way of gauging client feedback of the service within Clackmannanshire Council.
- The IAM should be routinely provided with the agendas and minutes of senior management meetings in order to keep abreast of any emerging issues.
- A formal managerial protocol should be established in respect of the auditor employed at Clackmannanshire Council with the IAM at Falkirk Council. This should cover at the very least, Employee Conversations (Annual Performance Review), training, direct reporting lines, use of the IA resources on other non-audit work and the management of risks associated with that, to ensure that objectivity and independence can be fully demonstrated.
- A review of the file retention and disposal process in relation to internal audit files and documents requires to be undertaken and where appropriate, files out with any retention period, are disposed of in terms of the relevant policy in place. (This applies to be both manual and electronic records).

## DETAILED FINDINGS AND RECOMMENDATIONS

- Whilst the Internal Audit Manual is available to all staff and comprehensively covers key business areas of the IA service. We noted that there have been minor changes in job titles and which the IAM is aware. The manual at the next scheduled review should be updated to reflect these and any other changes as required.
- The IAM should formally note any discussions that are taken regarding her Annual Report findings and what will be reflected in the AGS.

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 the Internal Audit service at Clackmannanshire **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 service at Clackmannanshire Council **fully conforms** with the definition of Internal Auditing as detailed above. The main reason for this assessment has been the review of the activities, approach and status of the Internal Audit service throughout the independent review. Completed Stakeholder Questionnaires on the whole support this conclusion.
- 4.2 The Internal Audit service has not been approached to perform additional consulting activity; however, the Internal Audit Charter makes provision for the possibility of the service carrying out such work and specifies the parameters for accepting consulting engagements. Internal Audit, however, do respond to audit enquiries and members of the team have sat on working groups recently.
- 4.3 The Internal Audit service has in place an Internal Audit Charter and the definition of Internal Auditing included in this document mirrors the PSIAS definition. Furthermore, the Internal Audit Plan takes into account the PSIAS requirements, ensuring that the plan of work aligns to PSIAS.

### 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 have been used to conclude that Clackmannanshire Council’s Internal Audit service **fully conforms** with the requirement to comply with the Code of Ethics. The following standards have been considered in particular:



### The Attribute Standards -

- 1000 – Purpose Authority and Responsibility,
- 1100 – Independence and Objectivity, and
- 1200 – Proficiency and Due Professional Care.

### The Performance Standards -

- 2000 – Managing the Internal Audit Activity and
- 2300 – Performing the Engagement.

5.2 Completed Stakeholder Questionnaires also largely support the conclusion. In addition, the Audit Charter was reviewed and confirmed as being in line with good practice, adhering to the guidance.

## **6. SECTION D – ATTRIBUTE STANDARDS**

**Attribute Standards apply to organisations and to individual internal auditors providing the internal audit service 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 Clackmannanshire Council’s Internal Audit Charter is periodically reviewed, with the most recent review taking place in August 2022. The requirements referred to above are adhered to in the Charter, and the Charter was approved by the A&S Committee on 25 August 2022.

6.1.2 Having considered the findings above, it has been concluded that the Internal Audit service at Clackmannanshire Council **fully conforms** with Standard 1000 on Purpose, Authority and Responsibility.

### **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 auditor’s 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 IAM reports functionally to the A&S Committee and administratively to the Strategic Director (Partnership and Performance), who attends the Council's Strategic Management Team. The IAM has direct and unrestricted access to the Chief Executive and the Chair of the A&S Committee, however, through the completed Stakeholder Questionnaires, there seems to be inconsistent views in relation to this option/avenue for the IAM. **See Appendix D – Action 1.** Whilst these reporting and access arrangements are clearly defined in the Internal Audit Charter and other relevant audit and organisational documents as are safeguards to limit impairment of independence or objectivity, this needs to be clearly understood by all of the key stakeholders. This is likely to be a training issue but will need to be addressed so that all relevant Officers and Members are aware of the rights of reporting, access and discussions that the IAM may have during the course of their work and/or should any aspect require escalation. It therefore may be helpful to progress the training and development plan, which is in place, for the Committee.
- 6.2.2 In support of organisational independence, the IAM attends A&S Committee meetings to present all internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and reports from the planned audits) to Elected Members. The reports are submitted in the IAM name.
- 6.2.3 The IAM has operational responsibility for Corporate Fraud and Risk within Falkirk Council but does not have any of these responsibilities in their role within the shared service within Clackmannanshire Council. This is communicated to stakeholders via the Internal Audit Charter.
- 6.2.4 Clackmannanshire Council's Internal Audit service **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 IAM is required to and does hold a relevant CCAB professional accountancy or IIA qualification, specifically, Chartered Member of the Institute of Internal Auditors (CMIIA), and is suitably experienced. The IAM is a member of SLACIAG and regularly attends and contributes to meetings. Clackmannanshire Council's Internal Audit service is represented on the two SLACIAG Sub-groups: the Computer Audit Sub-Group (CASG) and the Scottish Local Authorities Investigators Group (SLAIG). The IAM has a well-

established background in the public sector and in particular internal audit. Questionnaires received from stakeholders have confirmed the opinion that the IAM is suitably experienced with 25 years of experience in public sector internal audit. Indeed, the shared service team have a good breadth of experience, qualifications and skills.

- 6.3.2 For the role of the one member of staff employed directly by Clackmannanshire Council's Internal Audit service, there is a job and person specification in place. The Joint Working Agreement (JWA) is for the equivalent of one person (and is made up of the time of these other five Falkirk staff) including the IAM. The Internal Audit service delivers internal audit services to the Council, IJB and Central Scotland Assessors. The team is well qualified with a training plan in place to address any skills gaps within the team.
- 6.3.3 The Internal Audit Team participate in a Performance Review and Development process within Clackmannanshire Council. Although, we understand that the title of this may soon change, the system of annual review will remain in place.
- 6.3.4 The IAM and Audit Team have specific CPD requirements to adhere to. Each Auditor is a member of a professional body and is required to maintain a CPD file and in terms of any annual declaration of compliance. The Internal Auditor employed directly by Clackmannanshire Council was recently selected for a random check of his CPD file by the Institute of Internal Audit and successfully passed review.
- 6.3.5 Clackmannanshire Council's Internal Audit service **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 IAM prior to issue and working papers are reviewed by the IAM and/or qualified and experienced staff.
- 6.4.2 We understand that post audit surveys have not been used in the past. Surveys are an acceptable way whereby they are issued to audit contacts after the completion of each audit in order to assess the performance and quality of reports. We noted that this process has not been a feature within Clackmannanshire Council and no monitoring of client satisfaction through questionnaires takes place at an audit review level. The use of questionnaires is a common option used to assess performance and feedback from clients of internal audit on each assignment. However, I understand that satisfaction with the service is determined at a strategic level, through discussions with senior management. The IAM has outlined that her personal experience of the use of questionnaires has been limited in terms of value, I do, however, think that some form of continuous monitoring client satisfaction within the Council is required and should be considered in whatever format may be helpful in order to gauge that opinion. **See Appendix D – Action 2.**
- 6.4.3 Internal Audit monitor their development plan and the status of all development actions using a standard template. I was provided with a copy of the Training and Development

plan for 2023/24 which provided a comprehensive view of all staff and their current and ongoing training and development needs. Furthermore, in terms of additional benchmarking across Scotland, the CIPFA Directors of Finance Performance Indicators are completed and submitted, this monitors two areas of audit performance,

- 6.4.4 An external assessment against Public Sector Internal Audit Standards was previously carried out by the Head of Audit and Assurance employed by the Scottish Prison Service and reported to the then Audit Committee in June 2018. The internal audit service was concluded as broadly demonstrating compliance with PSIAS requirements, whilst four areas were identified for improvement in this assessment, and a further four identified in the self-assessment, totalling eight areas for improvement. An action plan was developed to address these areas; we found that whilst the vast majority appeared to have been implemented, one out of the eight recommendations made at that time reflects one of our findings in paragraph 6.4.2 of this report.
- 6.4.5 Notwithstanding these potential areas for development, Clackmannanshire 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 IAM outlining the planned programme of work to be undertaken. Whilst the IAM does not attend strategic management team meetings or similar forums, she does meet with the Strategic Director (Partnership & Performance) regularly and should further discussion be required, has access to other senior staff. Given the joint service arrangement it can be more difficult to attend such meetings, however, the IAM should be provided with access to the agendas and minutes of these meetings in order to keep abreast of emerging issues. **See Appendix D – Action 3.**
- 7.1.2 The IAM directs the full time Auditor employed by Clackmannanshire Council in terms of the work and agreed audit plan. Such overview, direction and support normally extends to employee performance review input and views on any requests for staff to be deployed in any non-audit duties, which could affect audit independence. In order to clarify the managerial oversight and input of the IAM, I believe that a formal protocol covering normal oversight of staff be established to prevent any misunderstandings or Internal Audit staff resources being diverted without her input and agreement. **See Appendix D – Action 4**
- 7.1.3 Public sector bodies should only retain information relating to its work for specific periods of time and this also requires internal audit to comply with this legislation. From the information made available to me, such a review has not been undertaken to determine

whether retention periods for information have been assessed and complied with; this compliance applies to electronic information as well as any traditional manual/paper files. In order to comply with file retention periods a review of all internal audit records should be undertaken and where these records have exceeded any disposal timeframes, they should be disposed of in accordance with any corporate guidance. **See Appendix D – Action 5**

- 7.1.4 The Council has an Internal Audit Manual which comprehensively covers key business activities of the section. We noted that there have been some minor changes in job titles which the IAM is fully aware. The manual at the next scheduled review should be updated to reflect these and any other changes as required. **See Appendix D – Action 6**
- 7.1.5 The A&S Committee agrees and endorses the Internal Audit Plan.
- 7.1.6 The Internal audit service reports on performance to the A&S Committee on at least a quarterly basis, including summaries of audit reports finalised and issued, and details of all internal audit activity since the last A&S Committee. Progress implementing audit recommendations and action taken to reduce and highlight the number of duplicate payments is reported six monthly. Performance against agreed performance indicators is provided as part of the annual assurance work and confirmed via the Progress Reports which reflect all internal audit activity.
- 7.1.7 Clackmannanshire Council's Internal Audit service **fully 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 Audit work regularly focuses on areas of governance such as robustness of policies and procedures, performance reporting (which focuses on the achievement of strategic objectives), budget monitoring (financial information), and compliance with relevant legislation.
- 7.2.2 An audit assessing compliance with the Council's risk management arrangements is approached in the context of other reviews. We understand that the last internal audit review of risk management was undertaken in 2021/22 and reported in May 2022. I am advised that the IAM liaises with the Risk Co-ordinator at Clackmannanshire Council and this helps to build and maintain a picture of any changes to the risk environment which may change the risk profile of the Council and, subsequently, areas for audit focus.
- 7.2.3 Controls are assessed through the internal audit plan and through considerations on individual assignments.
- 7.2.4 Fraud risks and knowledge of any previous and ongoing matters relevant to the overall risk picture need to be available to the IAM in consideration of identifying where resources should be focused. We noted that the IAM does not routinely receive copies

of any fraud, theft or irregularity reports which whilst not directly part of her remit, are nevertheless important in terms of overall organisational risk awareness. This helps to assess the control environment and the development of good controls in relation to reducing the risk of fraud or other irregularity. **See Appendix D – Action 7**

- 7.2.5 Clackmannanshire Council's Internal Audit service **generally 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 Terms of Reference planning documents are in place which include objectives, scope, timing, resources allocated and consideration of the organisation's strategies, objectives and risks relevant to the engagement. The final Terms of Reference document is agreed with the relevant Director or other senior officer.
- 7.3.4 Clackmannanshire Council's Internal Audit service **fully 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 The Internal Audit Manual sets out the procedure in relation to undertaking a planned audit, including preparing working papers and setting up working paper files.
- 7.4.2 Electronic engagement records are kept in a restricted folder held on the system server. ICT are responsible for the security controls, and the IAM is responsible for specifying who should have access to this via permission being set up.
- 7.4.3 Working papers and Internal Control Questionnaires have been standardised. These detail the test of control, the work performed, results, conclusion, issues raised and risk.

- 7.4.4 A standard template is also utilised for the IAM performing a review of the file – a Management Review Schedule (MRS), where any questions the IAM or reviewing staff member may have are noted for the auditor to answer.
- 7.4.5 Clackmannanshire 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 Each report issued by Internal Audit outlines the auditors' conclusions and significant issues identified. Reviews which identify significant or serious control weaknesses form part of the annual reporting and formal opinion reached in terms of the control environment.
- 7.5.2 As part of the standard audit approach, the team member carrying out the audit will have a feedback meeting with the key audit contact to discuss the arising issues. There will also be iterative communication with the key contact to clear the audit report. These communications are primarily made by e-mail or via Microsoft Teams.
- 7.5.3 With regards to handling disagreements, it is rare that a manager would not implement a recommendation. Internal Audit always aim to find common ground in relation to recommendations and implementation. In instances of unresolvable disagreement, the report would highlight that agreement could not be reached and the potential risk to the organisation. This would be reported to the A&S Committee.

- 7.5.4 We understand that the IAM discusses the Annual Governance Statement (AGS) preparation with Strategic Director (Partnership & Performance). This is an opportunity for the IAM to escalate or raise specific issues which may need to be reflected in the AGS and which have arisen from the work of the Internal Audit team in that specific financial year. Whilst we were not able to review any communications of such meetings(s) we believe that it would be helpful that a formal note be kept of the meeting going forward to evidence that the discussions have taken place and where any matters which the IAM believes need reflected within the AGS, this is clearly outlined in the note and retained by the IAM. **See Appendix D – Action 8.** I noted that there has been a recent trend in internal audit reports which have been marked as ‘limited assurance’ and understand that this has been discussed and is being monitored, both at an individual audit basis but also within the senior management of the Council. Whilst we are satisfied that such issues have been identified and monitored effectively, the IAM may need to consider the need to raise any such further trend within the AGS, making specific reference to the reviews. **See Appendix D – Action 9**
- 7.5.5 Clackmannanshire 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 Whilst there is a comprehensive follow up process in place, this involves agreed recommendations contained within internal audit reports being provided to a member of staff outwith internal audit who then uploads the information onto the ‘Pentana’ system. This allows responsible officers across the Council the opportunity to update progress against the agreed completion dates contained within the action plans of the internal audit reports. However, we identified that whilst this process was in place for audit recommendation monitoring, the member of staff outwith internal audit had left the Council, this resulted in a significant backlog of audit recommendations not being uploaded onto the Pentana system. This has resulted in a delay in the monitoring and reporting of progress in relation to those items affected by the backlog. Whilst we understand that progress is being made to address the backlog and indeed may now be complete, it is our responsibility to highlight this within the report. **See Appendix D – Action 10**
- 7.6.2 Progress with actions is reported to the A&S Committee on a quarterly basis. Follow-up results are also taken into account and referred to in the annual report.
- 7.6.3 Clackmannanshire Council’s Internal Audit service **generally 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 IAM has unrestricted access to the Chief Executive and Chair of the A&S Committee and can provide assurance that, should it be required, she can escalate issues directly to them and also of other senior staff should that be required. The IAM also attends meetings with the key point of contact, within Clackmannanshire Council, specifically, the Strategic Director (Partnership & Performance) and has access to other senior management as required. This provides the opportunity to escalate any issues, problems or concerns that require to be addressed, if these were to be identified.
- 7.7.2 All audit reports are taken to the A&S Committee.
- 7.7.3 The IAM contributes to the annual governance statement and the annual audit opinion is reported to the A&S Committee.
- 7.7.4 Clackmannanshire Council's Internal Audit service **fully conforms** to the Standard on Communicating the Acceptance of Risk.

Paul Macaskill BA FCPFA CMIIA

Chief Internal Auditor  
Argyll and Bute Council  
11<sup>th</sup> March 2024

## APPENDIX A – SUMMARY OF ASSESSMENT

REF	PAGE No.	ASSESSMENT AREA	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	6	Mission of Internal Audit and Core Principles				
Section B	6	Definition of Internal Auditing				
Section C	6	Code of Ethics				
Section D	7	<b>ATTRIBUTE STANDARDS</b>				
1000	7	Purpose, Authority and Responsibility				
1100	7	Independence and Objectivity				
1200	8	Proficiency and Due Professional Care				
1300	9	Quality Assurance and Improvement Programme				
Section E	10	<b>PERFORMANCE STANDARDS</b>				
2000	10	Managing the internal Audit Activity				
2100	11	Nature of Work				
2200	12	Engagement Planning				
2300	12	Performing the Engagement				
2400	13	Communicating Results				
2500	14	Monitoring Progress				

2600	14	Communicating the Acceptance of Risks				
TOTALS			12	2	0	0

## **APPENDIX B – EVIDENCE PACK**

**The following represent the main sources of evidence that were considered in the course of the review:**

- Minutes and papers from A&S Committee
- Audit Manual and Charter
- Stakeholder Questionnaires
- Interviews with the IAM and members of the audit team
- Job Descriptions
- Code of Conduct
- Training and Development Plan
- Evidence of qualification
- Organisational chart
- CPD records
- Prior EQA report
- Audit Plan Consultation
- Assurance Mapping
- Audit Universe
- Audit Plan
- A sample of audit files
- Contract Documentation
- Annual Housekeeping Documentation
- Annual Feedback Survey Documentation

## APPENDIX C – STAKEHOLDER QUESTIONNAIRES

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

- Cllr J Rennie, Chair of the A&S Committee
- Cllr D Coyne, Vice-Chair of the A&S Committee
- Nikki Bridle, Chief Executive
- Stuart Crickmar, Strategic Director (Partnership and Performance)

## APPENDIX D – ACTION PLAN

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
1	6.2.1	<b>The Training Needs Analysis (TNA) prepared as a result of the exercise undertaken by the Committee to identify specific training and development issues be addressed within a reasonable timeframe.</b>	The dates for delivery of the TNA were agreed by Council as per the schedule in the report of December 2023. These will be scheduled and delivered by 30 June 2024.	Strategic Director (Partnership & Performance)  30 June 2024
2	6.4.2	<b>The IAM in consultation with the A&amp;S Committee and Senior Management determine the most appropriate way of gauging client feedback of the service within Clackmannanshire Council.</b>	Options will be explored and we will look to introduce ways of gauging client feedback. This will involve sample testing auditees during the year.	Internal Audit Manager  30 June 2024
3	7.1.1	<b>The IAM should be routinely provided with the agendas and minutes of senior management meetings in order to keep abreast of any emerging issues.</b>	The minutes and agenda for Senior Leadership Group (SLG) and Extended Senior Leadership Group (ESLG) will be provided.	Strategic Director (Partnership & Performance)  31 March 2024
4	7.1.2	<b>A formal managerial protocol should be established in respect of the auditor employed at Clackmannanshire Council with the IAM at Falkirk Council – This should cover at the very least, Employee Conversations (Annual Performance Review), training, direct reporting lines, use of the IA resources on other non-audit work and the management of risks associated with that, to ensure that objectivity and independence can be fully demonstrated.</b>	Agreed.	Strategic Director (Partnership & Performance)  30 April 2024
5	7.1.3	<b>A review of the file retention and disposal process in relation to internal audit files and documents requires to be undertaken and where appropriate, files out with any retention period, are disposed of in terms of the relevant policy in place. (This applies to both manual and electronic records).</b>	Agreed. This was already on the self-assessment Action Plan and the exercise is underway.	Internal Audit Manager  30 April 2024

No.	Para	Recommendation	Management Response	Responsible Officer / Agreed Completion Date
6	7.1.5	<b>Whilst the Internal Audit Manual is available to all staff and comprehensively covers key business areas of the IA service. We noted that there have been minor changes in job titles and which the IAM is aware. The manual at the next scheduled review should be updated to reflect these and any other changes as required.</b>	Agreed. This was already on the self-assessment Action Plan to take forward. Only minor changes are required. This will be reported to the Audit and Scrutiny Committee.	Internal Audit Manager  30 September 2024.
7	7.2.4	<b>The Monitoring Officer of Clackmannanshire Council should arrange for the IAM to routinely obtain access to any reports relating to fraud and any other irregularity in order that the IAM can build up a better profile of potential risk and tailor audit resource where that is required.</b>	Agreed.	Monitoring Officer  31 March 2024
8	7.5.4	<b>The IAM should formally note any discussions that are taken regarding her Annual Report findings and what will be reflected in the AGS.</b>	Agreed.	Internal Audit Manager  30 September 2024
9	7.5.4	<b>The IAM discuss the risks associated with the increase in 'limited assurance' opinions contained within Internal Audit reports with the Chief Executive, Section 95 Officer and the Strategic Director (Partnership &amp; Performance) and consider, if this trend continues, that a narrative is recorded in the AGS.</b>	Agreed. These discussions are already underway. The Internal Audit service will work with Senior Officers to advise on key improvements required.  The Chief Executive has confirmed that this issue has been escalated and discussed accordingly with SLG and ESLG.	Internal Audit Manager  30 September 2024
10	7.6.1	<b>All audit recommendations which have not been uploaded onto the Pentana system be added as a matter of priority in order to appropriately monitor progress at a corporate level.</b>	Agreed. This is an ongoing task that requires a wider pool of staff to be trained.	Strategic Director, Partnership & Performance  30 June 2024

	Critical		Significant		Routine
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