



Dumfries and Galloway
IJB Audit and Risk Committee

9th December 2021

This Report relates to
Item 6 on the Agenda

Chief Internal Auditor Quarterly Update December 2021

Paper presented by Julie Watters

For Discussion and Noting

Author:	Julie Watters, Chief Internal Auditor NHS Dumfries and Galloway and Dumfries and Galloway Integration Joint Board
List of Background Papers:	n/a
Appendices:	Appendix 1 – DGC Annual Report 2020/21 Appendix 2 – NHS D&G Audit Plan 2021/22 (Q 3&4) Appendix 3 – DGC Audit Plan 2021/22

1. Introduction

- 1.1 The purpose of this report is to provide an update to Audit and Risk Committee (ARC) on progress of delivery of Internal Audit assurances for the Integration Joint Board for 2020/21 and to highlight the assurances received from the NHS Dumfries and Galloway and Dumfries and Galloway Council audit plans as part of the IJB's overall governance and risk management processes.

2. Recommendations

2.1 The IJB Audit and Risk Committee is asked to:

- **Note this update on progress against the Internal Audit plan for 2020/21.**

3. Background and Main Report

- 3.1 As detailed in previous reports, guidance requires the Integration Joint Board (IJB) to establish adequate and proportionate internal audit arrangements for the review of risk management, governance and controls over delegated resources.
- 3.2 The approved internal audit plan for the IJB takes into consideration the fact that operational services are delivered within the Health Board and Local Authority respectively on behalf of the IJB and as such assurances are provided on these areas to their respective Audit and Risk Committees.
- 3.3 The overall objective of the audit plan is to provide assurance on the ongoing risk management, governance and assurance arrangements in the IJB. This is informed by the respective audits undertaken within each partner organisation and is enhanced with dedicated audit days being provided from both the Health Board and Council Internal Audit plans.
- 3.4 Audit assurances to the IJB are not delivered in isolation and the internal audit functions of both the NHS and Council will deliver assurances to their own organisations that should also be considered by the IJB where relevant. It is the responsibility of the Chief Internal Auditor for the IJB to ensure that these assurances are consolidated and reported on as relevant.

Audit plan 2020/21

- 3.5 The Council and Health Board have separate internal audit plans for each financial year approved through their own Audit and Risk Committees. These individual plans deliver a range of assurances within the host organisations as well as giving a specific allowance of audit days for provision of assurance in relation to the IJB and H&SCP.
- 3.6 The IJB Internal Audit annual report for 2020/21 was presented to the IJB ARC in September 2021 and detailed the range of assurances that had been provided from the NHS and Council audit work during the year and highlighted those of specific relevance to the IJB.
- 3.7 At that time Council assurances had not been finalised through appropriate routes and committees therefore these are only now able to be brought to this committee. The council's Internal Audit Annual Report which went to the Audit, Risk and Scrutiny Committee in September is attached at Appendix 1.

Audit plan 2021/22

- 3.8 The NHS Audit Plan for 2021/22 was approved at the April 2021 ARC meeting. A further plan for the remainder of the year was presented to the October 2021 meeting. This is attached at Appendix 2.
- 3.9 The Council's Audit Plan for 2021/22 was approved at their Audit, Risk and Scrutiny meeting in September 2021 and is attached at Appendix 3.
- 3.10 The reports within the following table have been taken to the NHS Audit and Risk Committee.

Table 1 – Audit reports presented to NHS Audit and Risk Committee

Audit	Assurance	To ARC
A/02/21 - Board Policy Framework	Limited	April 2021
FM/01/20 - Externals – Activity monitoring	Moderate	April 2021
H/01/21 – IT Hardware/Laptop theft	Moderate	July 2021
A/08/21 – Security	Limited	July 2021
F/02/22 – Property Transactions Monitoring	Concluded satisfactorily	Oct 2021

- 3.11 The Internal Audit functions of both the NHS and Council are experiencing many challenges in progressing audit work due to additional pressures on the services due to Covid -19. Audit approaches have been amended to allow for remote working. An approach to coordinate assurances from the individual audit plans is being taken forward for the 2021/22 audit year.

Audit Planning 2022/23

- 3.12 As committee are aware, the Chief Internal Auditor has been looking at the combined assurances that are required from the NHS and the Council and how outputs from audit work can be shared between the respective audit functions. This work is being progressed looking at the required outputs, who these should be provided to and by whom and the deadlines associated with these. These will cover the combined processes around the following areas:
- Audit planning - annual plans
 - IJB specific audits
 - NHS and Local Authority Audits – sharing of assurances
 - Audit Committee reporting framework
 - Annual Internal Audit reports
- 3.13 It was initially agreed that a Memorandum of Understanding would be created and this has become a joint working protocol. This is being finalised with specific consideration being given to the roles of the respective Audit and Risk Committees in this process to ensure that the roles and responsibilities of each committee are fulfilled and also to ensure that each committee considers their respective obligations in relation to risk and assurance.

4. Conclusions

4.1 This report provides an update on progress against the plans for 2021/22 and details further work required to pull together these assurances.

5. Resource Implications

5.1 An estimate of the implications of the subject on Partnership financial or staffing resources.

5.2 This section **must** include the suggested budget or fund from which resource will be allocated.

6. Impact on Integration Joint Board Outcomes, Priorities and Policy

6.1 Internal Audit is a key element of the delivery of independent assurances around the achievement of the IJB's objectives.

7. Legal and Risk Implications

7.1 The IJB Risk Register requires continual review so that risks to the achievement of objectives are clearly identified and articulated. This will assist in directing audit resource where assurances are most needed.

8. Consultation

8.1 This paper, as a summary of the overall audit approach, has been discussed with the Audit Manager at Dumfries and Galloway Council.

9. Equality and Human Rights Impact Assessment

9.1 The Equality Framework within NHS D&G has been considered in creating the audit plan. An equalities impact assessment has not been completed.

10. Glossary

10.1 The following table details the abbreviations and associated terms encountered throughout this report and guidance referred to.

ARC	Audit and Risk Committee
DGC	Dumfries and Galloway Council
EQIA	Equalities Impact Assessment
H&SCP	Health and Social Care Partnership
IJB	Integration Joint Board
NHS D&G	NHS Dumfries and Galloway

ANNUAL INTERNAL AUDIT REPORT AND CONTROLS ASSURANCE STATEMENT 2020-21

1. Purpose of Report

An internal audit plan for 2020-21 was approved by the Audit, Risk and Scrutiny Committee at its meeting on 22 September 2020 and this report provides information about the work completed and the assurance conclusion arising.

2. Recommendations

Members are asked to note

2.1 completion of the 2020-21 internal audit plan in full was disrupted but core assurance work was prioritised; and

2.2 internal audit's Controls Assurance Statement for 2020-21 (**Appendix**) which gives a positive assurance on the Council's internal control arrangements for the year.

3. Considerations

Issues in Completing the Internal Audit Plan

3.1 The 2020-21 internal audit plan was based on a direct time budget of 276 days to 31 March 2021. This was allocated across the four programme areas of: main financial systems (155 days), departmental business systems (60 days), risk management (41 days), and grants work (10 days). There was also a small contingency for unplanned work (10 days).

3.2 The plan was presented at a time when the first COVID-19 health emergency national lockdown was being lifted and it was anticipated a return to normal business would take place. However the health emergency continued and there was a second national lockdown whose effects are partly still in place. As a result of delays in the progress achievable in audit assignments and additional support requests of internal audit (nevertheless within our remit) completion of the plan in full was not achieved. With the passage of time and change of circumstance it has required adaptation, now acting as a reference point.

3.3 The work undertaken for 2020-21 was prioritised to main financial systems assurance. We had included five systems reviews in the plan and we were able to undertake and report on four of these, as follows:

- Housing Benefits and Council Tax Reduction;
- Council Tax;
- Income Management;
- Purchase to Pay (Creditors)

Whilst an audit was prepared for the Non-domestic Rates (NDR) system it was not possible to progress this because the Service could not accommodate it. Key staff had been allocated other duties in support of priorities such as business grants or were covering other staff, and this also impacted on the planned Council Tax work.

3.4 For the areas of planned main financial systems assurance work which were restricted we discussed the risks with management and received assurances from them relating to operation and disclosure. We also considered the positive position reported in

previous cyclical reviews and follow-ups. As a result we were able to support the Service by deferring part of the Council Tax audit by six months and the NDR audit until late in 2021. (The second part of the Council Tax audit has been completed at the date of this Committee meeting and is reported elsewhere on the agenda.)

3.5 We were unable to progress the planned work on departmental business systems (3 audits). Two of these related to subjects audited in the past, on energy management in schools and 3G sports pitches. We discussed the position with service management and confirmed there was no special operational risk currently. These are areas we may consider for inclusion in a future audit plan.

3.6 The plan included a review of the arrangements for allocating staffing resources in primary schools which had been suggested by the Education Service but we stood back from this both because of our own time pressure and to avoid creating an additional demand on them during the health emergency. We will discuss with service management whether an audit review still offers a benefit in due course.

3.7 Up to June 2021 we completed follow-up reporting to the Committee on 16 previous audit reports including three main financial systems, which work also contributes to assurance for the year.

3.8 Under the risk management programme in the plan we had included 10 days for general support and 30 days for business support grant assurance. Both have proved to be under-estimates of the requirements. As an outcome of the review of internal financial procedures and procurement standing orders led by the Finance, Procurement and Transformation Committee, there has been a re-focus on corporate risk management arrangements and internal audit has provided additional support for this development. As well as this the Council's delivery of significant COVID-19 business support payments has required an extended assurance input from internal audit. We have reviewed three different payment streams, one of which is being reported elsewhere on the agenda and the other two will follow at December's meeting of the Committee.

3.6 We also completed the LEADER programme audit and issued the annual report (which was submitted to the Scottish Government in November 2020). This funding stream has now ended (any final audit certificate requirement remains to be communicated to us).

3.7 Overall the team delivered 228 direct audit days for the year to 31 March 2021 although assurance work relating to the 2020-21 financial year has continued into the first part of the 2021-22 year. A plan for the internal control assurance for the 2021-22 financial year is reported elsewhere on the agenda.

Controls Assurance Statement for 2020-21

3.8 The work of internal audit relates to the following business objectives:

- Effective and efficient operations
- Reliable reporting arrangements
- Compliance with laws and policies

3.9 Internal audit provides an annual controls assurance statement which is a formal document stating whether or not the control framework established and operated by

management provides reasonable assurance these business objectives are being met. This is one of the assurances supporting the Governance Statement, which will be published with the Council's accounts.

3.10 No significant matters arose through internal audit's testing programme and consideration of control issues for 2020-21. An appropriate level of control is considered to have been in place and the overall conclusion is a positive assurance for that year. A formal statement to this effect is provided in the **Appendix**.

4. Governance Assurance

4.1 The remit of the Audit, Risk and Scrutiny Committee has been set by the Council. In adopting the recommendations to note and comment on the progress made and to note the controls assurance statement, the Council will be acting within its legal powers.

4.2 The Council's Management Team has been consulted on the report and is in agreement with it.

5. Impact Assessment

As this report does not propose a change in policy/strategy/plan/project, it is not necessary to complete an impact assessment.

Author(s)

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Approved by

NAME	DESIGNATION
Vlad Valiente	Head of Governance and Assurance

Appendices - 1

Appendix - Internal Audit Controls Assurance Statement 2020-21

Background Papers

Previous reports to Audit and Risk Management Committee at

<https://dumfriesgalloway.moderngov.co.uk/ieListMeetings.aspx?Committeed=145>

Internal Audit Plan 2021/22 – Quarters 3 and 4

Introduction

1. This appendix presents the proposed audits for the remainder of 2021/22.

Planning approach

2. It was agreed at the January 2021 Audit and Risk Committee meeting that a 6 month plan be brought to the April 2021 meeting, with a further plan to cover the remainder of the audit year to come to this meeting.
3. Due to a number of pressures over the last year, the audit plan for 2020/21 was not completed and there were a number of audits at various stages from initial scoping to systems review and early testing that would either need to be carried forward into the 2021/22 plan or cancelled which would mean that time spent on them to date would be lost.
4. Therefore the audits that were proposed at that time were:
 - Governance Blueprint
 - Performance Reporting
 - Sustainability and Modernisation Programme
 - Communications
 - Safer Staffing Bill
 - Health Inequalities
 - Ward level controls
5. This decision was also based on the benefits that would come from Audit and Risk Committee members' attendance at the three Risk workshops which were proposed at this time. Two of these have taken place with a further workshop planned to complete work around the Corporate Risk register and the Board's Risk Appetite. Once this is complete this will be used to inform future audit planning to enable a more agile and flexible approach to determining which audits and therefore assurances will be a priority moving forward.
6. These audits are all underway with the exception of the Safer Staffing audit which is going to be deferred to a future date once the legislation is fully adopted. The following link details information on the status of this Bill which has been considered along with discussions with the Nurse Director.

<https://www.rcn.org.uk/scotland/influencing-on-your-behalf/safestaffingscotland>
7. The audit team is now back to full capacity as the staff member who was on maternity leave returned to work in June.

8. The Board has identified Tactical Priorities for 2021/22 which were approved in April 2021. These are as follows

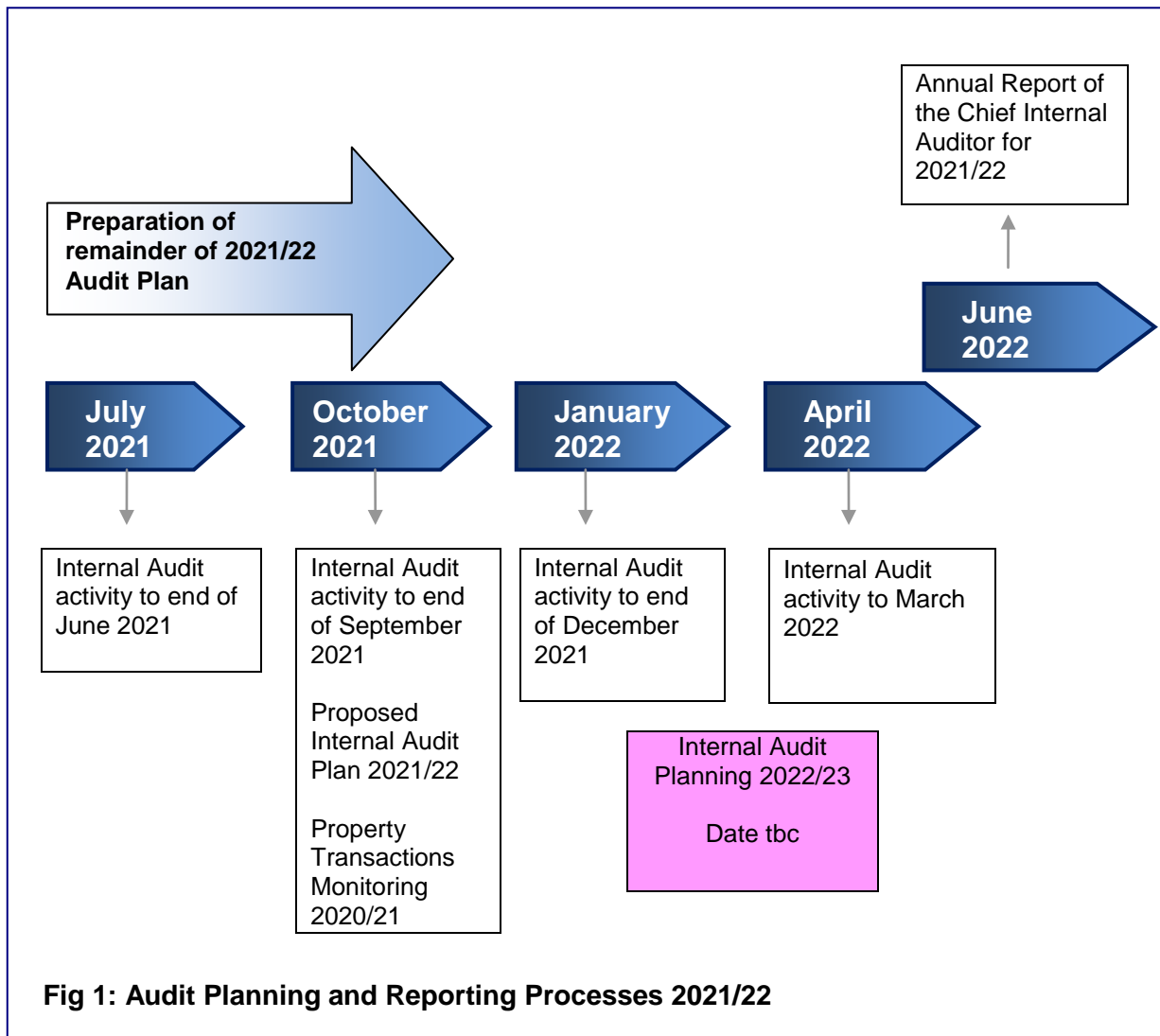
1. Covid-19 Containment Work
2. Continued Support for Staff Wellbeing
3. Delivery of Sustainable Service Models
4. Delivery of Enhanced Services to address Pandemic Harms

9. These priorities have been considered along with planning discussions with Board Members and Senior Managers within the organisation.

10. The table below details the proposed audits for the remainder of 2021/22 and highlights the rationale for inclusion in the plan with reference to the Tactical Priorities they relate to or that should be considered when undertaking the audit work.

Audit	Rationale	Tactical Priorities
Environmental Strategy	Net-Zero aspirations for NHS Previous audits – Waste Management 2019 (Moderate Assurance)	1 2 3 4
Emergency Planning and Response	Covid response lessons learned brought up in many discussions Last audit - pre 2016 (Moderate Assurance)	1 2 3 4
Central Sterile Services Department	Number of incidents raised around out of date equipment being used Patient Safety Alert 07/201 issued 17/3/21 Last audit – pre 2016 (Moderate Assurance)	3 4
Covid Vaccinations	Tactical priority Significant fraud implications being raised No previous audit	1 2 3
Waiting Lists	Significant impacts in this area Previous issues nationally in waiting time manipulation Service will be reviewing this and welcome Internal Audit input into the process Last audit - 2019 (Moderate Assurance)	2 3 4
DPA/GDPR	Many changes in this area e.g. Working from home Increasing number of incidents reported Last audit - pre 2016 (Moderate Assurance)	1 2 3 4
Pre-employment screening (deferred)	Large number of changes to process Internal Audit had some input where aware of changes. Requires review to ensure fit for purpose Last audit - pre 2016 (Moderate Assurance)	1 2 3 4
Cash Controls/Petty Cash	To include Patients' Funds Cash Controls audit – 2018 (Significant Assurance) Patients' Funds audit - pre 2016 (Moderate Assurance)	3
Payments to staff	Not just restricted to Payroll Payroll audit - 2019 (Moderate Assurance) eESS audit – 2020 (Limited Assurance)	1 2 3 4

11. The diagram below summarises the timings of the various reports which will be brought to Audit and Risk Committee over the year.



12. Internal Audit work will continue to be provided in accordance with an approved Internal Audit Plan and Audit Charter. Preparation of the plan and its subsequent approval by Audit and Risk Committee is in line with the Public Sector Internal Audit Standards (PSIAS) and the Scottish Government Audit and Assurance Committee Handbook. As set out in PSIAS, the focus of the internal audit strategy and plan should be built around a risk-based approach within the organisation which underpins and enhances its value.

13. An Audit Plan should provide sufficient coverage to achieve the objectives of Internal Audit, which are to provide an independent opinion on the effectiveness of risk management, internal control and governance processes within the Board and therefore the content of this audit plan will aim to give an adequate level of coverage to be able to provide sufficient assurance across all areas of governance.

14. In terms of the perception of overall assurance, this is an area for judgement, primarily of the Audit and Risk Committee and of the Accountable Officer who will use this information to not only inform the Governance Statement, but to provide an overall view on risk management, control and governance on an ongoing basis.
15. The format of the audit plan that is proposed is intended to allow adequate information on assurances across wide areas of the Board that will enable this perception of assurance to be formed.
16. The Audit Charter was given a full review in 2019, to take into consideration the revised Audit and Assurance Committee Handbook issued in March 2018 and to consider the implications of the removal of the Internal Audit section from the Board's Standing Financial Instructions and ensure that this was reflected in the Charter. This is brought back to Audit and Risk Committee annually for approval.

Summary

17. The audit strategy and audit planning approach have been widely consulted.
18. The Audit and Risk Committee is therefore asked to:
 - **approve** the proposed approach and Internal Audit Plan for the remainder of 2021/22

To Members of the Audit, Risk and Scrutiny Committee of Dumfries & Galloway Council and the Council's S95 Officer

This is Internal Audit's assurance statement about the adequacy and effectiveness of the Council's internal control system for the financial year ended 31 March 2021.

Statement of the responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of Internal Audit to assess the robustness of the internal control system through a risk-based approach and report its overall conclusion to the Audit, Risk and Scrutiny Committee annually.

Context for internal control

The main objectives of the Council's internal control systems are:

- To ensure adherence to management policies and directives, in order to achieve the Council's objectives;
- To safeguard assets;
- To ensure the reliability, relevance and integrity of information, securing as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable, but not absolute assurance that control weaknesses or irregularities do not exist or there is no risk of material errors, losses, fraud, or breaches of laws or regulations. The Council must continually seek to improve its systems of internal control and internal audit work supports this.

Maintenance and development of the system of internal financial control is undertaken by managers within the Council. The system is based on a framework of financial regulations and codes, a scheme of delegation and accountability, management supervision, administrative procedures (including separation of duties) and regular management information. In particular, the system includes:-

- Comprehensive budgeting systems to authorise and control expenditure and identify expected income;
- Regular financial monitoring reports of actual expenditure and income against budget;
- Forecasting of financial performance, identifying potential variances against financial plans, and taking corrective action when required;
- Setting targets for delivering financial and other performance;
- Clear capital expenditure guidelines;
- Formal project and risk management disciplines.

The work of Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Local Authority Accounts (Scotland) Regulations 2014 require the Council to: 'operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.' For local authorities, the recognised standards are the Public Sector Internal Audit Standards (PSIAS) published by the relevant professional accounting bodies.

The Council's Internal Audit section operates in accordance with an Internal Audit Charter (most-recently approved by the Audit, Risk and Scrutiny Committee in September 2020) which is based on the principles and standards outlined in the PSIAS. Except in one particular respect, Internal Audit operated generally in compliance with these standards and there were no significant departures from them during 2020-21. However an external quality assessment of Internal Audit's compliance with PSIAS remains outstanding and will be progressed during 2021.

The Internal Audit section undertakes an annual programme of work based on an informal risk assessment process, which is revised on an ongoing basis to reflect evolving risks and changes within the Council. The Audit, Risk and Scrutiny Committee approved the internal audit plan for 2020-21 in September 2020.

Internal audit reports which identify any system weaknesses, non-compliance with established controls and improvement opportunities are issued to applicable Heads of Service and operational management. They are also made available to elected Members. Any significant matters arising from internal audit work, including non-compliance with important audit recommendations, are reported to the Head of Finance and Procurement as the Council officer designated under S95 of the Local Government (Scotland) Act 1973.

It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. Internal Audit is required to identify if action has been taken on its recommendations and that management has understood and accepted risks from not so acting. Progress on implementing the agreed action points in internal audit reports by Services is reported to the Audit, Risk and Scrutiny Committee who can 'call in' any matter where progress is a concern. The Council's external auditors also arrange to follow up any actions they have agreed with management.

Fraud Reporting

Internal Audit's role includes assisting management in countering fraud through advice and reporting on control weaknesses found during the course of audit work. Internal Audit also co-ordinates the formal reporting of fraud involving sums above £5,000 to the Council's external auditors, for onward reporting to Audit Scotland. Council managers are required to notify Internal Audit of all such cases and no frauds were reported in 2020-21.

At the beginning of the 2020-21 financial year an independent internal investigation into a financial deficit on a former Council contract with a Trunk Road Operator was reported to Members. This was supported by a further report commissioned from specialist external accountants who analysed the main contributory factors to the deficit. An overall conclusion reached through both pieces of work as reported to the Council was no evidence was found that fraud or corruption had been an underlying factor in the deficit.

As part of a broader review of its governance arrangements around contracting and procurement during 2020-21, the Council agreed to refresh the membership of the Integrity Group which has oversight of its anti-fraud and anti-corruption policies and their operation. The Internal Audit Manager is a member of that Group.

Basis for 2020-21 Controls Assurance Conclusion

Internal audit's evaluation of the control environment that operated during 2020-21 is informed by a number of sources:

- The work undertaken by internal audit during the year to 31 March 2021 and previous years;
- The assessment of risk completed during the preparation of the audit plan;
- Reports issued by the Council's current external auditors, Grant Thornton;
- Knowledge of the Council's governance, risk management and performance monitoring arrangements, including participation in assessment of the Council's compliance with its Local Code of Corporate Governance;
- Assurances provided to auditors by management during the course of audit work.

The management requirements faced by the Council in 2020-21 were significantly more demanding and complex than previously because of the COVID-19 health emergency. Strategic management focus was realigned and revised operational management arrangements were adopted to allow the Council to support its communities and partner bodies throughout the pandemic, which included redeployment of some staff away from normal duties. There were two national lockdowns of extended duration, requiring many staff to work from home. In addition the Council was called on to administer major programmes of financial support to businesses in the region, which required new control arrangements to be established. Fortunately the Council's systems proved robust enough to accommodate the new and changed activity without any loss of control being disclosed by management. Strong overall financial control left the Council in a balanced financial position notwithstanding the exposures it faced.

The level of staffing resources available to undertake internal audit work in 2020-21 was limited due to a continuing staffing vacancy and the additional demand for support on various issues including the trunk road contract reporting, improving risk management arrangements and the Member scrutiny programme. In addition internal audit work became more challenging to deliver as a result of the changes and revised priorities during the health emergency.

However through prioritising work from the internal audit plan around main financial systems and extending the normal clearance timescales, these issues did not impair Internal Audit's ability to reach a conclusion on the adequacy and effectiveness of internal control, risk management and governance arrangements which operated during the year. There was a restriction on Internal Audit's ability to complete a full assessment of one system due to limitations on the availability of Service staff but this was mitigated in this case through discussion of risks with management, reference to the historic position and receipt of management assurances. Completion of the assessment is in hand currently.

The internal audit programme for 2020-21 addressed the adequacy and effectiveness of key controls in four of the Council's main financial systems. Follow-up work was undertaken for three other main financial systems, based on the reports issued in the previous year, and on 13 other reports. No specific computer audits were undertaken.

The internal audit section also provides support towards the development and maintenance of risk management in the Council. The activity during the year included significant input in respect of corporate risk management practice and reporting following the formation of a risk management subgroup of the Corporate Management Team. In respect of corporate governance, Internal Audit contributed to the assessment of compliance with the local Code through developing the good governance questionnaire for officers whose outcome has been reported to the Council as part of the Annual Governance Statement.

Limitation to Scope of Assurance Provided

In accordance with professional practice, internal audit work is planned and performed on the basis that conclusions can be reached from a sample of transactions. This leaves a possibility that there may be undetected control issues in unexamined transactions.

For reaching its conclusion on the Council's internal control environment as a whole, Internal Audit is reliant on management having disclosed full information for the main financial systems which were not subject to audit in 2020-21. A significant non-disclosure could have a bearing on the assurance conclusion.

The controls assurance statement has been prepared in August 2021 and there remains a risk that a material control weakness could emerge during the external audit of the accounting statements for 2020-21.

The above risks are however considered small.

Conclusion

It is the Internal Audit Manager's conclusion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2021.

J K Geraghty
7 August 2021

INTERNAL AUDIT PLAN TO 31 MAY 2022

1. Purpose of Report

This report advises Members of the proposed internal audit work to deliver a controls assurance statement for the 2021-22 financial year.

2. Recommendations

Members are asked to:

2.1 note the Internal Audit Charter which defines the operating parameters for internal audit (**Appendix**); and

2.2 agree the internal audit plan for 2021-22 (paragraphs 3.2.6 and 3.3.1).

3. Considerations

3.1 Background

3.1.1 Internal audit work in local authorities is required to conform with the Public Sector Internal Audit Standards (PSIAS), which encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework.

3.1.2 Internal audit's authority to operate within Dumfries & Galloway Council is set out in an Internal Audit Charter which gives effect to PSIAS. The Charter ensures internal audit's independence and confirms internal audit's right of access to all information and assets relevant to its work. It also sets out internal audit's responsibilities and reporting relationships.

3.1.3 The Charter was last approved by the Audit, Risk and Scrutiny Committee in September 2020 when it was updated to reflect changes in the Council's management structure. The Charter states the document will be presented annually to the Audit, Risk and Scrutiny Committee to obtain approval for any changes and provide the context for internal audit's annual plan. No changes have been made to the Charter this year and it is attached as an **Appendix** to this report in fulfilment of that requirement.

3.2 Internal Audit's Planning Approach

3.2.1 Each year the internal audit team works to obtain sufficient, relevant and reliable evidence to support a conclusion on the adequacy and effectiveness of the Council's internal control systems. This conclusion is formally reported in an annual controls assurance statement and the requirement is referenced as a source of assurance in the Council's annual governance statement (published as part of the statutory accounts).

3.2.2 The internal audit team further meets its remit by co-ordinating the development of risk management in the Council; contributing to risk management improvement activity; and undertaking reviews of how well corporate and service risks are being managed. Internal audit also participates in the annual review of the Council's compliance with its Code of Corporate Governance.

3.2.3 Internal audit applies its staffing resources to areas of control risk. In identifying priorities for internal audit activity, the nature and value of financial transactions is a factor,

but the maintenance of public confidence in the Council's financial arrangements is equally important. The audit plan therefore should strike a balance across the full range of activities that the Council is involved in, while prioritising the main financial systems.

3.2.4 In common with most areas of Council activity the work of internal audit has been affected over the last 18 months by the COVID-19 health emergency. The internal audit team's ability to deliver a programme of similar scope to the previous level has been constrained by several factors, including an ongoing staffing vacancy and additional calls on our support separate from formal audits. As the Council moves into the post-pandemic Renewal phase however we can expect restoration of business levels seen previously and a return to a broader base to audit plans from mid-2022 onwards.

3.2.5 Due to disruption to the 2020-21 audit plan the assurance work for that year continued after financial year-end through the summer. For practical purposes specific assurance work for 2021-22 can only be started in September. In addition the 2021-22 audit plan reflects that a (time-defined) increase in support for risk management development has been requested. On the internal audit manager's recommendation this is to be achieved by allocating 65% of a senior team member's available days to this work for a year to 18 months. The impact of both these factors is to reduce the total time available for audit work from current resources and it is necessary therefore to limit the 2021-22 plan at this stage to core assurance work involving main financial systems.

3.2.6 Under its strategic plan internal audit undertakes a three-year review cycle for the Council's main financial systems and it is intended to maintain this so that the audits falling due this year will still be undertaken. These are: Accounting; Revenue Budgeting; Banking; Sundry Debtors; and Treasury Management. In addition the plan needs to accommodate the Non-domestic Rates system audit deferred from the 2020-21 plan. In normal course this work package would require 235 audit days to complete but this resource level is not available if a 31st March plan end date is used. It is therefore proposed to continue the assurance work for 2021-22 financial year through to 31st May 2022 to ensure the full programme can be completed.

3.2.7 As a further mitigation the internal audit team will shortly advertise its staffing vacancy and if a suitable and experienced candidate can be appointed there may be scope to include further audits in the plan or finish it before the end of May 2022.

3.2.8 The 3-year strategic internal audit plan is not being reported at this time because of the interim change in resources but it will be re-established for the planning reported for 2022-23. As indicated in paragraph 3.2.6 above, the strategic plan as reported last year has informed this year's annual plan.

3.2.9 In respect of computer auditing, whilst system access controls, security over backups and confirmation of business continuity plans are routinely included in main financial systems work, internal audit does not have the technical expertise to undertake advanced computer audit work and no provision for this is made in the audit plans. Our approach to assurances in respect of ICT is kept under review and we will continue to identify opportunities for our team to contribute.

3.2.10 Even in its proposed form the internal audit plan for 2021-22 represents a very full programme of work for the assumed staffing level. Flexibility may improve with a successful recruitment but in any case next year's annual audit plan will provide an opportunity to address any concerns the Committee may express in the coming months.

3.3 Approval of Plan and Performance Management Reporting

3.3.1 Members of the Committee are invited to approve an audit plan of 200 days for the completion of six main financial systems reviews for 2021-22. Additional to this the internal audit team will assist in the development of risk management arrangements which is a current focus of the Council. The team will also undertake reporting on our work around COVID-related business support grants and follow-ups of previous internal audit reports, and will be engaged in the PSIAS external quality assessment.

3.3.2 The audit outputs arising from the plan work will be reported to the Committee as they are completed. Overall performance against the plan will also be reported to Members at plan year-end.

3.3.3 A recruitment exercise will be run and the outcome will be reported to the Committee so that any opportunity to increase the scope of the plan can be recommended.

3.3.4 In terms of other performance measures, internal audit reports on a number of these, as follows:

Annual

- Relative cost of internal audit benchmarked against other authorities
- Efficiency of adherence to annual plan, benchmarked against other authorities
- Reporting outputs achieved against annual plan
- Adherence to report production targets

Interim

- Progress against plan
- Job time actual against budget
- Performance against actions identified in audit reports.

3.4 Adequacy of staffing resources for internal audit

3.4.1 The staffing complement for internal audit is 4 fte posts (currently operating at 75%). The staffing resources made available to the internal audit service are based on the Director's assessment of the requirements needed to deliver assurance in compliance with professional standards and the support tasks assigned to the team. The resource assessment takes into account the qualifications, skills and experience present in the current team, the successful delivery of the service over a number of years at a similar level of staffing, advice from the internal audit manager and the changing size of the Council.

3.4.2 The internal audit manager is obliged professionally to draw the Committee's attention to any restriction in capability that arises from any shortfall in the staffing resources allocated to internal audit. The later start to the plan and the planning assumption of 200 available days for 2021-22 assurance represent a challenge, but the

core assurance focus recommended for a single year means no such concerns arise in respect of 2021-22 at the point of plan approval.

3.4.3 As part of the annual controls assurance statement the internal audit manager also reports on any impairments (such as independence threats or access issues) which have affected the ability of internal audit to perform its function. For the 2020-21 financial year the controls assurance statement (included elsewhere on the agenda) confirms there were no impairments to the ability of internal audit to deliver its annual assurance and this is also expected to be the case for 2021-22.

4. Governance Assurance

4.1 The remit of the Audit, Risk and Scrutiny Committee has been set by the Council. In adopting the recommendation to approve the audit plans and receive progress reports, the Council will be acting within its legal powers.

4.2 The Council's Management Team have been consulted on this report and are in agreement with it.

5. Impact Assessment

This report does not propose a change in policy/strategy/plan/project and it is not necessary to complete an Impact Assessment

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Appendices- 1

Appendix - Internal Audit Charter

Background Papers

None

INTERNAL AUDIT CHARTER

Introduction

1. The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The responsibility for maintaining an effective internal audit activity applies to Councils regardless of whether it is provided in-house, as is the case for Dumfries & Galloway Council, or through other arrangements (co-sourced or externally-procured).
2. The recognised standards and practices applying to all public sector internal audit providers in the UK are the Public Sector Internal Audit Standards (PSIAS), prepared by the Chartered Institute of Public Sector Accountancy (CIPFA) and other relevant standard-setting bodies. PSIAS encompass the key elements of the Institute of Internal Auditors international professional practices framework and include performance and attribute standards, and a code of ethics. Conformance with PSIAS is mandatory for local authorities.
3. CIPFA also published a supporting document which interprets the requirements of PSIAS to assist with their implementation. The Local Government Application Note (LGAN) applies to internal audit arrangements in addition to the PSIAS.
4. PSIAS and the LGAN require Dumfries & Galloway Council (D&GC) to have a formal internal audit charter setting out the purpose, authority and responsibilities of its internal audit service. This charter has been prepared to meet this requirement and to embed the principles set out in PSIAS within the Council's internal audit operation. Agreement to this internal audit charter by D&GC provides the authority for the operation of the internal audit service as described.

Mission Statement and Definition of Internal Auditing

5. D&GC hereby endorses and adopts the mission statement for internal audit and the definition of internal auditing set out in PSIAS, as follows:

Mission

Internal audit's mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition

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

Assignment of PSIAS Roles

6. PSIAS refer to roles in connection with the internal audit function which are required to be assigned. CIPFA's advice (as set out in the LGAN) is for local authorities to decide for each occurrence in PSIAS which party best fits the role in that situation, bearing in mind the requirement to preserve the independence and objectivity of the internal audit function. For most purposes however, the following applies:

The Board

In local authorities the role of the Board in respect of PSIAS is satisfied by an audit committee. In D&GC this is the Audit, Risk and Scrutiny Committee. Its constitution and remit are set out in the Council's Scheme of Administration and Delegation to Committees.

Senior Management

Senior management in D&GC's context are the Council's Chief Executive and the Senior Leadership and Corporate Management Teams.

Chief Audit Executive

The chief audit executive is required to hold a relevant professional qualification and be suitably experienced. In D&GC this PSIAS role is assigned to the internal audit manager.

Role Functions

7. D&GC's internal audit manager is the officer responsible for managing and delivering an independent internal audit service. The responsibility is discharged through the direct application of the internal audit staffing resources provided for this purpose, in accordance with required professional standards. The internal audit manager is also responsible for providing annually an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control, based on evidence obtained through objective assessments.

8. Senior management are responsible for establishing, operating and maintaining systems of internal control, risk management and governance which direct resources to achieving the Council's responsibilities, priorities and commitments and provide stewardship of public funds and accountability for the use of resources. Senior management are also responsible for contributing to the risk-based internal audit plan; facilitating the successful operation of internal audit within their services; receiving and considering the findings from internal audit activity and follow-up work; and ensuring a response to internal audit reports is provided within the agreed timescale.

9. The Audit, Risk and Scrutiny Committee has oversight of the operation of the internal audit service and its outputs. The Committee's responsibility is to establish the internal audit service, ensure its adequacy and effectiveness (including in relation to meeting professional standards), review its performance and hold management to account on their response to internal audit findings and recommendations.

10. In support of this, the internal audit service has a functional reporting responsibility to the Audit, Risk and Scrutiny Committee as follows:

- Approval of the Internal Audit Charter setting out internal audit's purpose, authority and responsibility;
- Approval of the annual risk-based internal audit plan;
- Ratification of the internal audit budget and staffing resource (in respect of the adequacy of the resources provided to deliver assurance responsibilities);
- Receipt of performance information relating to the delivery of the internal audit plan;
- Approval of any recommended adjustments to the annual internal audit plan;
- Receipt (along with service management) of the outcomes of internal audit assessments;
- Receipt of performance and follow-up information for improvement actions agreed by management;
- Receipt of the internal audit manager's annual controls assurance statement;
- Disclosure of inappropriate limitations on internal audit scope or resources;
- Receipt (along with line management) of the results of internal audit's quality assurance assessments, identifying its conformance with PSIAS and its progress on achievement of improvement actions;
- Ratification of any decisions on the appointment or removal of the internal audit manager.

In addition, the Committee's Chair will be invited to provide feedback contributing to performance appraisal of the internal audit manager.

Purpose of Internal Audit

11. The purpose of D&GC's internal audit service is to provide senior management and the Audit, Risk and Scrutiny Committee with independent assurance on the adequacy and effectiveness of the internal control, risk management and governance arrangements in place at the Council.

12. Internal audit's operational objective is to obtain sufficient relevant and reliable evidence to support an annual controls assurance statement. It will achieve this by testing for the continuous operation of key controls in corporate financial systems and by evaluating control and governance arrangements in other areas of business risk. It may also seek and place reliance on assurances from management.

13. The internal audit service will add value to its assessment work by identifying any improvement actions available to management and by engaging with operational staff on achieving business efficiency in systems and processes which have been subject to review. It also adds value by providing objective relevant assurance.

Responsibilities, Scope and Operation of Internal Audit

14. The proper establishment and operation of internal controls, risk management and governance are the responsibility of the Council's management. Internal audit's responsibility is to assist management and those charged with governance by contributing

advice, completing a programme of risk-based review work, adding value and reporting on the outcome of its assessments in a timely way. Internal audit is also responsible for reporting any significant risk exposures and control issues it identifies during its work.

15. In meeting this responsibility internal audit will maintain a level of professional independence and integrity consistent with PSIAS to ensure D&GC is provided with an objective assessment of its arrangements. The internal audit service will adhere to the core principles for the professional practice of internal auditing identified in PSIAS, as follows:

- Demonstrate integrity, competence and due professional care;
- Be objective and free from undue influence;
- Align with the strategies, objectives and risks of the Council;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive and future-focussed;
- Promote organisational improvement.

16. Internal audit's remit includes the entire control framework of the Council and is not limited to financial controls. It encompasses:

- The internal control environment and the systems and processes used;
- Risk management and performance management arrangements and outcomes;
- Management and operating information and reporting;
- Governance systems which ensure compliance with policies, plans, procedures, laws and regulations;
- Arrangements for safeguarding assets;
- Economy in the use of resources and business efficiency.

17. The scope of internal audit review work includes:

- Main financial systems;
- Departmental business systems;
- Financial systems under development;
- Corporate and service risk issues;
- Grant payments and funding receipts;
- Financial governance at outside bodies receiving funding;
- Following the public pound questions;
- Anti-fraud and anti-corruption work;
- Management information systems and ICT;
- Contracts and procurement;
- Acquisition and disposal of high value assets;
- National reports impacting on the Council.

18. In addition, the internal audit service will:

- Support the Council's S95 Officer (Head of Finance and Procurement) and the Monitoring Officer (Head of Governance and Assurance) in the discharge of their statutory responsibilities;
- Support the Audit, Risk and Scrutiny Committee to fulfil its audit committee role;

- Support the Council's anti-fraud and anti-corruption arrangements, including the operation of the Council's Integrity Group;
- Support development of the Council's risk management arrangements;
- Provide advice and guidance on control implications for new or changed systems where appropriate;
- Support the Council and the Corporate Management Team during key transformational / change projects.

19. D&GC's internal audit service works with managers to assess the adequacy and effectiveness of internal controls; compliance with policies and laws; and management of risks within operations they are responsible for. Internal audit may make recommendations for improvement and it is for managers to consider these. Management can also choose to accept the risks associated with an issue or decide to implement a different solution. Internal audit's sole responsibility is to report its findings and disclose any matters of concern which remain unaddressed.

Authority for the Operation of Internal Audit

20. Internal audit staff, with strict accountability for confidentiality and safeguarding information and records, are authorised to have full, free and unrestricted access to all the Council's records, electronic data, information, physical assets and personnel appertaining to their work. Internal audit staff may make such enquiries as they determine; Council staff, elected Members, contractors and agents are required to assist them in the performance of their work and provide any explanations requested. This includes granting access to records and correspondence (confidential or not) without redaction or restriction; providing access to systems and reporting tools to allow the extraction of data; facilitating access to land or premises; the production of any cash, stores or other property of the Council under their control; and the disclosure of information relating to the audit subject matter. Internal audit staff are further authorised to take possession of and remove original records relevant to audit work on a temporary basis or to make copies of records as required (which copies will be securely destroyed at the end of the audit in accordance with internal audit's records management practices).

21. The internal audit manager has an unrestricted right of access to the Council's Chief Executive, the Chair and Members of the Audit, Risk and Scrutiny Committee, the S95 Officer and the Monitoring Officer. The internal audit manager is authorised to bring to their attention and discuss with them any audit matter at his discretion.

22. The internal audit manager's right of access to partnership bodies and principals will be as set out in the relevant agreements.

Internal Audit's Reporting Relationships

23. Internal audit will prepare written reports of findings and conclusions for all audit work completed from the internal audit plan. Draft reports will be issued to operational management for observations and comments. The final report will include the management response and be issued at the end of each audit to the Director and Head(s) of Service concerned. Copies of final reports will also be made available to the Council's external auditors.

24. Internal audit reports will be presented to the Audit, Risk and Scrutiny Committee when finalised, in accordance with the reporting protocol agreed by that Committee (currently to receive all internal audit reports in full). As far as possible internal audit reports will be presented to the first Committee meeting following finalisation, but an internal audit report may be held over for a maximum of one meeting at the internal audit manager's discretion.

25. Internal audit will also follow-up and report on the progress made by management on implementing agreed actions arising from internal audit's work. The outcome of follow-up work will form part of the evidence required for its annual controls assurance statement. Management progress reports in respect of internal audit findings and recommendations will be presented to the Audit, Risk and Scrutiny Committee after approximately six months when Members will be invited to conclude or continue their interest in the actions taken by management.

26. The internal audit manager is free to report any audit matter to the Audit, Risk and Scrutiny Committee, whether or not in the plan, having first appraised senior management. The decision as to which part of the Committee agenda an internal audit report will fall under (public or confidential) will be made by the Proper Officer (the Director Communities).

27. Internal audit reports are considered published once included in the public part of an agenda of the Audit, Risk and Scrutiny Committee.

28. In respect of other outputs from internal audit, briefing papers prepared for management, file notes and assessments will not normally be presented to the Audit, Risk and Scrutiny Committee. Matters which, in the opinion of the internal audit manager need to be reported, will be in the form of an audit report.

Arrangements for Resourcing Internal Audit

29. The staffing complement and revenue and capital budgets allocated to the internal audit service are as determined by the Director Communities and approved by the Council during its annual budget-setting process.

30. The CIPFA LGAN states: "No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine the minimum level of coverage."

31. In terms of identifying whether adequate resources are allocated to an internal audit function, Audit Scotland state they expect a risk-based plan to be prepared with high risk items accommodated. This is the established approach in D&GC and will continue to apply.

32. The annual internal audit plan prepared by the internal audit manager sets out the staffing resources for the year ahead and the work which will be to be undertaken to meet the objective of giving an evidence-based opinion. The Council's main financial systems are programmed to be reviewed on a regular basis as the priority work and the coverage given to departmental activities and risks is based on informed assessments and consultations.

33. The internal audit manager is required to advise the Director Communities and the Audit, Risk and Scrutiny Committee of any anticipated or actual shortfall in the staffing resources needed to deliver an evidence-based assurance to D&GC. Further, any impairment to this objective experienced will be disclosed in the annual controls assurance statement.

34. In support of avoiding conflicts of interest the internal audit service will have no additional operational or executive responsibilities. It will minimise the non-audit work undertaken by its staff but where this is necessary, for example in respect of supporting another objective of the Council as requested by senior management, the internal audit manager will seek to accommodate the requirement without compromising the delivery of assurance to the Council and will report the position to the Audit, Risk and Scrutiny Committee. Any potential conflicts of interest which stem from performance of non-audit work will be recorded in a register and will be addressed by assigning the member of staff to alternative audit work.

35. Where D&GC works in partnership with external bodies, any role for internal audit (beyond following the public pound or assurance relating to the deliverables D&GC is responsible for) will be defined on an individual basis in a written agreement. The internal audit service will not undertake work on behalf of another organisation without the approval of the Director Communities and the endorsement of the Audit, Risk and Scrutiny Committee because of the potential for impact on the resources available for delivering assurance to D&GC.

Consulting Services

36. PSIAS allow for the delivery of consulting services by internal audit, which are defined as follows:

“Advisory and client-related service activities, the nature and scope of which are agreed with the client, [which] are intended to add value and improve the organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”

37. The requirement is for any consulting services to be clearly shown in an internal audit plan submitted to the Board for approval. Further, PSIAS require that approval must be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

38. At the current time the internal audit service at D&GC does not undertake any consultancy work falling under this definition but the above requirements will apply if the position changes.

Organisational Independence of Internal Audit

39. The internal audit service is part of the Communities Directorate and reports to the Head of Governance and Assurance. The reporting line is managed in a way which ensures the internal audit manager is accorded open and direct communication with senior

management and ensures the internal audit service has adequate and timely flows of information concerning the activities, plans and initiatives of the Council.

40. The internal audit manager and team are administratively accountable to the Director Communities. The Director's processes for service planning, performance monitoring and accountability all apply to the internal audit service along with Council-wide policies and procedures such as in respect of conduct and discipline, health and safety, financial regulations and budgetary control, use of ICT assets, records management and data protection, etc.

41. The LGAN identifies that the chief audit executive should have sufficient status to ensure that audit strategies, audit plans, results and improvement plans are effectively discussed with the Board and to provide credibly constructive challenge to the senior management of the organisation. This is met by the internal audit manager being appointed at service manager level in the Council's structure and having open access to senior colleagues across the Council. Further, the PSIAS require the chief audit executive to report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities, and this is met by the internal audit manager's functional reporting to the Audit, Risk and Scrutiny Committee.

42. The internal audit manager has responsibility for all operational internal audit activity including defining audit procedures, planning, audit selection, frequency, timing, scope of work, assignment, reviewing work and conclusions, and reporting outcomes. Internal audit reports are issued to management in the name of the internal audit service and the internal audit manager retains the final edit rights over all outputs and makes the decisions as to report distribution. The internal audit manager also prepares and signs the annual controls assurance statement which includes disclosure of any resource or independence issues affecting the service. This fulfils the requirement for the internal audit function to be operationally independent.

43. Internal audit work will not substitute for the proper installation and application of internal controls. Internal audit staff have no operational responsibility or authority over any of the activities being audited. They will not implement internal controls, develop procedures, install systems, prepare records, take over responsibility for fixing problems or engage in any other activity which may impair audit independence and objectivity.

44. Internal audit staff must exhibit the highest levels of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined, in accordance with professional practices. Internal auditors must also make a balanced assessment of all relevant circumstances without being influenced by other interests when forming judgements. Professionally registered staff are also governed by their professional body's code of ethics, which further require this objectivity.

Internal Audit's Role in Relation to Fraud and Corruption

45. D&GC's policies and practices on fraud and corruption are included in documents available to staff across the Council. The Council has published an anti-fraud and anti-corruption policy statement and strategy to set out its position, which references internal audit's role. This includes the requirement on management to disclose to internal audit any financial irregularities to inform internal audit's assessment of the control environment achieved.

46. Responsibility for managing the risks of fraud and corruption including making arrangements to prevent, detect and address its occurrence, lies with service management. Internal audit will assist management by:

- Considering what fraud and corruption risks exist within the systems and processes selected for audit review;
- Scoping audit work to increase the chance of detecting financial irregularities in the areas under review (without providing absolute assurance);
- Being alert to the possibility of financial irregularities when examining sample transactions;
- Following up any suspicious transactions or activity encountered and reporting this to service management;
- Identifying and reporting on the scope to minimise the risk of financial irregularities through internal control improvements.

47. Internal audit staff will not lead or conduct fraud or disciplinary investigations, in conformance with the Internal Audit Standards Advisory Board's guidance. The role of internal audit staff is to provide advice and technical support to management as required, as set out in the Council's Financial Codes and internal audit's fraud response protocol.

48. The internal audit service is not responsible for reporting the detail of financial irregularities to the Audit, Risk and Scrutiny Committee (this is a responsibility of management). At the discretion of the internal audit manager, the internal audit service may independently prepare a report on the factors relating to the occurrence of a financial irregularity such as the policies and procedures in place, the internal control arrangements and any weaknesses identified which might have a bearing on other operations.

Quality Assurance and Improvement

49. The internal audit manager will operate a quality assurance and improvement programme (QAIP) to ensure D&GC's internal audit function is compliant with PSIAS. The programme will comprise assessments covering individual audit assignments; an annual self-assessment to support the inclusion of a statement of compliance in the annual controls assurance statement; and an external quality assessment to be undertaken at least once in every five years. The arrangements for the latter will be reported to the Audit, Risk and Scrutiny Committee at the applicable time.

50. In respect of assessing compliance with PSIAS, reliance will be also be placed on the annual review of the adequacy of internal audit undertaken by the D&GC's external auditors. The Audit, Risk and Scrutiny Committee also has a role in ensuring internal audit's objectivity and independence.

51. The internal audit manager will, in liaison with the Head of Governance and Assurance, keep under review the professional, skills and knowledge development of the individual members of staff employed in the internal audit service and make appropriate arrangements to ensure they remain up to date (continuing professional development).

52. The outcomes from the QAIP assessments, external audit reviews, external quality assessments, any improvement actions identified and the progress in implementing them will be reported to senior management and the Audit, Risk and Scrutiny Committee.

Culture of the Internal Audit Service

53. The primary role for internal audit is the provision of control assurance services. Internal audit staff will work with managers to achieve improved processes and operations within the Council and seek to add value. They will do this in accordance with the principles and rules of conduct included in the PSIAS code of ethics, as follows:

In respect of **Integrity** internal auditors will:

- perform their work with honesty, diligence and responsibility;
- observe the law and make disclosures expected by law and the profession;
- not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the professions of internal auditing or the Council;
- respect and contribute to the legitimate and ethical objectives of the Council;

In respect of **Objectivity** internal auditors will:

- not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment, including activities or relationships that may conflict with the interests of the Council;
- not accept anything that may impair or be presumed to impair their professional judgement;
- disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review;

In respect of **Confidentiality** internal auditors will:

- be prudent in the use and protection of information acquired during their duties;
- shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council;

In respect of **Competency** internal auditors will:

- engage only in those services for which they have the necessary knowledge, skills and experience;
- perform internal auditing services in accordance with the PSIAS;
- continuously improve their proficiency and effectiveness and quality of their services.

Annual Review

54. The internal audit charter will be reviewed annually, and the Audit, Risk and Scrutiny Committee will be asked to approve any changes or additions. The charter will be presented to the Committee each year as part of the information supporting the annual internal audit plan.