



AUDIT COMMITTEE – 10TH APRIL 2018

SUBJECT: OUTCOME OF EXTERNAL PEER REVIEW ON COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

REPORT BY: INTERNAL AUDIT SERVICES MANAGER

1. PURPOSE OF REPORT

- 1.1 To present the Audit Committee with details of the outcome of the external peer review on compliance with the Public Sector Internal Audit Standards (PSIAS).

2. SUMMARY

- 2.1 The Chartered Institute of Internal Auditors (IIA) Public Sector Internal Audit Standards (PSIAS) require that both internal and external assessments are undertaken periodically with the external assessment being undertaken at least every five years.
- 2.2 At its meeting on the 14th December 2016, the Audit Committee was presented with details of the internal self-assessment against the Standards. The process of undertaking the internal review highlighted a number of actions for consideration but the overall outcome was that the main areas in the Standards were well covered and no fundamental issues were outstanding.
- 2.3 The Audit Committee was advised that the self-assessment would be subject to an external review and that a further report would be presented at a later date providing details of the outcome.

3. LINKS TO STRATEGY

- 3.1 The work of Internal Audit Services provides assurance on the robustness of internal controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement. Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

4. THE REPORT

- 4.1 The Public Sector Internal Audit Standards (PSIAS) came into force on 1st April 2013 and introduced a requirement for internal and external assessments to be undertaken periodically to evaluate compliance with the Definition of Internal Auditing, the Code of Ethics and the Standards.
- 4.2 External assessments are required to be done every five years by someone with appropriate knowledge and experience and independent of the local authority. To keep costs to a minimum an arrangement was put in place by the Welsh Chief Internal Auditors whereby all participating authorities would undertake a peer review of one other local authority. Under this arrangement Caerphilly's Internal Audit Manager undertook a review of Rhondda Cynon Taff's internal audit function, and Caerphilly's Internal Audit Service has been reviewed by Monmouthshire's Internal Audit Manager. This approach has been accepted by the Wales Audit Office (WAO) and by our current External Auditor, Grant Thornton.
- 4.3 The purpose of the external review is to independently validate the comprehensive internal self-assessment undertaken, the results of which were reported to the Audit Committee on the 14th December 2016.
- 4.4 At its meeting on the 30th January 2018, the Audit Committee was advised that the external review has been somewhat delayed due to the limited availability of the Chief Internal Auditor of Monmouthshire. However, the review was completed during the latter part of 2017 and a draft report had recently been received.
- 4.5 The Audit Committee was further advised that the findings of the peer review are very similar to those identified within the internal assessment reported to the Committee in December 2016. Within the nationally agreed checklist there are approximately 300 best practice elements with less than 30 non-conformances identified. The similarities between the two assessments do indicate that the in-house review undertaken by the Internal Audit Team was fair, honest and robust.
- 4.6 The conclusion within the draft peer review report is that "the impact of the non-conformance is not considered to be significant, and the Internal Audit of Caerphilly CBC complies with the Standards in all significant areas and operates independently and objectively".
- 4.7 The Audit Committee was advised that arrangements had been made for the Internal Audit Manager to meet and finalise the assessment report with the Chief Internal Auditor from Monmouthshire. Following this an exercise would be undertaken to cross-match both the internal and external review findings to inform the ongoing improvement process and to ensure that all relevant actions are captured and included within the future work plan for Internal Audit Services.
- 4.8 This cross-matching exercise has now been completed and Appendix 1 of this report provides details of the areas of non-conformance identified from the internal and external assessments along with the actions that will be required to ensure full compliance with the Standards.

5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

6. EQUALITIES IMPLICATIONS

- 6.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in Section 6 of the Council's Strategic Equality Plan, therefore a full Equalities Impact Assessment has not been carried out.

7. FINANCIAL IMPLICATIONS

7.1 There are no direct financial implications arising from this report.

8. PERSONNEL IMPLICATIONS

8.1 There are no personnel implications arising from this report.

9. CONSULTATIONS

9.1 Any comments received have been reflected in the report.

10. RECOMMENDATIONS

10.1 Members of the Audit Committee are asked: -

- to note the actions arising from the internal and external assessments as detailed in Appendix 1 of this report; and
- to agree that a progress report is presented to the Audit Committee in April 2019.

11. REASONS FOR THE RECOMMENDATIONS

11.1 To ensure that the Audit Committee is aware of the actions arising from the assessment process and receives appropriate updates on progress.

12. STATUTORY POWER

12.1 Accounts and Audit (Wales) (Amendment) Regulations 2018.

Author: Deborah Gronow, Service Auditor

Tel: 01443 863425 E-mail: gronode@caerphilly.gov.uk

Consultees: Stephen Harris, Interim Head of Corporate Finance & Acting S151 Officer

Background Papers:

Report to Audit Committee (14/12/16) – Public Sector Internal Audit Standards – Update on Internal and External Assessment of Internal Audit Services

Report to Audit Committee (30/01/18) – Internal Audit Services PSIAS Peer Review Update

Appendices:

Appendix 1 PSIAS Self-Assessment/External Assessment – Summary of Outcomes and Action Plan

PSIAS SELF-ASSESSMENT / EXTERNAL ASSESSMENT - SUMMARY OF OUTCOMES AND ACTION PLAN

ATTRIBUTE STANDARDS				
Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
1000 Purpose, authority and responsibility The purpose, authority and responsibility of the Internal Audit activity must be formally defined in an internal audit charter, consistent with the definition of internal auditing, the code of ethics and the standards. The charter must be reviewed periodically and approved by the Audit Committee.	Internal audit arrangements are derived from the Council's constitution and specifically the Financial Regulations. These arrangements are reinforced within the Internal Audit Charter approved and adopted by the Audit Committee in September 2014.	Add an explanation to the Charter that references the PSIAS use of the term Board and Senior Management and then interpret this as meaning the Audit Committee and the Section 151 (S151) Officer.	Agreed	The Audit Charter to be reviewed and updated. The updates to be reported to the Audit Committee and approved. S151 and Internal Audit Manager 31.3.19
		Add additional wording into the Audit Charter to explain the notification requirement in respect of suspected fraud or irregularities. May also need to be included in Financial Regulations to reach a wider audience.	Agreed. Update to clearly link the Audit Charter with the Councils Anti-fraud, bribery and corruption policy. Also to explain the notification requirement in respect of suspected fraud or irregularities.	The Audit Charter to be reviewed and updated. The updates to be reported to the Audit Committee and approved. S151 and Internal Audit Manager 31.3.19
		Add wording into the Audit Charter relating to arrangements to avoid conflicts of interest arising in respect of non-audit duties	Agreed	The Audit Charter to be reviewed and updated. The updates to be reported to the Audit Committee and approved. S151 and Internal Audit Manager 31.3.19

APPENDIX 1

PSIAS SELF-ASSESSMENT / EXTERNAL ASSESSMENT - SUMMARY OF OUTCOMES AND ACTION PLAN

ATTRIBUTE STANDARDS				
Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
		Strengthen the Audit Charter by specifying a requirement to review the charter at an agreed interval.	Agreed. Any updates to the Audit Charter should be clearly documented and approved by the Audit Committee.	Consider how best to record and evidence the review process. S151 and Internal Audit Manager 31.3.19
		Not considered an issue in the Self Assessment	Update Charter to demonstrate Internal Audit's contribution to the review of the effectiveness of the controls environment and link with Financial Regulations.	The Audit Charter to be reviewed and updated to include a cross reference to Financial Regulations. The updates to be reported to the Audit Committee and approved. S151 and Internal Audit Manager 31.3.19
		Not considered an issue in the Self Assessment	The Charter should recognise the mandatory nature of the Chartered Institute of Internal Auditors definition of Internal Auditing and Code of Ethics and PSIAS.	The Audit Charter to be updated to demonstrate compliance with the Standards. S151 and Internal Audit Manager 31.3.19

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Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
1100 Independence and objectivity The internal audit activity must be independent and internal auditors must be objective in performing their work.	Appropriate structures and reporting arrangements are in place. The Internal Audit Manager has direct access to the Section 151 Officer, the Chief Executive and the Chair of the Audit Committee. Internal Audit independence is maintained and no operational responsibilities are undertaken. Internal Audit staff comply with the Council's Code of Conduct and declare any conflicts of interest that could impinge on the work of the service. Any threats to auditor's objectivity are raised	Add references to the organisational independence of the Internal Audit Service in the Annual Audit Plan and outturn report.	Agreed	To be included in the Audit plan and annual out turn report. S151 and Internal Audit Manager 31.3.19
		Involve the Audit Committee in any proposed structural reviews of the Internal Audit Service.	Audit Committees are not generally involved with these processes but agree that the Committee should be consulted on any proposed structural reviews of the Internal Audit Service	Audit Committee to be consulted on any future reviews or changes to the structure of the service. S151 and Internal Audit Manager
		Invite feedback from the CEO in the performance appraisal of the Internal Audit Manager.	Not considered necessary. No further action proposed	
		Obtain feedback from the Chair of the Audit Committee as part of the performance appraisal of the Internal Audit Manager.	Not considered necessary. No further action proposed	

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	as identified and appropriate avoidance measures taken.	Staff to complete a declaration confirming that they understand the independent role of Internal Audit and disclose any potential conflicts of interest.	Declarations have been seen. Consideration be given to staff completing a further declaration confirming that they understand the independent role of Internal Audit and disclose any potential conflicts of interest.	Additional documentation to be considered. S151 officer 31.3.19
1130 Impairment to Independence or Objectivity Have internal auditors assessed specific operations for which they have been responsible within the previous year?	No this has not occurred and would not occur in future	Not considered an issue in the Self Assessment	More detailed explanation is required. Also detail of how the authority would deal with any internal appointments from other sections or spouses who also work for CCBC should be considered. Consider making an annual declaration, even if it states there is nothing to declare.	Consideration to be given to this if the situation should arise in future. S151 officer 31.3.19

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Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team	When circumstances and opportunity allows some rotation of tasks does take place however it is balanced against the knowledge and experience requirements when allocating work	Not considered an issue in the Self Assessment	This should be evidenced in the audit planning records.	The team is relatively small and allocation of audit work must be balanced against the requirements of the task and knowledge and expertise. However consideration will be given to detailing selection of personnel within the audit assignment scoping and planning documents. Internal Audit Manager 31.3.19
1200 Proficiency and due professional care Engagements must be performed with proficiency and due professional care.	Staff are aware of the Public Sector Internal Audit Standards (PSIAS) and the Code of Ethics. Staff are appropriately allocated assignments based on knowledge, experience and personal attributes. Ongoing training and	The Internal Audit Manager needs to ensure that all job descriptions are up-to-date and in the agreed corporate format.	Agreed.	Job descriptions to be reviewed and updated if necessary. Internal Audit Manager 31.3.19

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	support is provided to continually develop the skills and competencies of audit staff and the current Internal Audit Team is knowledgeable and experienced. The Internal Audit Manager is professionally qualified and suitably experienced.	Performance Development Reviews (PDRs) must be undertaken for all staff on an annual basis.	Agreed	PDRs to be undertaken for all staff Internal Audit Manager 30.9.19
1300 Quality assurance and improvement programme The Head of Audit must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.	Internal Audit Services undertakes a self-evaluation which feeds into the service improvement planning process. Performance measurement and benchmarking is undertaken to inform the improvement process. Individual	The constituent parts of the quality and improvement programme should be formalised and written into the audit manual.	Agreed	Audit Manual to be reviewed and updated. Internal Audit Manager 31.3.19

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	audit assignments are monitored throughout the process with reports reviewed for quality and consistency purposes prior to being issued to clients. A post-audit evaluation process is in place to inform the annual self-evaluation.	Not considered an issue in the Self Assessment	The process is not maintained but embedded into the operational processes of the service and should be formalised and written into the audit manual.	Audit Manual to be reviewed and updated. Internal Audit Manager 31.3.19
1310 Requirements of the Quality Assurance and Improvement Programme (QAIP) Does the QAIP include both internal and external assessments?	In future both processes will be run alongside the corporate self evaluation process to ensure priorities and actions are aligned.	Not considered an issue in the Self Assessment	The constituent parts of the quality and improvement programme should be formalised and written into the audit manual	Audit Manual to be reviewed and updated. Internal Audit Manager 31.3.19

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Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
1311 Internal Assessments Do internal assessments include ongoing monitoring of the internal audit activity, such as: Routine quality monitoring processes? Periodic assessments for evaluating conformance with the PSIAS?	The corporate self evaluation and performance monitoring processes have been in place for a number of years and are well established. The requirement to conform with the PSIAS is fairly recent and informal assessments have been used to identify improvement areas.	Not considered an issue in the Self Assessment	Processes are needed to ensure the audit review process would pick this up. This should also be evidenced within the process.	Consideration to be given to including this in the review process. Internal Audit Manager 31.3.19
1320 Reporting on the Quality Assurance and Improvement Programme Has the Chief Audit Executive (CAE) reported the results of the QAIP to senior management and the board? Note that: - <ul style="list-style-type: none"> the results of both external and periodic internal assessment must be communicated upon completion the results of ongoing monitoring must be communicated at least annually the results must include the assessor's or assessment team's 	The self assessment exercise was reported to Audit Committee in December 2016. In future results of the internal assessments will be reported in the annual outturn report The results of the external assessment process will be reported to the Audit Committee when received by the	Not considered an issue in the Self Assessment	This will be done in future as part of the normal reporting process	Will be included in the next self evaluation cycle. Internal Audit Manager 31.3.19

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ATTRIBUTE STANDARDS				
Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.	external reviewer			
Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	This has not been included in the annual outturn report to date.	Not considered an issue in the Self Assessment	Following the internal & external reviews this will be reported	To be considered in reporting process. Internal Audit Manager 31.3.19
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing' Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	This has not been included in the annual outturn report to date.	Not considered an issue in the Self Assessment	Following the internal & external reviews this should be reported	To be considered in reporting process. Internal Audit Manager 31.3.19
1322 Disclosure of Non-conformance Has the CAE reported any instances of non- conformance with the PSIAS to the board?	This has not been included in the annual outturn report to date.	Not considered an issue in the Self Assessment	Following the internal & external reviews this should be reported	To be considered in reporting process. Internal Audit Manager 31.3.19

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<p>2000 Managing the internal audit activity The Head of Audit must effectively manage the internal audit activity to ensure it adds value to the organisation</p>	<p>The service has a good understanding of the needs and objectives of the whole organisation and understands its position in the assurance framework. It aspires to be innovative and challenging as well as being a catalyst for change. A risk based operational plan is developed in consultation with Members, Directors, Heads of Service and staff. The plan is reported to and approved by the Audit Committee prior to the start of the financial year. Processes and procedures to guide internal audit activity in line with the requirements of the Public Sector</p>	<p>The annual audit plan report needs to clearly show links to organisational objectives and priorities.</p>	<p>Agreed</p>	<p>To be considered in reporting process. Internal Audit Manager 31.3.19</p>

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	Internal Audit Standards (PSIAS) are set out in an Audit Manual which is available to all staff.	Future audit planning work needs to include a review of the Council's assurance framework to determine what assurances can be gained from other sources.	Agreed. This is currently not covered in the Audit Plan.	To be considered in reporting process. Internal Audit Manager 31.3.19
2010 Planning Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	The plan does not specifically cover this however the plan does refer to the need for flexibility in order to address emerging or new areas and to respond to changing priorities or structures etc. Audit Committee members are well aware of the impact of change on the plan. Directors and Heads of Service are consulted during the planning process to identify both national and local issues or areas needing additional assurances.	Not considered an issue in the Self Assessment	Members need to be made aware of impact and changing priorities	To be considered in reporting process. Internal Audit Manager 31.3.19

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PERFORMANCE STANDARDS				
Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
Does the risk-based plan set out the: <ul style="list-style-type: none"> • Audit work to be carried out? • Respective priorities of those pieces of audit work? 	At the planning stage there are too many variables to enable this level of detail to be included. Consultation with the client and the scoping process deals with these issues within a flexible framework.	Not considered an issue in the Self Assessment	Consider providing greater detail around the audit work to be undertaken in order to better inform members of any changing priorities / risk profiles.	To be considered in reporting process. Internal Audit Manager 31.3.19
Does the risk-based plan set out the: <ul style="list-style-type: none"> • Estimated resources needed for the work? 	Audit resource input is indicated for staff management purposes	Not considered an issue in the Self Assessment	Additional detail should be supplied to Audit Committee when variations arise.	To be considered in reporting process. Internal Audit Manager 31.3.19
2050 Coordination Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	An assurance framework is under development which will give members a view of the whole assurance landscape.	Not considered an issue in the Self Assessment	Future audit planning work needs to include a review of the Council's assurance framework to determine what assurances can be gained from other sources and evidence provided	The Assurance Framework was presented to the Audit Committee in December 2016 and will now be kept under review by the Corporate Governance Panel Internal Audit Manager Ongoing review
Does the CAE meet regularly with the nominated external audit representative to consult on and	Meetings do take place with the external auditor as	Not considered an issue in the Self Assessment	Agreed	Meetings to be arranged as required

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coordinate their respective audit plans?	and when required and the external auditors do attend all meetings of the Audit Committee.			
2060 Reporting to Senior Management and the Board Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	The content of the periodic reporting continues to evolve and will in future include comments on issues or themes that are of particular note in relation to issues needed or requested by the Audit Committee or senior management.	Not considered an issue in the Self Assessment	Agreed – these tend to be generalised	To be considered in reporting process. Internal Audit Manager 31.3.19
2100 Nature of work Internal audit must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach	The internal audit service is a key player in promoting risk management, governance and internal control throughout the authority and the Head of Audit is a key contributor and facilitator of the Authority's corporate governance review	As part of the response to the WAO report on its "review of arrangements within Caerphilly CBC to address external audit, inspection and regulation recommendations and proposals for improvement", a Panel will be established to review Directorate Risk Registers to inform the annual audit planning process.	Agreed	To be considered in the audit planning process. Internal Audit Manager 31.3.19

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Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
	process. The risk based plan is developed and assignments performed in a way that allows for evaluation and improvement of governance, risk management and control processes, using a systematic and disciplined approach. Implementation of recommendations made is monitored.			
2340 Engagement Supervision Is appropriate evidence of supervision documented and retained for each engagement?	Time recording system would identify time spent against projects but would not specifically identify supervision. Piecemeal time allocations may not be recorded	Not considered an issue in the Self Assessment	Clearer documentation of the review process and evidence of review notes would further enhance this requirement	Consideration to be given to this. Internal Audit Manager 31.3.19
2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	This does not currently feature within the body of internal audit reports.	Not considered an issue in the Self Assessment	Internal audit reports could be amended to include a statement on conformance with the PSIAS	Consideration to be given to an appropriate statement to be included in the Audit report.

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Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?				Internal Audit Manager 31.3.19
2450 Overall Opinion Does the annual report incorporate the following: The annual internal audit opinion? A summary of the work that supports the opinion? A disclosure of any qualifications to the opinion? The reasons for any qualifications to the opinion? A disclosure of any impairments or restriction in scope? A comparison or work actually carried out with the work planned? A statement on conformance with the PSIAS?	Where relevant and appropriate these would all be included within the annual report.		The annual outturn report to the Audit Committee could be amended to include a statement on conformance with the PSIAS	Consideration to be given to an appropriate statement to be included in the report. Internal Audit Manager 31.3.19
Does the annual report incorporate the following: The results of the QAIP? Progress against any improvement plans resulting from the QAIP? A summary of the performance of the internal audit activity against its performance measures and targets? Any other issues that the CAE	This will be reported to the Audit Committee in future		The summary does not include details of specific audit work undertaken in the period. Therefore a significant reliance on the Internal Audit Manager to determine appropriate assurances	Consideration to be given to how best this is to be reported. Internal Audit Manager 31.3.19

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Requirement	Self Assessment	Actions for Consideration	External Assessor Recommended actions	Agreed Actions/Person Responsible/Timescale
judges is relevant to the preparation of the governance statement				
2500 Monitoring progress Where issues have during the follow-up process, has the CAE considered revising the internal audit opinion?	The review mechanism is focussed on achieving improvement by implementation of agreed actions. If audit is not satisfied with progress on fundamental issues it would be escalated in the first instance to the S151 Officer then Audit Committee	Not considered an issue in the Self Assessment	Consideration should be given to revising the audit opinion post follow up which would give further assurances that improvements have been made	Consideration to be given to the option of revising the audit opinion to reflect direction of travel in respect of improvement. Internal Audit Manager 31.3.19