



Public Sector Internal Audit Standards

External Assessment of Leeds City Council Internal Audit

November 2016

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Review Team Details:	
Head of Internal Audit	Shail Shah 0115 8764245
Audit Manager	Simon Parsons 0115 8764246
Group Auditor	John Slater 0115 8764239
Distribution List	
Issue Date:	22 nd December 2016
Issued to:	Tim Pouncey, Chief Officer – Audit & Investment
Copied to:	Doug Meeson, Chief Officer -Financial Services (Deputy S151 Officer)
	Sonya McDonald, Acting Head of Audit



1. Introduction and Background

- 1.1 In April 2013, a new set of Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. They were updated in March 2016. The standards are intended to reflect that “a professional, independent and objective internal audit service is one of the key elements of good governance”.
- 1.2 The PSIAS introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
- 1.3 Many of the requirements of PSIAS fall specifically on the Chief Audit Executive (CAE). The role of CAE as identified by PSIAS is currently being undertaken by the Chief Officer (Audit & Investment). This is an interim measure pending the appointment of a new Head of Audit. There is currently an Acting Head of Audit. The Council’s Internal Audit Charter states that the Head of Audit will be the CAE.
- 1.4 The Public Sector Internal Audit Standards include a specific definition of Internal Auditing which is expected to be used whenever the function of internal audit is explained, for example in the Audit Charter; a Code of Ethics and eleven specific standards. The standards are divided into attribute standard and performance standards.
- 1.5 The Core Cities Chief Internal Auditors (CIA) group has established a ‘peer-review’ process that is managed and operated by the constituent authorities. The peer review process addresses the requirement of external assessment by ‘self-assessment with independent external validation’ and this report presents the summary findings of the review carried out on behalf of Leeds City Council (the Council) by Nottingham City Council Internal Audit (as detailed on page 1 of this report).
- 1.6 The review team lead attended the Corporate Governance and Audit Committee (CGAC) meeting held on 24th June 2016 to confirm the arrangements for the review.
- 1.7 The findings within this report have been discussed and agreed with the Internal Audit management team.



2. Purpose

- 2.1 The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

3. Approach/Methodology

- 3.1 The Core Cities Chief Internal Auditors' group agreed a detailed terms of reference (ToR) that outlines the broad methodology for the conduct of each review. This was issued to Leeds City Council and shared with senior officers. The ToR were discussed and agreed by CGAC.
- 3.2 In summary, the peer review was undertaken in three stages: pre-review; on-site review; post-review evaluation and reporting. It covered audit activity during the period covered in the latest CAE's annual report 2015/16 and the current year to October 2016.
- 3.3 The Acting Head of Audit (on behalf of the Chief Audit Executive - CAE) had completed a self-assessment of Leeds City Council's Internal Audit Service, and its compliance with the Standards. The self-assessment was used as the basis for the external assessment, which was then evidenced with reference to a range of internal and published documentation. Self-assessment references have been referred to in the report where appropriate (e.g. SA9b).
- 3.4 Leeds City Council Internal Audit holds ISO 9001 accreditation and is subject to an annual review for this purpose. This has been taken into account in our review.
- 3.5 To support and further inform the assessment, a sample of completed assignments was examined and the documentation used to assess the service's documented processes as part of assessment against PSIAS using the CIPFA Local



Government Application Note (LGAN). This included Audit Manual and operational Guidance Notes.

- 3.6 Operational practices were discussed with the Head of Audit, and Principal Audit Manager and the Quality Assurance (QA) process reviewed with the Principal Audit Manager and evidence was provided to demonstrate compliance with these practices and process.
- 3.7 Meetings were held with senior councillors and officers specifically to explore key expectations and opinions of the audit service, consultation on the audit plan, reporting arrangements and board and senior officer roles. Figure 1 provides details.

Figure 1

examination of core documents including the

Leeds City Council Participants in the Assessment

Name	Role / Title	Contact Type
Cllr Pauline Grahame	Chair of CGAC	Face to face
Cllr Peter Harrand	Opposition CGAC councillor	Face to face
Neil Evans	Director of Environment & Housing	Face to face
Doug Meeson	Chief Officer - Financial Services (Deputy S151 Officer)	Face to face
Tim Pouncey	Chief Officer – Audit & Investment	Face to face
Sonya McDonald	Acting Head of Audit	Face to face & Testing
Louise Ivens	Principal Audit Manager	Testing & Documentation



4. Opinion of External Assessment

- 4.1 This external assessment concludes that Leeds City Council's Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards.
- 4.2 There are some partial conformances and non-conformances which require further development and opportunities have been identified to do this which should enhance the strategic and operational function. These do not impact on the overall opinion. We have shared comments with the CAE and his team as part of the review, but we also provide an annotation of findings to the self-assessment in the Action Plan.
- 4.3 The specific non-conformances with the standards and the impact of these must be disclosed to senior management and the CAE is aware that action plans for development should be shared with senior officers and the CGAC.
- 4.4 We have provided an action plan highlighting areas of partial compliance and non-compliance which has been considered by Internal Audit management and which will be considered by the CGAC in due course – attached at Section 9. The action plan does not cover areas where the service had already self-assessed and identified actions
- 4.5 It was clear from our review of the Internal Audit Service's documentation that supports the self-assessment, from our on-site interviews with key stakeholders and from our assessment of further requested documentation that the service is valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. It operates to ethical standards and with professionalism and integrity. This is achieved through both the service's and Council's standards, policies and practices together with the planned programme of audit work.
- 4.6 The Service is headed by experienced leaders who have a good reputation with stakeholders across the Council. Roles and responsibilities are understood and there is regular, timely communication of audit assurances, issues and concerns to management and Members. The audit service is accredited to quality standards and whilst there are areas where the PSIAs are not or are partially met, these do not affect the overall outcome.



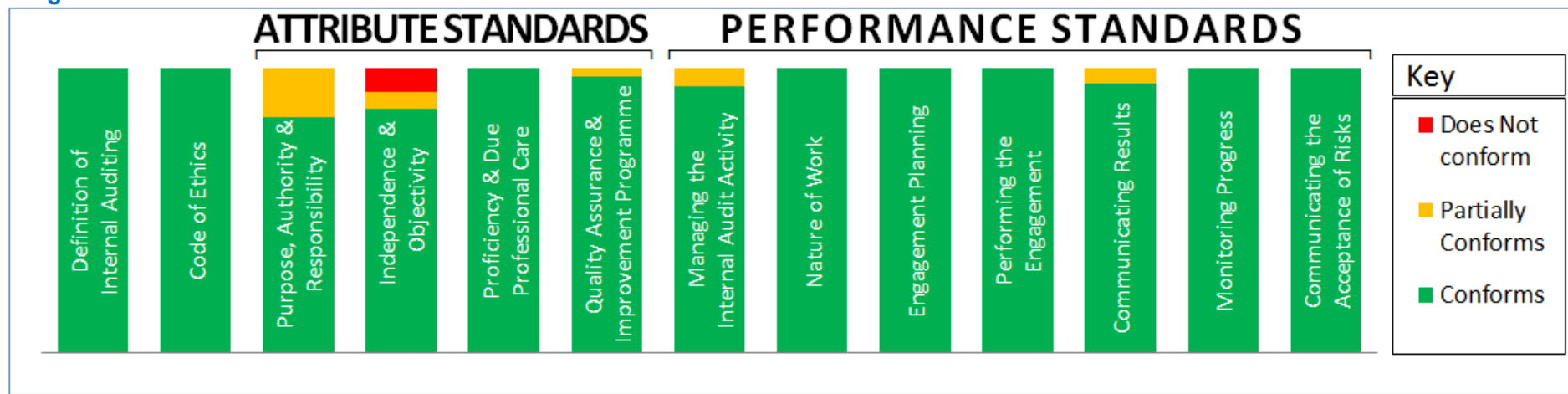
- 4.7 It is also reassuring that areas for further development or consideration that we shared during the review and in this report, were largely identified through the Service's own self-assessment. This demonstrates positive self-awareness, openness and a genuine commitment to ongoing service improvement.
- 4.8 We agreed with the self-assessment with the exception of 4 areas.
- Where the self-assessment disclosed non-conformity but this had not yet been disclosed to CGAC (SA22e SA78).
 - Our assessment of partial compliance for one of the factors related to board's contribution to organisational independence, but this is based on the Audit Charter's definition of the board, which we suggest if amended would allow existing acceptable local government practice to be assessed as conforming (SA22c).
 - A further area assessed as partially compliant due to a lack of minuted CGAC requests for reassurance regarding inappropriate limitations of scope (SA22f). This topic was discussed with councillors and officers during our first visit.
 - Partial compliance in relation to definitions within the Audit Charter (SA9b, SA11d, SA11e).

Summary

- 4.9 Following evaluation of findings, the review team made the following judgements: Of the 349 questions within the PSIAS Local Government Application Note, the Internal Audit team fully conforms in 334 areas, partially conforms in 12 areas, and does not conform in 3 areas. We have reviewed a sample of other cities' assessments and identified that for the elements of the standards in question; the non-conformity is generally accepted practice. In the few instances where questions were not applicable we have deemed this to be conformant. The distribution of conformance is set out in figure 2 below.



Figure 2



■	0	0	0	3	0	0	0	0	0	0	0	0	0
■	0	0	3	2	0	1	3	0	0	0	3	0	0
■	3	13	19	30	21	34	44	31	58	22	52	4	2

■				SA22e SA23 SA24									
■			SA9b SA11d SA11e	SA22c SA22f		SA78	SA86 SA111 SA112				SA202b SA202c SA205f		



Findings

5. Definition & Code of Ethics

Definition of Internal Auditing

- 5.1 The evidence that we have seen leads us to conclude that Leeds City Council Internal Audit service has demonstrated that it is independent, objective and uses a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation.

Code of Ethics

- 5.2 Internal auditors at Leeds City Council Internal Audit service demonstrate integrity, objectivity, confidentiality, and competency and have regard to the Seven Principles of Public Life as required by PSIAS.

6. Attribute Standards

Standard 1000: Purpose, Authority and Responsibility

- 6.1 Internal Audit has an Audit Charter which defines its purpose, authority and responsibility and references are made to the PSIAS requirements. The role of audit appears to be well understood within the team and respected within the wider organisation, including the Corporate Governance and Audit Committee (CGAC).
- 6.2 Although section 2.1n of LCC's Audit Charter refers to the relevant PSIAS requirement, section 16 of the Charter fails to mention information and other assets held by third parties on behalf of the authority, e.g. in partnership, contracting and community or social enterprise arrangements which we feel is a weakness in the authority granted to Internal Audit. Section 8.1 of the Audit Charter refers to the control environment - it may benefit from clarification by referring to the authority and its group of companies (SA9b, SA11e).
- 6.3 In view of the responsibilities defined by PSIAS the definition of Senior Management seems narrow. We would suggest widening the definition to include the Monitoring Officer, Head of Paid Service and Corporate Leadership Team, given their role in providing input to the Audit Plan (SA11d).



Standard 1100: Independence and Objectivity

6.4 The CAE has unrestricted access and without reference to other senior managers to

- Senior management
- Board (CGAC)
- Chief Executive
- Chair of CGAC

and our interviews with a sample of members of this group and documentary evidence indicate that he communicates well with them.

6.5 Threats to objectivity are managed well subject to

6.6 The CAE is organisationally independent notwithstanding the comments in Figure 3. We understand that within interim arrangements the CAE has functional responsibility for Investments and has a Non-Executive role in the Children' Services Department. A standard arrangement exists to enable Internal Audit to remain independent and objective by the Acting Head of Audit reporting direct to the Deputy Section 151 Officer.

6.7 There are several areas of this standard where Leeds City Council Internal Audit does not conform or only partially conforms to the PSIAS LGAN, the majority of which represent generally accepted practice as shown in Figure 3.

Figure 3

the comments in Figure 3.		Issue	Status	Disclosure
		Budget not approved by CGAC (SA22c)	Partially Conforms*	
		Appointment and removal of the CAE is not approved by CGAC (SA22e)	Does Not Conform*	Not yet disclosed
		CGAC is not minuted as having sought reassurance from management and the CAE whether there are any inappropriate limitations of scope (SA22f)	Partially Conforms	
		Chief Executive does not contribute to review or performance appraisal of the CAE (SA23)	Does Not Conform*	Disclosed in report to CGAC November 2013
		Feedback is not sought from chair of CGAC for the CAE's performance appraisal (SA24)	Does Not Conform*	Disclosed in report to CGAC November 2013

* We have confirmed that this is generally accepted practice managing Internal Audit in core cities .



Figure 4

Factors Contributing to Objectivity

Code of Conduct
Employee Outside Interests Policy
Audit Charter including Code of Ethics
Audit scoping process
Rotation of audit assignments between auditors

Figure 5 by these qualifications
biannual assessment of

Qualification of Team Members

CCAB	16
PIIA	4
MIIA	1
QiCA	1
CIPQ	1
AAT	3
Studying	3
*Total 24 individuals	

Figure 6

Experience of Team Members

10+ years	10.93
5-10 years	5
<5 years	4
All figures are Full-Time Equivalents	

6.8 The internal audit process and corporate policy environment contributes to the individual objectivity of internal auditors (see Figure 4), and we have not become aware of any impairment to independence or objectivity during our review.

Standard 1200: Proficiency and Due Professional Care

6.9 Internal Audit team members are all professionally qualified or studying for professional qualifications (figure 5). There is a good mix of expertise demonstrated including IT and counter fraud. Job descriptions are up to date and there is a staff against a competency matrix, as well as an assessment at the conclusion of each audit. There is evidence of relevant training to support team members in their roles. Continuous professional development records of team members are reviewed as part of biannual assessment. The team has many years' experience (figure 6).

6.10 There are 4 team members trained to use the IDEA data interrogation and analysis tool, which has allowed the team to introduce a form of continuous audit plan and deliver analytical review a result of which was a well-publicised successful fraud prosecution. The work process is well-defined and includes a technical manual and scoping document.

6.11 The extent of work required to meet the scope of the audit is controlled through the scoping document and review process. The Audit Leadership Team considers the competencies of auditors when assigning work.

Standard 1300: Quality Assurance and Improvement Programme



- 6.12 The standards require that a Quality Assurance and Improvement Programme (QAIP) is developed which covers all aspects of the internal audit activity and enables conformance with all aspects of the standards to be evaluated. The service has completed a PSIAS Local Government Application Note checklist and provided supporting evidence to this review, and has reported previous self-assessments to the CGAC including non-conformance (though we noted an additional item to report – SA78) and an improvement action plan. There is an overall reference to conformance in the annual report 2015/16.
- 6.13 There are good processes in operation to monitor quality on an ongoing basis (figure 7). ISO 9001 accreditation is in place and internal quality reviews occur in line with the 9001 standard. Customer Satisfaction Questionnaires are issued to clients at the end of each assignment and the information returned is used to identify training and development needs.
- 6.14 Performance is discussed within a range of internal meetings and key performance measures are reported to CGAC and Audit Leadership Team as appropriate. Discussions have been taking place with the new Chair of CGAC around the committee’s requirements for audit performance reports.
- 6.15 The form of external assessment selected by Leeds City Council Internal Audit and approved by the CGAC has been determined in order to meet the criteria of the PSIAS. This approach was agreed with other Core Cities as best meeting the needs of all involved and in particular allows for assessors to have good understanding of the role of internal audit within the local government of a major city. The approach has designed out conflict of interest through non-reciprocity of assessment.

Figure 7

Quality Assurance Regimes

QAIP
ISO 9001
Internal Systems



7. Performance Standards

Standard 2000: Managing the Internal Audit Activity

- 7.1 The service has arrangements to produce a risk-based audit plan annually as defined within its charter. This links to organisational priorities, the Council's Corporate Risk Register and national and regional issues, and enables an annual audit opinion to be given. The plan takes account of stakeholder input. The audit plan is broken down into assurance blocks and meets the expectations of the standard, including the requirement for flexibility, review and use of specialists where appropriate. The Audit Plan is agreed by senior management and approved by the CGAC. Any significant changes to the Audit Plan would be communicated to senior management and the CGAC – though this has not been necessary in the period reviewed.
- 7.2 Resource requirements are identified as part of the planning process, and timing and scope of engagements are subsequently agreed with management. CGAC has enquired and the CAE has confirmed that adequate resources are available to deliver the plan.
- 7.3 Policies and procedures have been put in place to guide internal audit activity, which support compliance with PSIAS, and these are reviewed periodically. Procedures are also subject to annual review by an external ISO assessor.
- 7.4 The service meets regularly with the Council's external auditor KPMG with a view to coordinating activity. The Head of Scrutiny is also consulted on planned work to reduce duplication.
- 7.5 The service has identified and started to implement an assurance mapping framework which will enhance governance, improve coordination and inform the risk-based audit plan. We agree with the service's self-assessment that this allows partial conformance with PSIAS and this addressed in action 2 of the service's Improvement Action Plan (SA86, SA111, SA112).
- 7.6 The service provides regular updates in an agreed format to management and the board which include fraud work, and gives the opportunity to highlight limited and no assurance opinions and major impact opinions.



- 7.7 The standard for External Service Provider and Organisational Responsibility for Internal Audit does not apply to Leeds City Council as the service is provided internally.

Standard 2100: Nature of Work

- 7.8 The service has a systematic and disciplined approach to its activity supported by the Technical Manual, agreed quality procedures and standardised working paper files. There may be a need to refresh this documentation when a decision is taken to utilise the working papers facility within the Galileo audit automation package.
- 7.9 Internal audit activity evaluates and contributes to the improvement of the organisation's governance through a programme of audits linked to ethics and values, performance management, and information technology, and through recommendations within other audits. These audits are balanced against other priorities through the assurance block arrangements. The CAE and HoIA are involved in coordination of CGAC, external and internal audit plans and management reporting.
- 7.10 Internal Audit has a programme to evaluate the organisation's risk management and control processes which includes all the elements required by PSIAS. Its scoping process and Charter ensure that other significant risks are considered, that the service maintains its independence and objectivity, and uses the knowledge of controls that auditors have gained across all types of engagement.

Standard 2200: Engagement Planning

- 7.11 Scoping documents are prepared for each audit or consultancy engagement which are agreed with and issued to the respective client officers. Engagement planning meets the PSIAS requirements, and engagement objectives and scope are set with regard to the appropriate factors specified by PSIAS.
- 7.12 Internal Audit policies and procedures ensure that resource allocation matches the nature, complexity, and time constraints for each engagement.



- 7.13 Work programmes are developed and documented in accordance with the service’s quality processes and are standardised where appropriate. These ensure that relevant information is collected, analysed, evaluated and recorded for each assignment. Procedures exist to approve the work programmes and adjust them if necessary.

Standard 2300: Performing the Engagement

- 7.14 We have seen evidence that supports the completion of work programmes. Procedures operate to ensure that information with appropriate qualities is identified. The reports seen based their conclusions on appropriate analyses and evaluation, and there was evidence that the factors mentioned in PSIAS formed part of the considerations. Documentation for audits was securely held, subject to retention and disposal policies consistent with those of the organisation, and sufficient to support engagement conclusions and results.
- 7.15 We saw evidence of supervision and quality assurance within the sample of audits we selected which was consistent with the policies and procedures of the service.

Standard 2400: Communicating Results

- 7.16 The results of engagements are communicated in accordance with the requirements of the standard.
- 7.17 The statement of conformance with PSIAS is only used in the Annual Audit Report. Use of the statement is supported by the results of QAIP and is therefore acceptable. We understand that there have been no examples of non-conformance within engagements and identified none in the sample that we reviewed.
- 7.18 Appropriate arrangements are in place for ensuring the results of engagements are shared with appropriate parties within Leeds City Council.
- 7.19 The service broadly complies with the standard in relation to the overall annual internal audit opinion. We agree with the service’s self-assessment that it needs to give an active opinion regarding limitation of scope (SA202b) and regarding reliance on other assurance providers (SA202c), and enhanced reporting of achievement of the audit plan (SA205f). There



are 3 areas of partial compliance where the service does not make all the disclosures required by the standard, but the service has identified these and they will be rectified in the 2016-17 annual internal audit opinion.

Standard 2500: Monitoring Progress

7.20 The monitoring process implemented by the service meets the requirements of the standard.

Standard 2600: Communicating the Acceptance of Risks

7.21 The service has appropriate protocols and processes in place to deal with communicating and challenging the acceptance of risks.



8. Conduct of the External Assessment

8.1 This external assessment of Leeds City Council's Internal Audit Service has been conducted in accordance with Standard 1312 (External Assessments) of the Public Sector Internal Audit Standards 2016, effective from April 2016, and the related CIPFA Local Government Application Note (2016). Such external assessments must be conducted at least once in every five years by a qualified, independent assessor / assessment team from outside the organisation.

Figure 8

8.2 The qualified assessor / assessment team must demonstrate competence in two areas – the professional practice of internal auditing, and the external assessment process. Figure 8 shows key information in this regard.

Review Team	Years*
Shail Shah	26
Simon Parsons	31
John Slater	20
* Audit experience	

8.3 Regarding competence, the Standards state that experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. Regarding independence, the independent assessor must not have either a real or an apparent conflict of interest and must not be a part of, or under the control of, the organisation to which the internal audit activity belongs.

8.4 I certify that as the external assessor as defined in the PSIAS, I am a CCAB qualified accountant , and have 26 years of audit experience (22 of which have been at a Chief Audit Executive level). This experience has been gained in a comparable sector (local government) and I currently fulfil the role of Chief Audit Executive for Nottingham City Council. I have no conflict of interest in performing this assessment in respect of Leeds City Council's Internal Audit Service – I am not a part of, or under the control of, Leeds City Council.

Shail Shah ACCA
Audit & Risk Division
Nottingham City Council
Loxley House
Station Street
Nottingham
NG2 3NG



Ref	Your Refs	Finding	Recommendation	Management Response (Action)	Timescale
1	9b 11e	<p>Section 16 of the Internal Audit Charter does not mention information and assets held by third parties on behalf of the authority, e.g. in partnership, group companies, contracting and community / social enterprise arrangements.</p> <p>This clarity of authority to access these assets and explanations is important because it enables Internal Audit to carry out all appropriate work and properly form assignment and overall opinions.</p> <p>Partially conforms</p>	Ensure that wording in the Charter allows access to all relevant assets and explanations.	Agree, we will review the Charter and propose amendments for CGAC to agree but would like to provide an assurance that, as currently drafted, the Charter has not adversely impacted on our access to information and assets.	Revised Charter to be presented to the April meeting of the CGAC.
2	10 11d 22c	<p>Section 4 and 5 of the Internal Audit Charter define roles. Charter section 11.3 also refers in respect of receiving reports, here the monitoring officer role is not directly referred to but Corporate Leadership Team is. The head of paid service is referred to in respect of reporting arrangements to achieve organisational independence.</p> <p>Clarity of roles ensures that management and board provide appropriate challenge, direction and</p>	In defining roles in the Internal Audit Charter it may be worth considering the role of the monitoring officer and head of paid service input to the plan and commissioning. Potentially, redefining senior management would help here. We would also suggest that in definition of the board, asserting that the Section 151 Officer performs some of these roles at Leeds City Council, helps the Council to meet PSIAS	Agree, as above.	Revised Charter to be presented to the April meeting of the CGAC.



Ref	Your Refs	Finding	Recommendation	Management Response (Action)	Timescale
		support for Internal Audit. Conforms (10) Partially conforms (11d 22c)	requirements.		
3	11p	Sections 1 and 2 of the Internal Audit Charter state the standards but are not clear that they 'incorporate them in the charter', most specifically that PSIAS is mandatory or the context of mandation. Clarity of communication that both the Council and the Internal Audit service are required to conform to PSIAS helps to ensure that individuals carry out their roles. Partially conforms	We suggest that section 1 includes a comment that PSIAS are mandatory in respect of Attribute Standards for Leeds City Council and in respect of Performance Standards for Leeds City Council Internal Audit.	Agree, as above.	Revised Charter to be presented to the April meeting of the CGAC.
4	22e 78	Leeds City Council reported non-conformance with the PSIAS to Corporate Governance and Audit Committee in respect of two areas. We have identified a third area which requires reporting covering responsibility for appointment and removal of the CAE. The standard requires all non-conformances to be disclosed to	Ensure that the additional area of non-conformance is reported to CGAC as part of response to this review.	Agree, this report does indeed bring this matter to the attention of CGAC. The 3 non-conformances in Figure 3 relate to HR matters. Having discussed these recommendations with the Deputy Chief Executive, we will consult with HR to determine how these recommendations can be implemented in full. This would require a change to the CGAC	Will depend on HR advice. That said, we will provide an update to the April CGAC when we should be in



Ref	Your Refs	Finding	Recommendation	Management Response (Action)	Timescale
		board. Does not conform (22e) Partially conforms (78)		terms of reference.	a position to be more precise in terms of timescales.
5	22f	The board is not minuted as having sought assurance from management and the CAE regarding whether there are any inappropriate limitations of scope. By consistently seeking such assurance the board ensures that it receives appropriate quality information and allows it to take action if it does not. Partially conforms	The CAE should ensure that when discussing the annual report and the audit plan assurances are both given and sought in relation to resources and limitation of scope.	This is a difficult one to resolve, in part because we assessed ourselves as being compliant in this regard as there have been no inappropriate limitations to scope. To be proactive, we will make a specific statement about scope limitations in all future update reports and annual reports. It will be for the CGAC to determine whether assurances, over and above those that we agree to provide in the reports, about scope limitations should be sought in respect of Internal Audit reports and all annual assurance reports provided to the Committee.	January CGAC