

## **EAST AYRSHIRE COUNCIL**

**POLICY AND RESOURCES COMMITTEE – 4 OCTOBER 2001**

### **RAISING THE STANDARD OF INTERNAL AUDIT IN SCOTTISH COUNCILS**

#### **Report by the Chief Auditor**

#### **1. PURPOSE OF REPORT**

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

#### **2. BACKGROUND**

- 2.1** Audit Scotland recently prepared a national report 'A Job Worth Doing' – Raising the Standard of Internal Audit 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, and to provide benchmarking data to support continuous improvement.
- 2.2** Audit Scotland also produced, as a supplement to the national report, a local report on the performance of internal audit in East Ayrshire Council.
- 2.3** Internal Audit is an independent appraisal function established by management for the review of the internal control systems of the council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. A strong internal audit function is considered important for the effectiveness of the internal control systems established.
- 2.4** The total amount invested in internal audit services in all thirty-two Scottish councils is around £9m, about 0.1% of aggregate council expenditure. There are 300 full-time equivalent established posts, of which 265 were filled at the time of the study.

#### **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 approach and methodology was developed in consultation with the study advisory group, the Scottish Local Authorities Chief Internal Auditors' Group, and a panel of external auditors. It involved identifying critical success factors for internal audit and establishing a framework of issues to be used in assessing the level of council compliance with the CIPFA Code.
- 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. The critical success factors used to benchmark internal audit performance are:
- ◆ Setting clear and properly focused objectives for internal audit
  - ◆ Maintaining internal audit independence
  - ◆ Planning and controlling the work of internal audit
  - ◆ Resourcing the internal audit work programme
  - ◆ Having effective reporting and follow-up arrangements
  - ◆ Holding internal audit to account for its performance.
- 3.4** External Auditors conducted their independent assessments in February 2001, based on interviews and evidence gathered from each council's chief executive, director of finance and chief internal auditor. Client surveys of managers in Educational and Social Services, and Homes were also undertaken to obtain their assessment of internal audit performance in their service area.

#### **4. STUDY FINDINGS**

- 4.1** The study found that no council complied completely with the Code, but some councils perform significantly better than others.
- 4.2** The audit study found that the internal audit service in East Ayrshire Council has well-developed procedures and performance in most areas covered by the study. The performance of councils was split into four performance bands and East Ayrshire Council is included in band one, the top band, which includes those Council's (four in total) that most fully comply with the CIPFA Code of Practice for Internal Audit in Local Government.
- 4.3** The four band one councils achieved a compliance rate of over 85% against the Code, while band four councils achieved less than 50% compliance.
- 4.4** East Ayrshire internal audit service scored a compliance rate of 96%, which was equal first among the thirty-two Scottish Councils.
- 4.5** The audit review found that the internal audit service in East Ayrshire displayed evidence of good practice in a number of areas. Examples of good practice included annual service level agreements, audit

assignment management, annual reporting, audit planning, and organisational status and direct reporting line to the chief executive.

## **5. DEVELOPING THE INTERNAL AUDIT SERVICE**

- 5.1** The study found that while some performed significantly better than others there was room for improvement in internal audit in all councils. The local audit report identified some opportunities for developing the internal audit service in the East Ayrshire Council. 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.

### ***MISSION STATEMENT***

- 5.2** The study recommended that an Internal Audit mission statement or charter should be considered. This relates to communicating Internal Audit's terms of reference to a wider audience.
- 5.3** This action point is accepted, and it is proposed to produce a leaflet entitled 'Introducing Internal Audit' in response to the recommendation. This publication will embrace a mission statement, and set out the role, objectives and reporting structures for the internal audit service. It will seek to promote a partnership arrangement between audit and its clients, and provide essential contact information. The leaflet is currently being drafted and we would envisage being able to make it available to audit stakeholders by December 2001.
- 5.4** It is also intended to make use of the Council's intranet to communicate information on the internal audit service to a wider audience.
- 5.5** These initiatives will complement the references made to the internal audit service in other documents, including the Council's Financial Regulations, Defalcation Procedures, service level agreements and the Internal Audit Manual. (Appendix 1: Action Point 1)

### ***TARGET DATES FOR AUDIT REPORTS***

- 5.6** The study recommends that consideration should be given to providing audit clients with audit assignment completion and reporting target dates, and that follow up discussions should be held with service directors where target timescales may not be met. This recommendation is accepted, and it will be relatively easy to introduce indicative dates for audit reporting into the present 'audit brief' format. Audit clients will be consulted on any material slippage on the agreed reporting timetables. (Appendix 1: Action Point 2)

### ***STRATEGIC NEEDS ASSESSMENT***

- 5.7** The study recommends that the resource shortfall between the strategic needs assessment and the audit days available (130 days out of a total requirement of 4,000 days) should be monitored to ensure all priority work is completed.
- 5.8** A balanced annual audit plan programme will include a mix of higher and lower risk audit assignments. High risk assignments are identified at an early stage and are given priority status. This will ensure that any potential slippage is restricted to lower risk assignments.
- 5.9** The strategic shortfall in audit resources is only 3%, and as already reported to committee it should be possible to deal with this by careful management of internal audit resources and dovetailing of work with other review agencies, including External Audit. (Appendix 1: Action Point 3)

### ***MONITORING STAFF VACANCIES***

- 5.10** The national study identified that staffing vacancies in internal audit were a common problem across Scotland. The local study reported that good progress had recently been made in East Ayrshire Council to fill vacant internal audit posts, and recommended that any staff vacancies in the internal audit service should continue to be monitored.
- 5.11** The internal audit service will continue to manage staff turnover to ensure achievement of annual operational plans. The restructuring of internal audit in the spring of 2001 demonstrates the willingness of the Council to put in place a properly resourced audit service of good quality. (Appendix 1: Action Point 4)

### ***REPORTING REQUIREMENTS***

- 5.12** The study recommends that the Policy and Resources Committee's audit role within the new council structures should involve the further development of Internal Audit reporting.
- 5.13** Currently Internal Audit puts strategic audit plans, value for money plans, audit plans and audit reports to the Policy and Resources Committee for approval on an annual basis.
- 5.14** It is recognised that annual reporting of audit activity can involve a significant delay between the audit assignment being completed and members being made aware of the outcomes.
- 5.15** It is proposed therefore to introduce half yearly progress reporting on Internal Audit activity, and this will augment the range of reports currently presented to members. (Appendix 1: Action Point 5)

### **AUDIT FOLLOW-UP**

- 5.16** It is the responsibility of management to implement agreed recommendations, or accept the risk resulting from not taking action. Systematic follow-up procedures ensure that management has implemented internal audit recommendations within agreed timescales.
- 5.17** East Ayrshire Council internal audit service does undertake audit follow-up work, however it is proposed to devote more audit resources in future to this aspect of audit work. A staff work planner has recently been compiled and time has been set aside within the planner for systematic follow-up of all major pieces of audit work. (Appendix 1: Action Point 6)

### **6. RECOMMENDATIONS**

- 6.1** 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 summarised in the attached action plan (see Appendix 1).

Colin Houston  
**Chief Auditor**

CH/P&Rreport3  
 26 September 2001

### **LIST OF BACKGROUND PAPERS**

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

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

CIPFA Code of Practice for Internal Audit in Local Government.

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

**APPENDIX 1****EAST AYRSHIRE COUNCIL - INTERNAL AUDIT SERVICE****RESULT OF EXTERNAL AUDIT ASSESSMENT****ACTION PLAN**

	<i>Action</i>	Responsible Officer	<i>Date</i>
1.	Internal Audit will communicate information on the internal audit service to a wider audience through the use of the council's intranet and the publication of a leaflet setting out details of the audit service.	Chief Auditor	31 December 2001
2.	It is proposed to introduce indicative dates for audit assignment reporting, and these will be incorporated into the existing 'audit brief' format. Audit clients will be consulted on any material slippage on agreed reporting timetables.	Chief Auditor	31 December 2001
3.	Internal Audit will continue to produce an annual audit plan with a mix of higher and lower risk audit assignments. High risk assignments will be identified and will be given priority status, which should ensure that any potential audit plan slippage is restricted to lower risk assignments.	Chief Auditor	Immediate
4.	Staff vacancies will continue to be managed to ensure that the key aspects of the annual plan are achieved.	Chief Auditor	Ongoing
5.	Internal Audit propose introducing half yearly progress reporting on internal audit activity to the Policy and Resources Committee, and this will augment the annual reporting cycle.	Chief Executive	2001/2002
6.	Internal Audit will undertake systematic follow-up of all major audit assignments.	Chief Auditor	Ongoing

**AGENDA**