

GLASGOW AND THE CLYDE VALLEY STRATEGIC DEVELOPMENT PLANNING AUTHORITY JOINT COMMITTEE

To: Joint Committee

On: 11 June 2018

Report by: Chief Auditor

Heading: Internal Audit Reporting Arrangements

1. Summary

- 1.1 The Chief Auditor is required to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit including conformance with the Public Sector Internal Audit Standards (PSIAS). It has been identified that there is an opportunity to improve and formalise the internal audit reporting arrangements to Joint Committee.
- 1.2 This report outlines the details and outcome of the Chief Auditor's considerations in relation to the Joint Committee reporting arrangements for completed audit engagements and follow up work.

2. Recommendations

- 2.1 Members are requested note the reporting arrangements put in place to communicate the results of Internal Audit work to the Joint Committee.

3. Background

3.1 Communicating the results of audit engagements

- 3.1.1 In line with the Public Sector Internal Audit Standards (PSIAS), Internal Audit must communicate the results of each engagement to the Board.
- 3.1.2 Previously, Internal Audit reported the conclusion of completed audit engagements in the Internal Audit Annual Report. It has been identified

through the quality assurance and improvement programme that there is an opportunity to review and formalise the internal audit reporting arrangements for the Joint Committee.

- 3.1.3 In making those considerations the Chief Auditor took account of the professional requirements as detailed in the PSIAS, CIPFA guidance “Audit Committees, Practical Guidance for Local Authorities” and legislative requirements such as Data Protection, and the assessed risks to the Joint Committee.
- 3.1.4 The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) and has been issued by CIPFA, who set the internal auditing standards for UK Local Authorities. The Chief Auditor has a professional duty under the PSIAS to report the results of engagements to senior management and the Board, although the PSIAS does not prescribe any specific format that should be adopted for reporting.
- 3.1.5 The PSIAS places certain professional obligations on the Chief Auditor in relation to the confidentiality and disclosure of the information they receive during the course of each audit engagement.
- 3.1.6 The PSIAS states that “the chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate”.
- 3.1.7 It also states that:
“Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.”
If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:
- assess the potential risk to the organisation
 - consult with senior management and/ or legal counsel as appropriate, and
 - control dissemination by restricting the use of the results.”
- 3.1.8 Members of the Joint Committee need to be provided with enough information to allow them to understand any significant risk exposures to the Joint Committee’s internal control environment identified through the work of Internal Audit.
- 3.1.9 The CIPFA “Audit Committees, Practical Guidance for Local Authorities” publication, defines that role as “reviewing the work carried out will include formal consideration of summaries of work done, key findings, issues of concern and action in hand as a result of audit work.”

- 3.1.10 The Chief Auditor will in future report summaries of completed audit engagements to the Joint Committee on the conclusion of each engagement for formal consideration by member in line with the best practice referred to above.

3.2 Monitoring the progress of management actions

- 3.2.1 The PSIAS places the responsibility for monitoring progress with the Chief Auditor to ensure that management actions have been effectively implemented, or, if not, that senior management have accepted the risk of not taking action.
- 3.2.2 The Chief Auditor must 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 Joint Committee.
- 3.2.3 There is also a requirement for the Chief Auditor to 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 Joint Committee in the follow-up process is critical to ensuring that it works.
- 3.2.4 Internal Audit undertakes an annual follow up exercise. The focus of each annual follow up exercise can vary depending on the audit resources available. All critical recommendations followed up must be supported by evidence to demonstrate that they have been implemented.
- 3.2.5 The outcome of the annual follow up exercise is communicated to the Strategic Development Plan Manager with details of all partially implemented, redundant and outstanding recommendations. The Chief Auditor currently reports, the number of recommendations followed up, and the current status of those recommendations in the Internal Audit Annual Report.
- 3.2.6 It is the Chief Auditor's opinion that there is an opportunity to enhance the escalation procedures for cases where agreed actions have not been effectively implemented by the date agreed. The Chief Auditor will report details of outstanding critical recommendations to the Joint Committee on conclusion of the annual follow up exercise.
- 3.2.7 It is our intention to develop the audit management system to facilitate 'self-service' in relation to updates on the progress of implementing recommendations. This development would facilitate more regular reporting of outstanding actions in the future.

3.3 Communicating the acceptance of risks

- 3.3.1 The PSIAS places certain professional obligations on the Chief Auditor to report to the Board, when in the Chief Auditor's opinion, management have accepted an unacceptable level of risk. The PSIAS states, "when the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board."
- 3.3.2 Instances where the Chief Auditor and senior management are unable to reach an agreement on actions to mitigate a significant risk to an acceptable level are rare. However, should such an instance arise the Chief Auditor will bring a report outlining the risk exposure to the Joint Committee.

3.4 Conclusion

- 3.4.1 The Chief Auditor is satisfied that these enhanced reporting arrangements fully supports the Joint Committee in their role, complies with the PSIAS and meets the best practice standard as set out in the CIPFA "Audit Committees, Practical Guidance for Local Authorities" publication.
- 3.4.2 The Chief Auditor would still need to preserve the confidentiality of the information in cases where it may breach legislation or where the risk of the weakness being exploited be of such significance that she would seek to have the report heard in private, to protect the Joint Committee's interests.

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