

10.00am, Tuesday 26 September 2017

Internal Audit Opinion Benchmarking Exercise

Item number 7.3

Report number

Executive/routine

Wards

Council Commitments

Executive summary

This report details the outcomes of a benchmarking exercise performed to assess the consistency of Internal Audit annual opinions provided across local authorities in Scotland.

Our review demonstrates that a significant range of opinion types and supporting definitions are applied across local authorities, which impacts the ability to make meaningful comparisons between the annual opinion types provided.

Additionally, Internal Audit annual opinions will vary depending on:

- The quality of risk assessments supporting the annual plan;
- The complexity and volume of audits included in the annual plan and their outcomes;
- Existence of an effective and consistently applied Internal Audit methodology;
- Any limitations impacting Internal Audit performance or affecting their independence; and
- The quality, skills and experience of the Internal Audit teams.

Governance, Risk and Best Value Committee

Internal Audit Annual Opinion Benchmarking Exercise

1. Recommendations

- 1.1 It is recommended that the Committee notes the outcomes of the Internal Audit annual opinion benchmarking exercise.

2. Background

- 2.1 At its meeting on Tuesday 1 August 2017, the Governance Risk and Best Value (GRBV) Committee noted the annual Internal Audit opinion for the year ended 31 March 2017. The opinion for the year was a '2' - Generally adequate but with enhancements required', reflecting the outcomes of the Internal Audit work performed during the year and the outstanding recommendations that had not been addressed by Service Areas at 31 March. Details of the range of available Internal Audit opinion types applied within the Council are included at Appendix 1.
- 2.2 GRBV then requested completion of a benchmarking exercise to provide a comparison of the Council's annual Internal Audit opinion with those delivered by other local authority council Internal Audit teams.
- 2.3 The Local Authority Accounts (Scotland) Regulations 2014 specify (at section 7) that 'A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.'
- 2.4 The recognised standards applied by local authority Internal Audit teams are the Chartered Institute of Public Finance and Accountancy's (CIPFA) Public Sector Internal Audit Standards (PSIAS).
- 2.5 Whilst the PSIAS require the provision of an annual Internal Audit opinion, they not do provide any methodology or guidance to derive opinion titles or definitions. The City of Edinburgh Council has adopted the approach detailed at Appendix 1. This is consistent with the methodology applied by the main consulting firms (for example PwC) who provide outsourced Internal Audit services, and is generally considered as industry best practice.
- 2.6 There are currently 32 local authority councils across Scotland with established Internal Audit teams as required by the Local Authority Accounts (Scotland) Regulations.

3. Main report

- 3.1 A total of 15 annual Internal Audit opinions were publicly available and could be sourced from relevant local authority websites for comparison.
- 3.2 The opinion titles and supporting definitions of opinions varied significantly with 8 different opinion titles noted across the 15 opinions reviewed. This suggests that the majority of Council Internal Audit teams have derived their own opinion titles and definitions due to the lack of formal guidance provided by CIPFA in the PSIAS as noted above.
- 3.3 We noted the following published opinion types:
- Balanced opinion – 1
 - Adequate and effective controls operating – 1
 - Generally adequate with enhancements required – 1 (CEC)
 - Generally operating as expected – 1
 - Generally sound – 1
 - Reasonable and objective assurance – 1
 - Reasonable assurance – 8
 - Substantial assurance – 1
- 3.4 The most common opinion type reported is 'reasonable assurance' which was used by 8 Internal Audit teams. Appendix 2 illustrates that whilst a consistent 'reasonable assurance' opinion title has been applied, the supporting narrative varies considerably across the 8 Councils.
- 3.5 'Reasonable assurance' is an opinion type predominantly used in the external audit of financial statements, and is typically defined as 'the level of confidence that an auditor, exercising professional skill and care, is expected to attain from an audit that the financial statements are not materially misstated'.
- 3.6 Given the significant variations noted above, it has not been possible to make meaningful comparisons between the annual opinion types provided across the 15 local authority Internal Audit opinions reviewed.
- 3.7 Our review also highlighted a significant variation in the size of audit teams (ranging from 1.6 to 27 FTE) and the provision of co-source support. The CEC team is currently 7 FTE with a co-source arrangement established with PwC.
- 3.8 It was also noted that there was a wide variety of scrutiny committee names across the local authorities, with the most common being 'Audit' for 8 of the 32 local authorities. We did not perform any comparison of the terms of reference for these committees.
- 3.9 A broader corporate services benchmarking exercise is currently being explored by the Executive Director of Resource which will include Internal Audit.

4. Measures of success

- 4.1 N/A.

5. Financial impact

5.1 No direct financial impact.

6. Risk, policy, compliance and governance impact

6.1 The Local Authority Accounts (Scotland) Regulations 2014.

6.2 Chartered Institute of Public Finance and Accountancy's (CIPFA) Public Sector Internal Audit Standards (PSIAS).

6.3 Research performed by Michael Page on the definition of 'reasonable assurance':
[Reasonable Assurance](#)

7. Equalities impact

7.1 No direct impact.

8. Sustainability impact

8.1 No direct impact.

9. Consultation and engagement

9.1 N/A.

10. Background reading/external references

10.1 Information included in Appendix 2 was obtained from the relevant local authority council websites.

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11. Appendices

Appendix 1 – City of Edinburgh Council Opinion Types

Appendix 2 – Benchmarking Result

City of Edinburgh Council Opinion types

We consider that there are 4 possible opinion types that could apply to the Council. These are set out in the table below:

<p>1 Adequate</p> <p><i>An adequate and appropriate framework of Governance, Risk management & Control is in place enabling the risks to achieving organisation objectives to be managed</i></p>	<p>2 'Generally adequate but with enhancements required'</p> <p><i>Areas of weakness and non-compliance in the framework of Governance, Risk management & Control that that may put the achievement of organisational objectives at risk</i></p>
<p>3 'Significant enhancements required'</p> <p><i>Significant areas of weakness and non-compliance in the framework of Governance, Risk management & Control that puts the achievement of organisational objectives at risk</i></p>	<p>3 Inadequate</p> <p><i>The framework of Governance, Risk management & Control is inadequate with a substantial risk of system failure resulting in the likely failure to achieve organisational objectives.</i></p>

Judgement is required to be exercised in determining the appropriate opinion to be given and it should be noted that in giving any opinion, assurance can never be absolute.

Appendix 2 - Internal Audit Annual Opinion Benchmarking Exercise results

	Council	Name of Report	Audit Opinion/Conclusion	Opinion/Conclusion Definition	Limitations impacting Opinion	Number of Audits Delivered in the year	Size of Audit Team	Governance / Scrutiny Committee
1	Aberdeen City	Internal Audit Progress Report	reasonable assurance	Major recommendations made in 5 reports There were limitations to the scope of planned Internal Audit work. These limitations relate to not being permitted access to records held and requested information not being provided during audits, thereby limiting the level of assurance that could be provided.	4 projects	20	not available	Audit, Risk & Scrutiny
2	Aberdeenshire	Internal Audit Annual report & Internal Financial Control Statement 2016/17	reasonable assurance	Major recommendations made in 10 reports in 2016/17 (10 in 2015/16) The outcome of these audits, along with others, and concerns regarding the implementation of previously agreed recommendations have been reported to the relevant Policy Committees and the Scrutiny and Audit Committee (more latterly the Audit Committee In addition to the above, areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports. The number of recommendations made by Internal Audit throughout the year have reduced when compared to previous years.	None	47 includes 15 carried forward from 2015/16	not available	Audit
3	Angus	Internal Audit Annual Report 2016/17	reasonable assurance	although some control weaknesses were noted generally controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. The internal audit work of the year has identified a number of areas of good practice and good 10.internal control. Significant improvement has been made in addressing implementation of internal audit recommendations	None	19 includes 6 Financial, + 13 Non-Financial	1.6 FTE + Co-source Audit Manager	Scrutiny & Audit
4	Argyll & Bute	Internal Audit Annual Report 2016/17	substantial assurance	With specific regard to internal control, I am satisfied that recommendations made have been or are currently being addressed by management, and my opinion on the Council's systems is based on those recommendations being satisfactorily implemented.	None	30	not available	Audit & Scrutiny
5	Edinburgh City	Internal Audit Opinion and Annual Report for the Year Ended 31 March 2017	generally adequate but with enhancements required	However, based on our work performed in the year, (set out below) and the management recommendations that remain outstanding at the date of this report, Internal Audit considers that there are weaknesses in the framework of governance, risk management and controls. There were also instances during the year of non-compliance with existing controls. If not addressed, these weaknesses and instances of non-compliance may put the achievement of organisational objectives at risk. We consider that improvements are therefore required to address the matters identified, which will enhance the adequacy and effectiveness of governance, risk management and control	None	46 including 6 carried forward from 2015/16	7	Governance, Risk and Best Value
6	Clackmannanshire	Internal Audit & Fraud Annual Report	Last reported 15/09/16.	N/A	N/A	N/A	N/A	Internal Audit & Finance
7	Dumfries & Galloway	Outturn Against the 2016-17 Internal Audit Plan and Controls Assurance Statement	reasonable assurance	The level of staffing resources available to undertake internal audit work remained as expected and no significant adjustments to the internal audit plan were required. There were no restrictions on internal audit's ability to access the systems, people and records required to complete its work. There were therefore no impairments on internal audit during the year.	None	19 includes 5 Grant Certifications	not available	Audit, Risk & Scrutiny
8	Dundee City	Internal Audit Annual Report	Last reported 29/06/16.	N/A	N/A	N/A	N/A	Scrutiny
9	East Ayrshire	Internal Audit Annual Report 2016/17 (Audit)	Reported 20 April 17. Report papers not available on web page	N/A	N/A	N/A	N/A	Governance & Scrutiny
10	East Dunbartonshire	N/A	No papers available from web site	N/A	N/a	N/A	N/A	Audit & Risk Management

11	East Lothian	Annual Internal Audit Report	CIA opinion or conclusion not noted in the report	N/A	N/a	18	5 = 1 Manager + 3 Senior Auditors + 1 Senior Audit Assistant	Audit & Governance
12	East Renfrewshire	East Renfrewshire Council Annual Accounts & Draft Annual Audit Report for 2015/16	Last reported 28/09/16.	N/A	N/A	N/A	N/a	Performance & Audit
13	Falkirk	Internal Audit: Annual Assurance Statement 2015/16	Last reported 20/06/16.	N/A	N/A	N/A	N/A	Audit
14	Fife	Strategic Audit Plan 2017/22 and Operational Audit Plan 2017/18	Last reported 02/03/17 covers part year 01/01/16 to 30/06/16	N/A	N/A	N/A	N/A	Standards & Audit
15	Glasgow	Internal Audit Performance Report	Last report 01/10/2016 no mention of an assurance statement	N/A	N/A	N/A	circa 27 13.8 FTE Qualified 7 FTE Qualified in security 4 FTE trainees 2 FTE technical/administrative	Finance & Audit Scrutiny
16	Highland (Comhairle na Gaidhealtachd)	Internal Annual Report 2016-17	reasonable assurance	On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance	None	21	7.4 FTE audit staff + 1 FTE Corporate Audit Manager/Chief Audit Executive	Audit & Scrutiny
17	Inverclyde	Internal Audit Annual Report & Assurance Statement	last reported 23/08/16	N/A	N/A	N/A	N/A	Audit
18	Midlothian	Internal Audit Annual Assurance Report 2016-17	a balanced opinion	It is my view that overall the Council's framework of governance, risk management and internal control over the period 2016/17 are of a satisfactory standard and have been implemented and are monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment	None	8		Audit
19	Moray	Internal Audit Annual report	last reported 28/09/16	N/A	N/A	N/A	N/A	Audit & Scrutiny
20	Comhairle nan Ellen Siar (Western Isles)	Internal Audit Annual Report & Assurance Statement 2016/17	generally operating as expected	Appropriate responses to the recommendations made in our reports have been obtained and if actioned should provide management with additional comfort that the systems of control operated as intended.	None	28 + 30 follow up reports		Audit & Scrutiny
21	North Ayrshire	Internal Audit Annual Report 2016/17	reasonable assurance	This statement on the adequacy and effectiveness of the framework of governance, risk management and internal control is based on the audit work performed during 2016-17 as reported above. It also draws on the experience of audit work carried out in earlier years as well as assurances received from management and external audit findings.	None	13	Circa 3.5 - 1 Team Manage, p/t Computer Auditor + 1 f/t and 1 p/t Auditors	Audit & Scrutiny

22	North Lanarkshire	Internal Audit Annual report	reasonable assurance	<p>Internal Audit recently reviewed the Council's project management arrangements. The findings of the audit require me to qualify my opinion on the adequacy and effectiveness of key aspects of the Council's project management arrangements. Management has responded positively to the report and has highlighted current and future planned actions which are expected to improve the control environment.</p> <p>In April 2016, the Council received allegations of potential irregularities and corruption associated with certain aspects of the Council's corporate property and procurement arrangements. The findings of the audit investigation which were reported to the Chief Executive in September 2016, require me to qualify my opinion on the adequacy and effectiveness of key aspects of the Council's contract management arrangements in relation to corporate property. Management reported to Committee in March 2017 on steps already taken to address some of the issues identified and on further future planned actions.</p> <p>Internal Audit recently reviewed the Council's approach to progressing 'transformational change' which continues to evolve. While generally positive of the direction of travel, the findings of the audit require me to qualify my opinion given the weaknesses identified including the need to rationalise and prioritise projects, to ensure that there is sufficient organisational capacity and resources to deliver planned work and to ensure adequate processes are in place to monitor projects and report on progress to key stakeholders.</p>	4 qualified opinions noted	12	not included	Audit & Scrutiny
23	Orkney Islands	Internal Audit Annual report & Assurance Statement	adequate and effective controls operating	<p>The audit work has confirmed that, for the areas subject to audit review during 2016/17 there are adequate and effective controls operating, subject to the following exclusions: Pickaquoy Centre Trust</p> <p>The audit found that generally the principles of the Code of Practice of Following the Public Pound were being followed to varying extents within the Service Agreement and that areas of good practice were evident. Areas where improvements could be made were also identified, both with regard to the content of the Service Agreement and the actual operating arrangements between the Council and the Trust.</p> <p>High priority recommendations were made, these concerned the following: -</p> <ul style="list-style-type: none"> ☒ The Service Agreement should be aligned with the achievement of current Council objectives and priorities relevant to the service area, and should be subject to annual review. ☒ Performance measures should be included within the Business Plan and these should be approved by Council. Performance targets should also be reported on within the End of Year Performance Monitoring report. ☒ The Business Plan should be submitted within a timescale to allow it to be considered during the Council's budget setting processes. ☒ The required testing of Environmental Conditions and Ground Maintenance should be completed each quarter. 	5	18	2.8 FTE (0.8 FTE Chief Internal Auditor + 2FTE Internal Auditors)	Monitoring & Audit

			Orkney Childcare and Young People's Partnership (OCYPP) The audit confirmed that good management practices were being followed for budgetary control and management of the Partnership budget. It was also found however that formal communication and agreement to its Terms of Reference was required between the OCYPP and the Integration Joint Board to support joint working and a unified and efficient approach to child and young person support in Orkney. Some improvements to procedures were also agreed in order to increase compliance with the Council's policy on Funding External Bodies and Following the Public Pound.					
			Capital Project Review: Photovoltaic Panels on Council Housing The audit findings confirmed that installation of the panels had not delivered all of the expected benefits as detailed within the Capital Project Appraisal reports. The income received from the panels was considerably lower than estimated due primarily to the Government reducing the Feed-in-Tariff rates available over the period of the installation and registration of the panels. The project lacked expediency at key points during its duration, particularly relating to the registration of the panels. The delayed registration of installations contributed to the reduced level of income received.					
			The Council's performance and risk management system, Aspireview, is used to monitor implementation of agreed internal audit recommendations. When internal audit reports have been finalised they are uploaded to Aspireview and the identified responsible officers for implementing the audit recommendations are then required to provide an update on the progress being made twice per year, as at the end of September and the end of March. The updates provided as at 31 March 2017 have been reviewed in order to assess progress. Whilst there are a number of recommendations which are still to be implemented, including recommendations which are overdue in being progressed, there are no recommendations which remain outstanding which impact on the annual internal audit opinion.					
24	Perth & Kinross	Draft Annual Audit Report to Members	Draft report on 28/09/16.	N/A	N/A	N/A	N/A	Audit
25	Renfrewshire	Annual Accounts 2016/17 Annual Governance Statement	reasonable and objective assurance	It is not feasible for the system of internal control in the Council to be without any weaknesses. It is important to balance the risks involved in accepting systems limitations with the consequences if a problem emerges. Internal audit recognises this and address this in its reporting mechanism	3	not included	6.9FTE	Audit, Risk & Scrutiny
26	Scottish Borders	Annual Audit Report	Last reported Sept 16.	N/A	N/A	N/A	N/A	Audit & Scrutiny
27	Shetland Islands	Annual Audit Report	Last reported Sept 16.	N/A	N/A	N/A	N/A	Audit
28	South Ayrshire	Internal Audit Service - Statement on Internal Controls	Last reported June 16.	N/A	N/a	N/A	N/A	Audit & Governance
29	South Lanarkshire	Interim Audit Report 2016/17	Due to be reported Sept 17	N/A	N/a	N/a	N/A	Risk & Audit Scrutiny
30	Stirling	Audit Committee Draft Annual Report	Last reported Sept 16.	N/A	N/A	N/A	N/A	Audit

31	West Dunbartonshire	Internal Audit Annual Report to 31 March 2017	reasonable assurance	<p>My evaluation of the control environment is informed by a number of sources:</p> <p>The audit work undertaken by Internal Audit during the year to 31 March 2017, including risk based systems audits, ICT audits, investigations, follow-up reviews and one-off exercises;</p> <p>The assessment of risk completed during reviews of the annual audit plan;</p> <p>The assurance statements signed by the Strategic Directors and Strategic Leads on the operation of the internal financial controls for the services for which they were responsible during the year to 31 March 2017;</p> <p>The assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2017;</p> <p>Reports issued by the Council's External Auditors, Audit Scotland, and other review agencies;</p> <p>My knowledge of the Council's governance, risk management and performance monitoring arrangements; and</p> <p>An ongoing audit investigation on tendering and contracting within Roads and Greenspace, for which the audit work completed to date has highlighted a number of high risk issues. Management has been advised of these issues and has implemented appropriate interim actions to rectify them.</p> <p>inappropriate scope or resource limitations. Opinion It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's systems of governance, risk management and internal control in the year to 31 March 2017.</p>	None	14	not included	Audit & Performance
32	West Lothian	Internal Audit Annual Report	generally sound	<p>My opinion is based on:</p> <p>the internal audit work undertaken during 2016/17, including follow up work;</p> <p>the work of the council's external auditor, which is placed before the Audit Committee as a matter of course;</p> <p>the work undertaken by Gallagher Bassett, the council's risk consultant;</p> <p>the work of the council's Governance and Risk Board;</p> <p>the governance compliance statements prepared by heads of service</p>	None	not included	not included	Audit