

The background of the slide features the Falkirk Council Coat of Arms. It is a shield divided into four quarters. The top-left quarter shows a castle tower. The top-right quarter shows a stag's head with antlers. The bottom-left quarter shows a sailing ship on water. The bottom-right quarter shows a lion rampant. Above the shield is a crown with four fleurs-de-lis. Below the shield is a ribbon with the motto 'A'NE FOR A'.

Agenda Item

4

External Quality Assessment of Falkirk Council Internal Audit

Falkirk Council

Title: External Quality Assessment of Falkirk Council
Internal Audit
Meeting: Audit Committee
Date: 18 June 2018
Submitted By: Internal Audit, Risk, and Corporate Fraud Manager

1. Purpose of Report

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

2. Recommendations

2.1 It is recommended that Audit Committee:

(1) notes the findings and action plan arising from the External Quality Assessment;

(2) notes the overall conclusion that Falkirk Council Internal Audit section is broadly compliant with Public Sector Internal Audit Standards; and

(3) records its thanks to Scottish Prison Service Audit and Assurance Unit for carrying out the assessment.

3. Background

- 3.1 Internal Audit seeks to operate in compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS). PSIAS were first established in 2013 and updated in 2017, and apply to all Internal Audit service providers. They have the following objectives:
- to define the nature of Internal Auditing within the UK public sector;
 - to set basic principles for carrying out Internal Audit in the UK public sector;

- to establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - to establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.
- 3.2 One of the requirements of PSIAS is that the Internal Audit, Risk, and Corporate Fraud Manager develops a Quality Assurance and Improvement Programme (QAIP). The purpose of the QAIP is to enable evaluation of the section's conformance with PSIAS.
- 3.3 The QAIP must include annual internal self assessments and five yearly independent external assessment.
- 3.4 The Internal Audit, Risk, and Corporate Fraud Manager undertook a detailed self assessment against PSIAS in early 2018. This concluded that the section was broadly compliant with PSIAS.
- 3.5 External assessment can take the form of either:
- full external assessment; or
 - independent validation of the annual self assessment.
- 3.6 To fulfil the requirement for five yearly external assessment, the Scottish Prison Service's (SPS) Head of Audit and Assurance and the Internal Audit, Risk, and Corporate Fraud Manager have undertaken reciprocal peer reviews. For each, this has taken the form of independent validation of the annual self assessment.
- 3.7 The findings arising from the assessment of the Council's Internal Audit section are set out in the report at Appendix 1.
- 3.8 It is pleasing to note that the SPS Head of Audit and Assurance has concluded that the Council's Internal Audit section is broadly compliant with PSIAS (this is equivalent to 'Substantial Assurance'). While there are a number of recommendations raised in the report, these are designed to support continuous improvement rather than address any material non-compliance.
- 3.9 The SPS Senior Financial Auditor will attend Audit Committee to report on the findings arising from the external assessment.

4. Implications

Financial

- 4.1 There are no financial implications.

Resources

- 4.2 There are no resource implications.

Legal

- 4.3 There are no legal implications.

Risk

- 4.4 The role of Internal Audit is to provide Members with assurance on the Council's arrangements for risk management, governance, and control. This is predicated on the section being broadly compliant with PSIAS.

Equalities

- 4.5 An equality and poverty impact assessment was not required.

Sustainability / Environmental Impact

- 4.6 A sustainability / environmental assessment was not required.

5. Conclusions

- 5.1 PSIAS require a five yearly independent external quality assessment of compliance. This has been undertaken by the Scottish Prison Service's Head of Audit and Assurance, who has concluded that Falkirk Council Internal Audit section is broadly compliant with PSIAS.

Internal Audit, Risk, and Corporate Fraud Manager

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Date: 5 June 2018

APPENDICES

- Appendix 1 – SPS Audit and Assurance Unit – Review of Falkirk Council Internal Audit Self Assessment of Compliance with Public Sector Internal Audit Standards.

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None.

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Subject:	Public Sector Internal Audit Standards
Audit ref / date of report:	May 2018
Auditor:	Glen Bissett, MA CPFA
Opinion:	Falkirk Council Internal Audit is Broadly Compliant with Public Sector Internal Audit Standards

DISTRIBUTION:

For action:	For information:
Gordon O'Connor, Internal Audit Manager, Falkirk Council Bryan Smail, Chief Finance Officer	Mary Pitcaithly, Chief Executive

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1 INTRODUCTION

- 1.1 This review of the compliance of Falkirk Council's Internal Audit function (FCIA) with Public Sector Internal Audit Standards (PSIAS) has been carried out to provide an independent opinion to management and stakeholders at Falkirk Council regarding this matter.
- 1.2 Internal audit is an important and mandatory component of every public sector body's governance arrangements through which assurance is given to management and stakeholders in relation to:
- stewardship of and regularity in the use of public funds
 - internal controls
 - arrangements for the prevention and detection of fraud and corruption
 - risk management (including current and emerging risks arising from technology)
 - commenting on value for money
 - supporting transparency and accountability.
- 1.3 Through all of the above internal audit can be an enabler of continuous improvement.
- 1.4 PSIAS was first published in 2013 and updated in 2017 and its mandatory nature has seen the quality of internal audit functions across the public sector improve. PSIAS represent both a burden and protection for internal audit. A burden in the sense that compliance is mandatory and imposed by relevant standard setters (eg CIPFA or Scottish Government). A protection in the sense that PSIAS empowers internal auditors to work wholly independently from management without fear or favour and with access to Chief Executives and audit committees as required.
- 1.5 PSIAS includes a requirement for periodic independent compliance scrutiny of internal audit by a peer internal auditor from another public sector body. After careful consideration of available internal audit functions within a number of public sector organisations, it was decided that the Audit and Assurance Unit (AAU) in the Scottish Prison Service (SPS) would work with Internal Audit at Falkirk Council to provide reciprocal peer reviews. Although Falkirk Council and SPS are in different sectors of the public sector both internal audit functions are subject to the same standards and

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part of the rationale was to learn from a different sector. As peer reviews were reciprocal no fees or expenses were paid by either party. FCIA provides an audit service to Falkirk and Clackmannanshire Councils.

2 SCOPE / OBJECTIVES

- 2.1 This peer review involved examining the FCIA 2017/18 PSIAS compliance self-assessment results and associated supporting documentation. During this review we also interviewed the Internal Audit Manager and key stakeholders in the form of the Chief Finance Officer (CFO) and the Leader of the Council (as an Audit Committee member). We also took account of relevant published information.
- 2.2 The contents of this report do not report in detail on all of the questions and areas contained in the FCIA self-assessment. Matters included herein are done so on an exceptions basis in order keep the size of this report manageable. Evidence of our review has been passed to the FCIA Manager for retention on the PSIAS self-assessment file.
- 2.3 FCIA carried out a comprehensive self-assessment of compliance with PSIAS in 2017/18. This peer review is wholly predicated on reviewing the robustness and validity of evidence provided by FCIA to support their self-assessment.
- 2.4 This review has not involved a detailed review of specific FCIA assignments.

3 EXECUTIVE SUMMARY

- 3.1 Our review of the FCIA PSIAS self-assessment concludes, in line with the self-assessment itself, that the **FCIA is broadly compliant with PSIAS**.
- 3.2 The quality of the FCIA self-assessment was sound and was predicated on the Scottish Local Authorities Chief Internal Auditor Group (SLACIAG) checklist devised specifically for PSIAS compliance self-assessment. Sufficient evidence was collated and included on the self-assessment file to corroborate and validate questionnaire responses.

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- 3.3 Matters arising from the FCIA self-assessment have been incorporated by them in an action plan the completion of which will result in FCIA being closer to full compliance with PSIAS. The nature of the actions relate more to continuously improving FCIA practice and approach than dealing with material non-compliance with PSIAS. We have included this self-assessment action plan at Appendix 2 for information.
- 3.4 Interviews with stakeholders provided information that was largely consistent with the FCIA self-assessment and where appropriate those perspectives have informed the content of this report.
- 3.5 In this report we make 4 recommendations that we believe will lead to better compliance with PSIAS and help to ensure that actions to improve are followed up. Where actions to improve have cost implications it is ultimately for management to decide what kind of cost / full compliance trade off to bear.

4 FINDINGS

4.1 FCIA Self-Assessment approach

- 4.1.1 The self-assessment framework used by FCIA entailed completion of a PSIAS compliance self-assessment questionnaire developed by SLACIAG. For any areas where full compliance could not be demonstrated this was noted in the questionnaire and action to address the issue included in the self-assessment action plan.
- 4.1.2 The self-assessment file included documentary evidence to support the assessment and we found that this evidence robustly endorsed and validated the self-assessment questionnaire.
- 4.1.3 Previous self-assessments, peer reviews, and the views of the external auditors in preceding years were also included on the self-assessment file and provided evidence that there had been no matters of such significance in previous years indicating a material departure from PSIAS by FCIA.

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4.2 FCIA action plan

4.2.1 FCIA produced an action plan the completion of which will result in full compliance with PSIAS. Where full compliance will result in additional costs for FCIA to bear it is ultimately for the Internal Audit Manager in conjunction with the CFO to assess the costs and value to the Council of full FCIA PSIAS compliance.

4.2.2 Changes in PSIAS 2017 related to addressing the risk of self-assessment action plans not being subject to independent oversight or follow up. Whilst FCIA has an action plan we note that some of the actions have persisted incomplete for a number of years. In order to ensure that actions are implemented they should be reported to the CFO and subjected to independent follow up. Notwithstanding that both the Leader of the Council and the CFO give positive feedback, arrangements in this area would be strengthened if such feedback to the FCIA Manager was formalised on at least an annual basis. It would also be good practice for FCIA to seek formal written feedback from management after each audit assignment. **Recommendation 1**

4.2.3 The FCIA action plan mentions the need to update manuals and guidance to reflect recent Council and other changes as well as new technology. We also found that whilst the FCIA audit manual sets out all standard documentation to be used it does not provide guidance regarding which audit models or techniques should be applied. It may be that FCIA simply decide to adopt standard guidance from CIPFA supplemented with policies in specific areas such as audit sampling etc. **Recommendation 2**

4.3 Impact

4.3.1 FCIA has a significant positive impact both at Falkirk and Clackmannanshire Councils through good quality audit and assurance work combined with effective reporting of findings and assurances.

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- 4.3.2 FCIA continuous auditing activity is of particular value to both Councils in that it identifies potential overpayments that can result in financial recovery. FCIA also offers a value adding independent internal consulting service to management and this helps FCIA be proactively involved in new developments so that sound governance, risk and control arrangements are built into changes from the outset.
- 4.3.3 We found that FCIA recommendations are not graded or rated and believe that the quality of internal audit reports would be enhanced by this development. Management and stakeholders would be better enabled to appreciate the significance of findings and see how they cumulatively support the overall audit conclusion. Such a development would also enable FCIA to more readily demonstrate robust and transparent reporting of weaknesses in management practice. In its reports to the Council Audit Committee FCIA could also refer to such reports in order to demonstrate independence from management. **Recommendation 3**
- 4.3.4 FCIA generates income by carrying out internal audit work for Clackmannanshire Council. We discussed potential resourcing issues and the risk that scarce audit resources are over consumed in the delivery of audit services to Clackmannanshire Council. We are content that FCIA and Falkirk Council are aware of risks in this area and are closely managing resources to meet both Falkirk and Clackmannanshire Council's needs.
- 4.4 Assurances
- 4.4.1 FCIA interim and annual assurances to management and stakeholders are largely predicated on assurances flowing directly from the work of FCIA relating to governance, risk and control management. There are however other areas where FCIA are implicitly taking assurance and it is important that these are formally articulated in an assurance map so that management and stakeholders have a more comprehensive picture of from where assurance is coming. Examples of this are assurances from senior management and heads of service who use their professional expertise to assess operational risks in each business area and report these in statements of assurance. Other business areas are pervasive (eg ICT and cyber security risks) where assurance

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will be coming from the Head of Policy, Technology, and Improvement at Falkirk Council. **Recommendation 4**

5 CONCLUSION

- 5.1 On the basis of this peer review of the FCIA PSIAS self-assessment we are able to conclude that **the internal audit service provided by FCIA is broadly compliant with PSIAS.**

6 ACKNOWLEDGEMENT

- 6.1 We are grateful for the help and assistance in carrying out this peer review, provided by FCIA members of staff, the CFO and the Leader of the Council.

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APPENDIX 1

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSE

Ref	PSIAS Compliance Finding	Risk	Mitigating Action and Timescale	Rating
1	<p><u>Self-assessment action plan</u></p> <p>Finding The FCIA self-assessment action plan is not formally provided to the CFO and is not subjected to independent follow up review. FCIA should also be provided with formal feedback from both the CFO and the Convenor of the Audit Committee each year.</p>	<p>Risk There is a risk that self-assessment actions are not implemented</p>	<p>Mitigating Action The FCIA Manager should share the action plan with the CFO and, at least annually, actions should be independently followed up. Formal annual feedback to FCIA from the Convener of the Audit Committee and the CFO should be undertaken. It would also be good practice for FCIA to seek written feedback from management after each audit assignment.</p>	Medium

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Ref	PSIAS Compliance Finding	Risk	Mitigating Action and Timescale	Rating
			<p>Management Response:</p> <p>Agreed. The Action Plan arising from previous self assessment, and from this external assessment, will be considered as part of the Internal Audit Manager's annual Achievement and Personal Development meeting with the Chief Finance Officer.</p> <p>The Internal Audit Manager will consider options for seeking formal feedback from management.</p> <p>Target date: July 2018</p> <p>Responsibility: Internal Audit Manager and CFO</p>	

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Ref	PSIAS Compliance Finding	Risk	Mitigating Action and Timescale	Rating
2	<p><u>Audit manual</u> Finding</p> <p>The audit manual does not include a description of acceptable audit techniques along with guidance on sources of audit assurance, sample sizes or the use of statistics.</p>	<p>Risk</p> <p>There is a risk of variable approaches to similar audit areas.</p>	<p>Mitigating Action</p> <p>FCIA should develop or purchase audit methodology documentation setting out the FCIA policy regarding sources of audit assurance and the extent of work required to support audit test conclusions.</p> <p>Management Response:</p> <p>Agreed. The Internal Audit Manager will review and update the Internal Audit Manual.</p> <p>Target date: August 2018</p> <p>Responsibility: Internal Audit Manager</p>	High

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Ref	PSIAS Compliance Finding	Risk	Mitigating Action and Timescale	Rating
3	<p>FCIA reporting Finding</p> <p>FCIA report recommendations are not graded or rated and so the reader may not fully appreciate the significance of audit findings. Summary reports to Audit Committee may be perceived as being less robust with management than they actually are.</p>	<p>Risk</p> <p>There is a risk that the significance of FCIA recommendations is not articulated in reports as well as a risk that in summary reports to the Audit Committee FCIA are perceived as being less robust in dealing with management than they are.</p>	<p>Mitigating Action</p> <p>FCIA reports to management and summary reports to the Audit Committee should be developed so that the significance of findings is more clearly articulated and that, as a consequence, FCIA are more readily able to demonstrate robust challenge of management and transparent reporting of weaknesses.</p> <p>Management Response:</p> <p>Partially Agreed.</p> <p>The principle of ensuring that the significance of findings is clearly articulated is agreed. That said, it is not for Internal Audit, in isolation, to 'grade' or 'rate' recommendations. This is currently done</p>	High

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Ref	PSIAS Compliance Finding	Risk	Mitigating Action and Timescale	Rating
			<p>by discussing and agreeing the management response and the associated action date with the audit client. The focus of discussion is on the action to be undertaken rather than the grading applied to individual recommendation.</p> <p>That said, the Internal Audit Manager will explore the approach used by other Internal Audit teams and will use that to ensure that any changes to the current approach meet the aim of more clearly articulating the significance of findings.</p> <p>Target date: August 2018</p> <p>Responsibility: Internal Audit Manager</p>	

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Ref	PSIAS Compliance Finding	Risk	Mitigating Action and Timescale	Rating
4	<p>Assurance relied on by FCIA Finding</p> <p>FCIA should develop an assurance map setting out sources of assurance (internal and external) so that a comprehensive picture for Council Management and the Council can be provided and arrangements made to formalise that assurance where appropriate.</p>	<p>Risk</p> <p>There is a risk that management and stakeholders do not have a comprehensive picture of assurances taken by FCIA in their reports and in the annual report in particular.</p>	<p>Mitigating action</p> <p>An assurance map should be developed setting out from where assurance flows to FCIA to enable a comprehensive picture for management and stakeholders.</p> <p>Management Response:</p> <p>Agreed. Work on assurance mapping is ongoing, and an Integrated Assurance Plan, which maps sources of assurance against each 'High' corporate risk, will be considered by Corporate Risk Management Group (CRMG) on 01 June.</p>	Medium

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Ref	PSIAS Compliance Finding	Risk	Mitigating Action and Timescale	Rating
			<p>The Integrated Assurance Plan was used as part of the 2018/19 Internal Audit Planning process, and will be further embedded in this process for 2019/20.</p> <p>Target date: June 2018 (for CRMG consideration) and ongoing thereafter</p> <p>Responsibility: Internal Audit Manager and Corporate Risk Co-Ordinator</p>	

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APPENDIX 2

FCIA SELF-ASSESSMENT ACTION PLAN

Ref	PSIAS Compliance Requirement	Finding	Mitigating Action and Timescale
1	<u>Feedback from Chief Executive Requirement</u> Request feedback from the Chief Executive for the Internal Audit Manager's Achievement and Personal Development Scheme (APDS) meetings with either the Chief Finance Officer or Head of Human Resources and Business Transformation.	Finding Formal feedback is not provided	Mitigating Action The Chief Finance Officer and / or the Head of Human Resources and Business Transformation will seek feedback as appropriate or relevant. Target date: July 2018 Responsibility: Chief Finance Officer / Head of Human Resources and Business Transformation

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Ref	PSIAS Compliance Requirement	Finding	Mitigating Action and Timescale
2	<p><u>Feedback from the Convener of the Audit Committee Requirement</u></p> <p>Request feedback from the Convener of the Audit Committee for the Internal Audit Manager's APDS meeting with the Chief Finance Officer.</p>	<p>Risk</p> <p>Formal feedback is not provided</p>	<p>Mitigating Action</p> <p>The Chief Finance Officer and / or the Head of Human Resources and Business Transformation will seek feedback as appropriate or relevant.</p> <p>Target date: July 2018</p> <p>Responsibility: Chief Finance Officer / Head of Human Resources and Business Transformation</p>

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Ref	PSIAS Compliance Requirement	Finding	Mitigating Action and Timescale
3	<u>Job Descriptions Requirement</u> Internal Audit staff job descriptions should reflect current Service structures and priorities.	Finding Senior Internal Auditor and Internal Auditor job descriptions are out of date.	Mitigating Action This will be done now that the Internal Audit, Risk, and Corporate Fraud Manager job description has been agreed. Target date: July 2018 Responsibility: Internal Audit Manager
4	<u>Key Performance Indicators Requirement</u> The 5 KPI's used by Internal Audit should be reviewed and, if appropriate, amended / updated.	Risk KPI's have not been reviewed or updated for some time	Mitigating action KPI's for Internal Audit will be reviewed and updated as part of the 2018/19 audit planning cycle. Target date: July 2018 Responsibility: Internal Audit Manager

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Ref	PSIAS Compliance Requirement	Finding	Mitigating Action and Timescale
5	<u>Customer Satisfaction Requirement</u> No formal process of measuring or gathering customer satisfaction is in place. Consider potential options for gathering meaningful customer satisfaction data.	Finding Formal customer feedback from auditees is not obtained.	Mitigating action The Internal Audit Manager will consider options for seeking formal feedback from management. Target date: June 2018 Responsibility: Internal Audit Manager

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Ref	PSIAS Compliance Requirement	Finding	Mitigating Action and Timescale
6	<p><u>Prioritisation of Assignments</u> Requirement No prioritisation of assignments in 2017/18 Plan. Consider building this into future Plans.</p>	<p>Finding Audit assignments are not prioritised</p>	<p>Mitigating action The 2018/19 Audit Plan, which was presented to Audit Committee in April 2018 categorises and prioritises assignments as follows:</p> <ul style="list-style-type: none"> • Annually recurring Assignments; • Committed Assignments: April 2018 to September 2018; and • Indicative plan: October 2018 to March 2019. <p>This provides scope for flexibility and re-prioritisation over the course of the year, in response to any emerging or escalating risks.</p> <p>Target date: April 2018</p> <p>Responsibility: Internal Audit Manager</p>

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Ref	PSIAS Compliance Requirement	Finding	Mitigating Action and Timescale
7	<u>Internal Audit Manual Requirement</u> Update the Internal Audit Manual to reflect organisational structures and accountabilities, and to reflect any changes in working practices.	Finding The Internal Audit Manual has not been reviewed for some time.	Mitigating action The Internal Audit Manager will review and update the Internal Audit Manual. Target date: August 2018 Responsibility: Internal Audit Manager
8	<u>Annual Assurance report – Reliance on other Assurance Providers Requirement</u> The Annual Assurance Report should explicitly mention reliance placed on assurances from others in reaching an overall opinion for the year.	Finding Assurance on others is not made explicit in the annual assurance statement	Mitigating action Work on assurance mapping is ongoing, and an Integrated Assurance Plan, which maps sources of assurance against each 'High' corporate risk, will be considered by Corporate Risk Management Group (CRMG) on 01 June. The Integrated Assurance Plan was used as part of the 2018/19 Internal

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Ref	PSIAS Compliance Requirement	Finding	Mitigating Action and Timescale
			<p>Audit Planning process, and will be further embedded in this process for 2019/20.</p> <p>Target date: June 2018 (for CRMG consideration) and ongoing thereafter</p> <p>Responsibility: Internal Audit Manager and Corporate Risk Co-Ordinator</p>