

EAST AYRSHIRE COUNCIL

CORPORATE GOVERNANCE COMMITTEE – 16 NOVEMBER 2004

A JOB WORTH DOING – FOLLOW-UP REPORT

Report by the Chief Auditor

1. PURPOSE OF REPORT

- 1.1** To submit to Members details of the Audit Scotland follow-up study on internal audit services.

2. BACKGROUND

- 2.1** In August 2001, the Accounts Commission report 'A job worth doing – raising the standard of internal audit in Scottish councils' examined the internal audit arrangements in Scottish councils. The study was directed by the Accounts Commission in order to establish a clear picture of performance of internal audit services in all councils in Scotland.
- 2.2** Council performance was assessed against the CIPFA Code of Practice for Internal Audit in Local Government. Councils were placed in one of four performance bands, depending upon the extent to which they complied with the Code.
- 2.3** In 2001, East Ayrshire Internal Audit service was placed in the top band, equal first with East Renfrewshire Council, among the thirty-two Scottish councils. Some councils performed poorly in the original study.
- 2.4** In 2004, a follow-up study was conducted by Audit Scotland on behalf of the Accounts Commission. It reports how much progress councils have made since the 2001 study.
- 2.5** The 2001 study for East Ayrshire Council was carried out by Audit Scotland, our external auditors at that time. The 2004 follow-up study was conducted by our current external auditors, PricewaterhouseCoopers.
- 2.6** Scotland's councils are required to have in place arrangements for ensuring sound corporate governance and best value in their stewardship of public funds. Internal Audit has a key role to play in assisting Councils to discharge these responsibilities.

3. STUDY APPROACH

- 3.1** Council performance was assessed against the standards set by the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government.
- 3.2** The assessment methodology, used for both the initial and the follow-up studies, was developed in consultation with the Scottish Local Authorities Chief Internal Auditors' Group, a panel of external auditors and a study advisory group containing representation from the key stakeholder interests. The assessment framework was developed from the CIPFA Code of Practice for Internal Audit in Local Government
- 3.3** Six critical success factors were identified, with these being supported by 15 statements of good practice and 97 tests on individual council processes and outcomes.
- 3.4** External Auditors conducted their follow-up assessment of East Ayrshire Council arrangements in January 2004. The audit approach involved interviews with key stakeholders including the Chief Executive, the Executive Head of Finance and the Chief Auditor and completing an assessment of performance against prescribed critical success factors and compliance with statements of good practice.
- 3.5** In July 2004, Audit Scotland published a national report setting out a Scotland-wide assessment of performance. PricewaterhouseCoopers issued their finalised local report to the Council in October 2004.

4. NATIONAL STUDY FINDINGS

- 4.1** The follow-up study found that nearly all councils' performance had improved since the initial study in 2001. The number of councils in the top performance band has risen from four to seventeen, and twenty-seven councils demonstrated a higher level of compliance with the Code than in 2001.
- 4.2** Most councils improved their overall performance, but the extent of improvement varied significantly. Councils placed in the lower performance bands in 2001 had more scope to improve. In the better performing councils in 2001 improvement was more challenging. The national report refers to the example of East Ayrshire and states "*East Ayrshire's improvement may appear to be relatively small, but relative to their initial position it is considerable*".
- 4.3** The study highlights four councils who scored particularly highly with a compliance rating of 94% or more, and East Ayrshire Council was one of the named councils. The other three named councils are Angus, Highland and Renfrewshire.

- 4.4 The national study conclusions highlight specific areas where Scottish councils can improve. These include risk management arrangements and implementation of audit committee principles.

5. EAST AYRSHIRE COUNCIL STUDY FINDINGS

- 5.1 The overall aim of the follow-up study was to measure progress made by the internal audit service in East Ayrshire Council since the publication of the 2001 'A Job Worth Doing' report.
- 5.2 East Ayrshire Council was awarded top-ranking five-star status in all areas examined by our external auditors, PricewaterhouseCoopers, and are the only council to achieve this..
- 5.3 The Council was placed in the top performance band with councils that 'almost fully comply with the Code'.
- 5.4 The study noted a number of examples of good practice including the direct reporting line to the Chief Executive, which ensures effective organisational status and operational independence.
- 5.5 The local audit report identified some further opportunities for developing the internal audit service in the East Ayrshire Council.

6. CONTINUING DEVELOPMENT OF THE INTERNAL AUDIT SERVICE

- 6.1 East Ayrshire Council Audit service has introduced a number of infrastructure enhancements since the original study, including an audit charter which sets out in clear terms the audit terms of reference, annual service plans which are agreed with service directors at the beginning of each audit year, staffing improvements, enhanced reporting arrangements and quality assurance measures.
- 6.2 The developments outlined below will complement the examples of good practice already in place within the internal audit service in East Ayrshire Council. A summary of the future development of the internal audit service is provided in Appendix 1 to this report.

RISK MANAGEMENT ARRANGEMENTS

- 6.3 The national study reported that all councils should have in place a well-developed corporate risk assessment process. And the local study highlighted an opportunity for East Ayrshire Council to make improvements in this area.
- 6.4 The Council is currently in the process of reviewing its risk management arrangements, and the outcome of this will be the subject of a separate report to committee. The agreed risk management framework will then be used to inform the audit planning process. (Appendix 1: Action Point 1)

USE OF TECHNOLOGY

- 6.5 The study recommends that consideration should be given to purchasing an electronic audit methodology package to assist in the audit management process including planning, review and reporting of audit work.
- 6.6 The audit service is committed to further improvements in the audit management arrangements, and will appraise the use of electronic working papers and the costs of procuring an electronic audit package. (Appendix 1: Action Point 2)

INTERNAL AUDIT REPORTS

- 6.7 The study recommended that there was scope to introduce a more concise format for key areas of internal audit reports, including executive summaries, so as to increase the readability of audit reports.
- 6.8 Internal Audit has revised the report writing template and this has moved key audit findings to a concise executive summary at the beginning of all audit reports. (Appendix 1: Action Point 3)

BEST VALUE REVIEW

- 6.9 The local study recommends that the internal audit service should be subject to a best value service review to establish that it is providing an efficient and effective service to the council.
- 6.10 The European Foundation for Quality Management model (EFQM) and Best Value service reviews provide the framework for improvement and development in East Ayrshire Council. The audit service is committed to delivering a best value service and will use the Quality Scotland EFQM Pathway Tool and the Council's Best Value review process to demonstrate the efficiency and effectiveness of the service. (Appendix 1: Action Point 4)

AUDIT COMMITTEE PRINCIPLES

- 6.11 The study recommends that the Council should monitor how the new Corporate Governance Committee arrangements meet the requirements of audit committee principles.
- 6.12 The council is currently carrying out a review of its audit committee arrangements taking account of the recently published guidance from the CIPFA Directors of Finance Group, and the outcome of this review will be the subject of a separate report to committee. (Appendix 1: Action Point 5)

7. RECOMMENDATIONS

- 7.1** Members are asked to note the contents of the Audit Scotland study on the internal audit service, and approve the developments in the internal audit service outlined in this report and the attached action plan (see Appendix 1).

Colin Houston
Chief Auditor

CH/corpgovreport
October 2004

LIST OF BACKGROUND PAPERS

A job worth doing – Raising the standard of internal audit in Scottish councils, prepared by Audit Scotland (2001 National report).

A job worth doing follow-up report – Raising the standard of internal audit in Scottish councils, prepared by Audit Scotland (2004 National report).

East Ayrshire Council 2000/2001 Performance Audit ‘A Job Worth Doing’
Raising the Standard of Internal Audit in Scottish Councils.

East Ayrshire Council Internal Audit Follow-up Report 2004

CIPFA Code of Practice for Internal Audit in Local Government.

Audit Committee Principles in Local Authorities in Scotland 2004

Anyone wishing further information on the content of this report should contact the Chief Auditor on Tel. No. (01560) 323836.

ACTION PLAN

Appendix 1

	Recommendation	Action	Responsible Officer	Timescale
1.	<p>Risk Management</p> <p>The Council are currently in the process of reviewing their risk management arrangements, and compiling a Council wide risk register. Once this is completed Internal Audit should use this information to inform their planning processes, and ensure that specific risks are identified and addressed by Internal Audit.</p>	<p>The Council is putting in place a risk management framework which will include risk registers and these will be used to inform the audit planning process.</p>	<p>Exec Head of Finance for implementation of the risk management framework.</p> <p>Chief Auditor to use risk management framework to inform the audit planning process.</p>	<p>March 2005</p> <p>April 2005</p>
2.	<p>Use of Technology</p> <p>Internal audit should review their current audit methodology, in particular the use of paper files, and consider if investing in an electronic audit methodology package would enable a more efficient service.</p>	<p>Internal Audit will review current arrangements and evaluate electronic working papers.</p>	<p>Chief Auditor</p>	<p>September 2005</p>
3.	<p>Internal Audit Reports</p> <p>Internal Audit should review its current report-writing template in order to maximise the impact of the Executive Summary and consider whether a more concise format will improve the readability of the reports.</p>	<p>Implemented.</p>	<p>Chief Auditor</p>	<p>April 2003</p>

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4.	<p>Best Value</p> <p>Internal Audit should be subject to a best value service review to establish that it is providing an efficient and effective service to the Council. This would include utilising the arrangements already in place, such as monitoring departmental performance indicators. The Council as a whole were the subject of a European Foundation for Quality Management review (EFQM) in 1999, with the findings being reported and a suitable action plan devised.</p>	<p>The European Foundation for Quality Management model (EFQM) and Best value Service Review provide the framework for service improvement and development in East Ayrshire Council.</p> <p>The internal audit service will be subject to an annual EFQM assessment using the Quality Scotland EFQM Excellence Pathway Tool.</p> <p>The internal audit service will be subject to a best value review under a Council-wide programme of Best Value Service Reviews.</p>	<p>Chief Auditor</p> <p>Chief Auditor</p>	<p>September 2005</p> <p>Per Council Programme</p>
5.	<p>Audit Committee</p> <p>The Council should monitor how the new Corporate Governance Committee operates to ensure that it meets all the requirements of an audit committee. In addition Internal Audit and External Audit should be invited to all meetings, regardless of whether they are directly presenting items on the agenda.</p>	<p>The Council is carrying out a review of its audit committee arrangements taking account of the recently published guidance from the CIPFA Directors of Finance group</p>	<p>Executive Head of Finance</p>	<p>December 2004</p>