

EAST AYRSHIRE COUNCIL

CORPORATE GOVERNANCE COMMITTEE – 29 SEPTEMBER 2005

A JOB WORTH DOING – UPDATE REPORT

Report by the Chief Auditor

1. PURPOSE OF REPORT

- 1.1** This report provides Members with an update on progress against the action points arising from the Audit Scotland follow-up study on internal audit services, details of which were reported to Corporate Governance Committee on 16 November 2004.

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 reported how much progress councils had made since the 2001 study.
- 2.5** In the 2004 follow-up study East Ayrshire Council Internal Audit service was awarded top-ranking five-star status to in all areas examined by our external auditors, and were the only council to achieve this ranking. The Council was placed in the top performance band with councils that 'almost fully comply with the Code'.
- 2.6** 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.

- 2.7 The 2004 local audit report identified some opportunities for further developing the internal audit service in the East Ayrshire Council.
- 2.8 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.
- 2.9 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. PROGRESS AGAINST IMPROVEMENT ACTIONS

- 3.1 Progress against the action points included in the 2004 follow-up report is summarised below. Appendix 1 to this report presents the updated action plan.

RISK MANAGEMENT ARRANGEMENTS

- 3.2 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.
- 3.3 The Council's external auditor, PricewaterhouseCoopers, recently facilitated a risk workshop with the corporate management team, and the results of this exercise are being used to inform the Council's risk management arrangements, including corporate and departmental risk registers.
- 3.4 The Council continues to make progress on its risk management arrangements, and the risk management framework, including risk registers and risk action plans, will be used to inform the audit planning process. (Appendix 1: Action Point 1)

USE OF TECHNOLOGY

- 3.5 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.
- 3.6 The audit service has evaluated the benefits and costs of introducing an electronic package of working papers. The Galileo package of electronic working papers was demonstrated by Renfrewshire council. The main benefits of the package would appear to be in the areas of review of working papers.

- 3.7** East Ayrshire Council has a small audit team, where face to face supervision and review of work is standard. The current East Ayrshire Council audit assignment methodology extensively uses electronic working papers covering planning, recording and reporting of audit work. The Galileo package cost Renfrewshire Council £13k to introduce three years ago, with £1k recurring maintenance and support costs.
- 3.8** The current audit methodology is working satisfactorily, and it has been decided to continue with the current audit arrangements. (Appendix 1: Action Point 2)

INTERNAL AUDIT REPORTS

- 3.9** 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.
- 3.10** 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. The report template will be kept under continuous review. (Appendix 1: Action Point 3)

BEST VALUE REVIEW

- 3.11** 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.
- 3.12** The European Foundation for Quality Management model (EFQM) and Best Value service reviews provide the framework for improvement and development in East Ayrshire Council.
- 3.13** The audit service has recently completed a self-assessment using the Quality Scotland EFQM Pathway Tool. This self-assessment has helped to identify other improvement opportunities and these are set out in an improvement action plan for the service. The audit service will move to implement these action points and undertake annual assessments to identify future improvement and development opportunities. (Appendix 1: Action Point 4)

AUDIT COMMITTEE PRINCIPLES

- 3.14** The study recommends that the Council should monitor how the new Corporate Governance Committee arrangements meet the requirements of audit committee principles.

3.15 The council carried out a review of its audit committee arrangements taking account of the published guidance from the CIPFA Directors of Finance Group. The outcome of the review was reported to the Corporate Governance Committee on 16 November 2004. This report recommended the establishment of a Risk and Audit Scrutiny Group to strengthen scrutiny arrangement around audit work. The first meeting of the Risk and Audit Scrutiny Group was held on 13 June 2005. (Appendix 1: Action Point 5)

4. RECOMMENDATIONS

- 4.1** Members are asked to note the progress against the developments in the audit arrangements arising from the 'a job worth doing' study.
- 4.2** Members are also asked to note that the Internal Audit recently carried out an EFQM assessment using the Quality Scotland Pathway tool, and that an improvement action plan has been developed which, when implemented, will contribute to the process of continuous improvement of the audit service.

Colin Houston
Chief Auditor

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 Nov 2005

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).

A job worth doing – report to Corporate Governance Committee 16 November 2004.

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.

A JOB WORTH DOING ACTION PLAN

Appendix 1

	Recommendation	Action	Responsible Officer	Status
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 (march 2005)</p> <p>Chief Auditor to use risk management framework to inform the audit planning process (april 2005)</p>	<p>Corporate risk management arrangements continue to be developed, including departmental and corporate risk registers.</p> <p>Risk registers and risk action plans will be used to inform the audit planning process.</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 (september 2005)</p>	<p>The Galileo package of electronic working papers was evaluated.</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 (april 2003)</p>	<p>The report template has been reviewed and improvements have been made.</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 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 (september 2005)</p> <p>Chief Auditor (per council programme)</p>	<p>An EFQM self-assessment was recently carried out using the pathway tool, and an improvement action plan has been prepared.</p> <p>The audit service will be subject to a best value service reviews in line with the 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>The Risk and Audit Scrutiny Group has been introduced to strengthen scrutiny of audit business.</p>