

Scotland Excel

To: Joint Committee

On: 29 June 2018

Report by Chief Auditor

Internal Audit Reporting Arrangements

1. Summary

- 1.1** Audit Scotland in their report to members on the annual audit for 2016/17, identified that “internal audit reports are not provided to members of the Joint Committee”. This presented the Chief Auditor with an opportunity to review and formalise the internal audit reporting arrangements for the Joint Committee.
- 1.2** In line with the Public Sector Internal Audit Standards (PSIAS), Internal Audit must communicate the results of each engagement to the Board.
- 1.3** 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** 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.
- 3.1.2** Previously, Internal Audit reported the conclusion of completed audit engagements in the Internal Audit Annual Report. Audit Scotland in their report to members on the annual audit for 2016/17, identified that “internal audit reports are not provided to members of the Joint Committee. As a result there is a risk that members are not aware of any weaknesses that have been identified and may not be able to make informed decisions”.

- 3.1.3 This presented the Chief Auditor with an opportunity to review and formalise the internal audit reporting arrangements for the Joint Committee. In making those considerations the Chief Auditor took account of the professional requirements as detailed in the PSIAS and the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance “Audit Committees, Practical Guidance for Local Authorities”.
- 3.1.4 Members of the Joint Committee need to be provided with enough information to allow them to understand any significant risk exposures to the internal control environment identified through the work of Internal Audit.
- 3.1.5 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.”
- 3.1.6 In line with the best practice referred to above, 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 members.

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 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. The effective involvement of the Board in the follow-up process is critical to ensuring that it works.
- 3.2.3 Internal Audit undertakes an annual follow up exercise. The outcome of the annual follow up exercise is communicated to the Director 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.
- 3.2.4 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. In future details of outstanding critical recommendations will be reported to the Joint Committee on conclusion of the annual follow up exercise.

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.

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 the enhanced reporting put in place 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 Committees interests.

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