

# EXTERNAL QUALITY ASSESSMENT 2 OF ABERDEEN CITY COUNCIL'S INTERNAL AUDIT

## **Report Recipients:**

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# EXECUTIVE SUMMARY

## 1. INTRODUCTION

- 1.1 The mandatory Public Sector Internal Audit Standards (PSIAS), published initially in April 2013 and updated most recently in March 2017, apply to all internal audit service providers in the UK public sector, whether in-house, provided via a shared service arrangement or outsourced. To supplement the PSIAS, and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a Local Government Application Note (LGAN), which was last updated in 2019.
- 1.2 The objectives of the PSIAS are to define the nature of internal auditing within the UK public sector; set basic principles for carrying out internal audit; establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; establish the basis for the evaluation of internal audit performance and drive improvement planning.
- 1.3 The PSIAS require the Chief Audit Executive (the Chief Internal Auditor (CIA) for Aberdeen City Council) to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both periodic internal self-assessments and five-yearly external assessments, carried out by a qualified, independent assessor from outwith the organisation, and enable evaluation of the internal audit activity's (Internal Audit in Aberdeen City Council) conformance with the PSIAS, including the Mission of Internal Audit, Definition of Internal Auditing and Code of Ethics. In addition, the QAIP should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.
- 1.4 To assist its members to meet the five-yearly external assessment requirement, the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) established a collaborative system of formal peer reviews. This approach not only assists with ensuring that independent assessors, and their teams, have appropriate knowledge and experience of the local government internal audit environment but also removes the financial burden from councils, associated with procuring these services externally. The allocation of assessors / assessment teams to councils participating in the peer review process was undertaken autonomously, ensuring that, amongst other governing principles, local authorities with perceived / known conflicts of interest could not review one another. At the outset, assessors were required to formally declare any interests so that these could be appropriately addressed during the allocation process. The Highland Council was selected to carry out the external assessment in Aberdeen City Council.
- 1.5 To support the peer review process, SLACIAG developed a comprehensive External Quality Assessment (EQA) framework, including an EQA Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note (EQA Checklist) and a key Stakeholder Questionnaire proforma. The external assessment of Aberdeen City Council's Internal Audit has been carried out by The Highland Council's CAE utilising this framework.
- 1.6 This report provides a high level summary of requirements for each standard per the PSIAS and CIPFA Local Government Application Note and sets out the findings, conclusions and recommendations from the external assessment, which involved discussions with key members of staff, including the Chief Audit Executive, review of the most recent self-assessment carried out utilising the EQA Checklist and consideration of other relevant supporting documentation / information (Evidence Pack) including working paper files and completed stakeholder questionnaires. 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.

## 2. OVERALL CONCLUSION

2.1 The overall conclusion of the external assessment is that Aberdeen City Council's Internal Audit **fully conforms** with the PSIAS. A full summary of assessment, per assessment area, can be found at Appendix A. A summary of totals is as follows:

	<b>Fully Conforms</b> 	<b>Generally Conforms</b> 	<b>Partially Conforms</b> 	<b>Does Not Conform</b> 
TOTALS	13	1	-	-

### 2.2 Area of Good Practice

- A number of stakeholders recognised the positive contribution of the CIA in the last year in leading the Internal Audit service to better engagement with services, more audit focus on improvement activity, and good engagement with the Audit Committee.
- The 2023-26 internal audit planning process risk assessed key auditable areas.
- There have been improvements to the quality of internal audit reports that now include graded opinions.

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

- A revision to the Internal Audit Charter;
- Revise the Council's Counter Fraud Policy;
- The introduction of client feedback surveys;
- Document the ongoing internal QAIP assessments; and
- Provision of enhanced information on the adequacy of internal audit resources.

2.4 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 at Aberdeen City Council **fully conforms** with accomplishing the Mission of Internal Audit as detailed above.

### 4. SECTION B – DEFINITION OF INTERNAL AUDITING

*The PSIAS state that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*

- 4.1 Evidence obtained from assessing conformance with other standards in the PSIAS has been used to conclude that the Internal Audit at Aberdeen City Council **fully conforms** with the definition of Internal Auditing as detailed above. Stakeholder Questionnaires and interviews support this conclusion.

### 5. SECTION C – CODE OF ETHICS

*The PSIAS state that the purpose of the Institute of Internal Auditor's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.*

*Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out in the PSIAS. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.*

- 5.1 Evidence obtained from assessing conformance with other standards in the PSIAS, in particular the Attribute Standards 1000 – Purpose Authority and Responsibility, 1100 – Independence and Objectivity, 1200 – Proficiency and Due Professional Care and Professional Standards 2000 – Managing the Internal Audit Activity and 2300 – Performing the Engagement, has been used to conclude that Aberdeen City Council's Internal Audit **fully conforms** with the requirement to comply with the Code of Ethics. Stakeholder Questionnaires support this conclusion.

### 6. SECTION D – ATTRIBUTE STANDARDS

**Attribute Standards apply to organisations and individual internal auditors providing the internal audit services in a local authority.**

#### 6.1 1000 - Purpose, Authority, and Responsibility

*The PSIAS state that the purpose, authority and responsibility of the internal audit*

*activity must be formally defined in an Internal Audit Charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval. The internal audit charter must also:*

- define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity;*
- cover the arrangements for appropriate resourcing;*
- define the role of internal audit in any fraud-related work; and*
- describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activities.*

6.1.1 Aberdeen City Council’s Internal Audit Charter is periodically reviewed with the most recent review taking place in March 2023. The Internal Audit Charter was approved by the Audit, Risk and Scrutiny Committee on 23<sup>rd</sup> March 2023.

6.1.2 The Charter does mention the CIPFA Statement on the Role of the Chief Financial Officer in Local Government and that the chief financial officer (Chief Officer – Finance) must ensure an effective internal audit function is resourced and maintained. However, no further details are provided to outline how the internal audit service is resourced and maintained.

6.1.3 Internal Audit at Aberdeen City Council is delivered by Aberdeenshire’s Internal Audit function as part of a shared service arrangement governed by a service level agreement. The LGAN states that “...when the internal audit function is delivered through shared service arrangements or by an external partner, the charter must set out the role of the internal audit contract manager in the above (accountability, relationships and responsibilities)”. The Internal Audit Charter does not mention an internal audit contract manager or the role of that individual.

6.1.4 The LGAN states that “The charter should also set out relevant arrangements within the organisation’s anti-fraud and anti-corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety in order to inform his or her annual internal audit opinion and the risk-based plan”. Whilst the Charter states that Internal Audit will consider the outcome of such investigations (carried out by the Chief Officer – Finance or the Chief Officer – Governance) there is no requirement for the CIA to be informed of all suspected fraud, corruption or impropriety. Furthermore, the Council’s Counter Fraud Policy (February 2021) states that both internal and external audit have the rights to access records, documents and correspondence related to fraudulent activity. However, there is no requirement for internal audit to be informed of all suspected or detected fraudulent activity. The CIA confirmed that internal audit is only informed of actual frauds detected following investigation by Council officers and is not notified of all suspected fraudulent activity.

6.1.5 Having considered the findings above, it has been concluded that Internal Audit at Aberdeen City Council **generally 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 auditors’ objectivity or independence. Reporting and management arrangements must be put in place that preserve the CAE’s independence and objectivity, in particular with regard to the principle that the CAE must be independent of the audited activities.*

- 6.2.1 The CIA reports functionally to the Audit, Risk and Scrutiny Committee and administratively to the Chief Officer - Governance, who is a member of the Council's Senior Management Team. The CIA has direct and unrestricted access to the Chief Executive and the Chair of the Audit, Risk and Scrutiny Committee and this has been confirmed through completed Stakeholder Questionnaires and interviews. These reporting / access arrangements are clearly defined in the Internal Audit Charter as are safeguards to limit impairment of independence or objectivity.
- 6.2.2 In support of organisational independence, the CIA attends Audit, Risk and Scrutiny Committee meetings to present all internal audit reports (including, for example, the Internal Audit Charter, Annual Report, Internal Audit Plan and reports / executive summaries from the planned audits) to Elected Members. The reports are all submitted in the CIA's name.
- 6.2.3 The CIA does not have operational responsibility for the activities audited and this is communicated to stakeholders via the Internal Audit Charter.
- 6.2.4 All staff within Internal Audit are required to complete a declaration of interest form. An extended Internal Audit Senior Leadership Team (SLT) is held at the start of each audit year to assign audits to individual auditors. At this meeting any declarations will be discussed to ensure that there are no conflicts of interest when carrying out audit assignments. Auditors are required to update their declarations on an annual basis and can raise potential conflicts in-year before an audit assignment begins.
- 6.2.5 Aberdeen City Council's Internal Audit **fully conforms** with Standard 1100 on Independence and Objectivity.

### 6.3 1200 - Proficiency and Due Professional Care

*The CAE must be professionally qualified, suitably experienced and responsible, in accordance with the organisation's human resources processes, for recruiting appropriate staff. He or she is responsible for ensuring that up-to-date job descriptions exist, reflecting roles and responsibilities, and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.*

*The CAE should periodically assess individual auditors' skills and competencies against those set out in the relevant job descriptions and person specifications. Any training or development needs identified should be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored. In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This may be fulfilled through requirements set by professional bodies or through the organisation's own appraisal and development programme. Auditors should maintain a record of such professional training and development activities.*

*The internal audit activity should be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with these standards. The PSIAS states that the CAE must obtain competent advice and assistance if the activity is unable to perform all or part of an engagement.*

- 6.3.1 The CIA holds a relevant professional qualification, Chartered ICAS Member, and is suitably experienced, with more than 10 years internal audit experience. The CIA is a member of SLACIAG and regularly attends and contributes to meetings. Aberdeen City Council's Internal Audit is also represented on the SLACAIG Computer Audit Sub-Group (CASG).

- 6.3.2 To support the CIA in Aberdeen City Council's Internal Audit there are 2 Audit Team Managers, who are required to be CCAB Qualified Accountants. There are a total of 13 members of staff in Internal Audit, including the CIA and the 2 Audit Team Managers. In addition to Aberdeen City, Internal Audit also delivers internal audit services to Aberdeenshire Council, Aberdeen City and Aberdeenshire Integration Joint Boards and the North East Scotland Pension Fund. The Internal Audit Team holds the necessary skills to carry out most audit work and specialised support can be bought in when and where required. Counter Fraud at Aberdeen City Council is performed by a team within Finance.
- 6.3.3 Each year members of Internal Audit complete a Personal Performance Plan (PPP). This appraisal is the standard form used across the Organisation. The appraisal includes a self-assessment, with comments from the employee's line manager, as well as a section looking at the 12 months ahead to identify what challenges or training needs the employee anticipates encountering. The activities and expected outcomes of each auditor grade are outlined in the Career Development Scheme (CDS) and so determine what internal audit skills and competencies need to be demonstrated in order for auditors to progress within the team.
- 6.3.4 The CIA is represented on several corporate groups, including the Corporate Management Team and the Extended Corporate Management Team (ECMT). The CIA is also a member of the Council's Risk Board and ALEO Assurance Hub. The Risk Board (chaired by the Chief Officer – Governance) is the group where the CIA will routinely present information on the delivery of the internal audit plan and the implementation of audit recommendations. Any concerns in relation to these issues would be escalated to ECMT or the Audit, Risk and Scrutiny Committee.
- 6.3.5 The CIA and Audit Team Managers have specific CPD requirements to adhere to. Other audit team members who hold professional qualifications will also have CPD requirements that they will need to adhere to. Training needs will be identified in employee's yearly PPP evaluation and a spreadsheet maintained detailing training required / received.
- 6.3.6 Stakeholder Questionnaires and interviews confirm that the CIA demonstrates sufficient knowledge and experience and that all members of Internal Audit exercise due professional care.
- 6.3.7 The role of IA does not extend to the prevention, detection and investigation of fraud, corruption or impropriety (see para. 6.1.6, above). In terms of assessing the competency of the service provided an internal audit review was completed in February 2019 and a further review is planned for 2024/25. The CIA has also recently commissioned an external provider to deliver specialist IT audits in relation to cyber resilience.
- 6.3.8 Aberdeen City Council's Internal Audit **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 The CIA does not have a documented QAIP process, to outline how the quality of the internal audit activity will be developed and maintained through ongoing and periodic internal assessments and external assessments.
- 6.4.2 The CIA's annual opinion report does mention the QAIP. The latest annual opinion report (presented in June 2023) for the year 2022/23 states that "IA is pleased to confirm that an internal review of the control framework has concluded that IA fully conforms with the PSIAS. However, it is not clear what ongoing and periodic internal assessments have been carried out to arrive at this opinion.
- 6.4.3 We found evidence to demonstrate that Internal audit reports are reviewed by the CIA prior to issue and working papers are, in general, reviewed by one of the Audit Team Managers. Where the assignment is carried out by the Audit Team Managers, the CIA will review the working paper file.
- 6.4.4 Whilst the CIA will invite clients to discuss any issues when he issues the final audit report, formal client feedback is not actively pursued by Internal Audit. The CIA plans to introduce client feedback questionnaires for all assignments completed from the 2023/24 audit plan.
- 6.4.5 10 Key Performance Indicators (KPI's), which are used to monitor and evaluate the performance of Internal Audit, are reported in the Internal Audit Annual Report. This report is presented to the Audit, Risk and Scrutiny Committee on a yearly basis.
- 6.4.6 The last formal self-assessment of conformance with the PSIAS was carried out in February 2022, using the EQA checklist. The EQA checklist recorded that IA fully conformed to all 94 questions that contribute to the PSIAS self-assessment.
- 6.4.7 Aberdeen City Council's Internal Audit **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 Internal Audit work on a three-year audit plan which is compiled by the CIA. The plan outlines the intended programme of work to be undertaken. The audit plan is reviewed each year to look to always have a three-year rolling plan in place. During planning, the CIA consults with Senior Management and Elected Members. The CIA also takes into consideration the Council's risk registers.

- 7.1.2 The Audit plan is considered by the Council's CMT and approved by the Audit, Risk and Scrutiny Committee.
- 7.1.3 Progress towards completion of the Internal Audit Plan, and the individual audits contained within it are reported to each Audit, Risk and Scrutiny Committee.
- 7.1.4 Stakeholder Questionnaires and interviews confirm that Internal Audit is seeking to add value to the organisation and that they were given the opportunity to feed into the audit planning process. Stakeholders were encouraged by the CIA's level of engagement but felt it was too early to assess if his vision for internal audit was being fully reflected in the delivery of audit activities.
- 7.1.5 The Stakeholder Questionnaires raised a concern about the risks that are considered in the delivery of the audit plan. Stakeholder's perceived that the risks included in the plan were "business as usual" risks rather than "current" risks.
- 7.1.6 The terms of reference for the Audit, Risk and Scrutiny Committee state that it will "approve the Internal Audit Plan" but there is no requirement for the Committee to approve revisions to the Plan. A re-approval process may be required when current risks requiring internal audit review are identified within the current audit year. The CIA considers that there is sufficient flexibility with the audit planning process to audit current risks when they are identified. The three-year audit plan is subject to approval on an annual basis, there is provision for consulting opportunities within each year of the plan and (for the 2022 – 25 Internal Audit Plan only) the CIA was given delegated authority "to bring forward or defer audits between years within the plan duration". The CIA has to date not identified any risks that have required him to flex the plan using these processes.
- 7.1.7 The Internal Audit Plan 2023 – 26 that was presented to the Audit, Risk and Scrutiny Committee stated that "to undertake the attached plan, Internal Audit has an establishment of thirteen posts. It is anticipated that this will be split between Aberdeenshire and Aberdeen City councils on a 2:1 ratio". Consequently, it did not include a resourcing plan to demonstrate the following:
- how internal audit's resource requirements have been assessed;
  - the estimated resources needed for the planned work;
  - the amount of contingency time to undertake ad hoc reviews; and
  - the time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the Board, the development of the Annual Report and the CAE's overall opinion.
- 7.1.8 Current best practice on the communication and approval of the risk-based audit plan is set out in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2022), where the audit committee could have a role to review and approve the internal audit budget and resource plan.
- 7.1.9 Aberdeen City Council's Internal Audit **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 Review of the audit plan found that it had good coverage of the key areas of governance, risk management and control processes. Included in the plan is an item for Internal Audit to carry out consulting opportunities for the Council.

7.2.2 Aberdeen City Council's Internal Audit **fully conforms** with Standard 2100 on Nature of Work.

### **7.3 2200 - Engagement Planning**

*Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organisation's strategies, objectives and risks relevant to the engagement.*

*The CIPFA Local Government Application note states that for each engagement, a brief should be prepared, discussed and agreed with relevant managers. The brief should establish the objectives, scope and timing for the assignment and its resource and reporting requirements. Audit work should be undertaken using a risk-based audit approach.*

7.3.1 The Audit Planning Form details the audit's main objective as well as allocated resources and a detailed breakdown of the time budget. The scope and objective detailed in the Planning Form are vague, with more detailed information included within the other working papers. The Planning Form also includes estimated target dates for key stages of the audit, including passing of files to the CIA for review, issuing of the draft and final reports, as well as target date for presentation to the Audit, Risk and Scrutiny Committee.

7.3.2 A sample of Audit files were reviewed and found to be generally satisfactory. For the 2022/23 audits the scope and objectives included on the Audit Planning Form were generally left very vague. However, the introduction of a new Scoping Document for 2023/24 audits has greatly improved the level of detail provided about the audit scope and objectives.

7.3.3 Aberdeen City Council's Internal Audit **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 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 All working paper files are stored electronically using a SharePoint Site and organised and managed using OneNote with a standard file format used for ease of reference.
- 7.4.3 Standard working paper proforma are utilised across audit assignments including an Audit Planning Form, Audit Programme Document, and Internal Control Questionnaire. From 22/23 a Scoping Document is also now included.
- 7.4.4 All audit documents have a built-in review sheet for sign-off of each document by the relevant line manager. All audit files reviewed contained suitable evidence of review by managers.
- 7.4.5 Records management arrangements and considerations within Internal Audit are detailed in the Audit Manual. They are appropriate and follow the policy of the Organisation.
- 7.4.6 The permanent folder that is created with each audit will be kept on file for as long as the system that was the subject of the audit is still in use within the Council. If the system is no longer in use, the permanent folder will be deleted.
- 7.4.7 Aberdeen City Council's Internal Audit **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 Draft reports are prepared by the auditor carrying out the assignment. It is then checked by the Team Manager and CIA to ensure findings and recommendations are appropriately reported. With the introduction of a new report format in early 2023, reports now include an overall graded opinion as well as individual ratings for each identified risk.
- 7.5.2 In the absence of formal closure meetings there was limited evidence to confirm that findings have been discussed and communicated with the audit client prior to the issuing of the draft report. The CIA stated that closure meetings are offered when this is required and that clients can discuss findings when the draft report is issued.
- 7.5.3 Draft audit reports are issued to the client for review and to seek agreement of any identified risks and provide a response and management actions for each risk.
- 7.5.4 All final reports are issued by the CIA to relevant officers within the service and to External Audit. All final audit reports are also reported to the next scheduled Audit, Risk and Scrutiny Committee.
- 7.5.5 A review of the CIA's Annual Assurance report to 31 March 2023 (reported to Audit, Risk and Scrutiny Committee on 27/06/2023) confirmed that:
- An annual opinion was provided as required.
  - This was reported within 3 months of year end.
  - The report includes the scope of the opinion.
  - Engagements completed are consistent with the overall opinion.
  - The overall opinion is supported by an appropriate methodology.
  - A statement of conformance with PSIAS was included.
  - Results of the most recent QAIP were covered.
  - Performance on IA against performance measures and targets was reported.
- 7.5.6 Completed Stakeholder Questionnaires and interviews confirmed that internal audit findings and recommendations are now starting to be valued by management.
- 7.5.7 Aberdeen City Council's Internal Audit **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 Internal Audit follow-up on actions once they are due and request evidence to support the closing of each action. The extent of the evidence required is at the discretion of the auditor carrying out the follow-up exercise. Normally this will involve the request and receipt of documentation from clients to confirm that the recommendation has been implemented.

7.6.2 Progress on the implementation of internal audit recommendations is reported to each meeting of the Audit, Risk and Scrutiny Committee. The CIA will also consider any follow up action taken when he provides his opinion in the Annual Assurance Report. The results of the follow up exercises did not limit the opinion in 2021/22 or 2022/23.

7.6.3 Aberdeen City Council's Internal Audit **fully conforms** with Standard 2500 on Monitoring Progress.

## 7.7 2600 - Communicating the Acceptance of Risks

*When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, they must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, they must communicate the matter to the board. It is not the responsibility of the chief audit executive to resolve the risk.*

7.7.1 One instance where an audit recommendation was not accepted by management was identified during this review. In this instance Management accepted the identified risk and this was reported to Committee who accepted the outcome.

7.7.2 Regular updates are made to the Audit, Risk and Scrutiny Committee regarding progress with outstanding audit recommendations, thereby keeping them and senior managers up to date with areas where action to address recognised risk has not yet been addressed.

7.7.3 The Annual Assurance Report includes and concludes on the full scope of internal responsibilities with an opinion on the Council's framework of governance, risk management and control. It should be noted that that the 2022/23 Annual Assurance Report only partly summarised the opinions for the audit assignments that contribute to the CAE opinion. This is because the "previous year's work, issued in the current year did not include an overall graded opinion (see para. 7.5.1, above)

7.7.4 Aberdeen City Council's Internal Audit **fully conforms** to the Standard on Communicating the Acceptance of Risk.

Donna Sutherland  
Strategic Lead, Corporate Audit & Performance  
The Highland Council  
September 2023

## APPENDIX A – SUMMARY OF ASSESSMENT

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

2500		Monitoring Progress				
2600		Communicating the Acceptance of Risks				
TOTALS			13	1	-	-

## APPENDIX B – EVIDENCE PACK

- Aberdeen City PSIAS Self-Assessment
- Internal Audit Charter
- Internal Audit Manual
- Internal Audit Plan 2023-2025
- Internal Audit Annual Report 2022/23
- Audit, Scrutiny & Risk Committee meeting minutes
- Internal Audit Team member job descriptions
- Internal Audit Team performance reviews
- Internal Audit training report
- CAE qualification certificate
- Sample of Internal Audit annual declaration of interest statements
- Sample of audit files from completed assignments
- Aberdeen City shared Audit Service SLA
- Aberdeen City retention policy
- Aberdeenshire employee code of conduct

## APPENDIX C – STAKEHOLDER QUESTIONNAIRES

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

- Councillor Houghton
- Councillor MacDonald
- Chief Executive
- Director – Commissioning
- Director – Customer
- Director – Resources
- Interim Chief Operating Officer – HSCP
- Chief Officer – Finance
- Interim Chief Officer - Governance

## APPENDIX D – ACTION PLAN

No.	Para	Recommendation	Management Response	Responsible Officer/ Agreed Completion Date
1	6.1.2 – 6.1.4	In order to meet the requirements of the PSIAS/LGAN, the Internal Audit Charter must be reviewed and revised to include the following: <ul style="list-style-type: none"> <li>• arrangements for appropriate resourcing (including the role of the internal audit contract manager); and</li> <li>• define the role of internal audit in any fraud-related work (including notification of both suspected and detected fraud).</li> </ul>	The Internal Audit Charter is considered fit for purpose and accurately reflects the relationship between Aberdeen City Council and Aberdeenshire Council Internal Audit, specifically focusing on the areas for which the latter has responsibility. However as part of the annual review, scheduled to be presented to Committee in March next year, the points noted will be factored in.	Chief Internal Auditor Mar-24
2	6.1.4	The Counter Fraud Policy should be reviewed and revised to include a requirement for the CAE to be informed of all suspected and detected fraudulent activity. This can be used to inform the CAE's assessment of risk when preparing the annual audit plan and their annual audit opinion.	We will work with ACC Management to support a review and revision of the Counter Fraud Policy to better reflect what is already being done operationally.	Chief Internal Auditor Dec-23
3	6.4.1 – 6.4.2	The scope of the internal QAIP assessments (including both ongoing and periodic) should be documented and the results of each included in the annual opinion report.	The annual internal QAIP is reported to Committee as part of the CIA's Annual Report. The scope of this work will now also be documented. The next review is scheduled to be presented to Committee in June next year.	Chief Internal Auditor June-24
4	7.1.8	In line with CIPFA's best practice, Internal Audit should provide improved information to explain to the Audit, Risk and Scrutiny Committee that it has sufficient resources to deliver the internal audit plan.	Behind the Internal Audit Plan that is presented to Committee each year is a full suite of supporting analysis that looks at resourcing. This is discussed with Management and Committee when presenting the Plan. However, in order to satisfy best practice, this will be reporting as part of the actual document that is approved by Committee. The next Plan is scheduled to be presented to Committee in March next year.	Chief Internal Auditor Mar-24

	Critical
	Significant
	Routine