

ANGUS COUNCIL

AUDIT SUB-COMMITTEE – 26 October 2004

A JOB WORTH DOING – FOLLOW UP REPORT

REPORT BY DIRECTOR OF FINANCE

ABSTRACT

This report discusses the results of the External Audit national follow up review of Internal Audit sections which places Angus in the top four performing Councils in Scotland. This report also discusses the outcomes of the local report specific to the Angus arrangements.

1. RECOMMENDATIONS

It is recommended that the Audit Sub-Committee note

- a) Angus Internal Audit Section has been assessed as being one of the top four performing audit sections in Scottish Local Government
- b) The local report and action plan (appendix I) has been agreed with External Audit
- c) A number of amendments have been applied in relation to the strategic framework within which Internal Audit operate to enhance independence and these are reflected in the revised Terms of Reference for the Section contained in report 1234/04.

2. INTRODUCTION

External Audit have recently followed up their national value for money study on internal audit arrangements in Scottish local authorities, originally published in 2001. The national follow up report was released in July 2004 and has been copied to all members of the Audit Sub-Committee.

In addition to the national report, a local report covering arrangements within Angus Council has also been issued and is attached to this report.

3 RESULTS OF THE REVIEW

The general outcome of the national review was that there had been substantial improvement in all aspects of internal audit in Councils across Scotland. Specifically in relation to Angus, the Internal Audit Section had been assessed as a high performer in the original national review and in this latest assessment, is now considered by External Audit to be one of the four top performing sections in Scottish Councils.

Within the assessment, Angus scored extremely well over the following criteria:-

- Internal audit has agreed terms of reference
- Roles of management and internal audit are defined and communicated
- Internal audit has a clear role in relation to fraud
- Internal audit is free of operational responsibilities affecting independence
- Internal audit bases its work on a comprehensive risk assessment
- Internal audit operates within a structured planning framework
- Internal audit has effective relationships with members, managers, external audit, inspectorates and other review agencies
- Internal audit properly manages, controls and records its work
- Internal audit is adequately staffed and resourced
- Internal audit staff are suitably trained and developed
- Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls
- Internal audit follows up its recommendations to ensure action is taken
- Internal audit has a performance management framework that ensures continuous review of its performance

- The Chief Internal Auditor promotes and maintains professional standards in internal audit.

Angus also scored well in relation to the organisational status of internal audit. While not in complete compliance with the Code in this matter, further safeguards have been built into the revised terms of reference for the section (report 1234/04 refers) which clarifies the functional reporting arrangements of the Chief Internal Auditor to this committee to enhance independence and reinforces her ability to report without fear or favour to the Director of Finance, Chief Executive and Members.

Within the local report the Council have also been asked to consider the position of the Audit Sub-Committee and monitoring group, which is discussed in report 1232/04, and the Chief Internal Auditor has agreed to develop additional performance measures for the section which will be reported to this sub-committee from 2005-06.

4. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

5. HUMAN RIGHTS IMPLICATIONS

There are no human rights implications arising from this report.

8. CONSULTATION

The Chief Executive and Director of Law and Administration have been consulted in the preparation of this report.

9. CONCLUSION

It is pleasing to note that the hard work of both management and internal audit in developing and maintaining an innovative and professional service for the Council has been recognised in the assessment. The work of the Audit Sub-Committee has also been extremely successful in increasing the profile of internal audit and facilitating the working arrangements. Continuing improvement will be sought in ensuring the Council maintains a strong internal audit service as part of the overall control, assurance and governance arrangements.

David S Sawers
Director of Finance

NOTE: No background papers, as defined by Sections 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing this report.

30/9/04

Angus Council 2003/2004 Audit

Internal Audit Arrangements

26 August 2004

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Executive summary

Introduction

- 1 Stewardship is a function of executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of the Council. This responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources. An effective internal audit service is an essential part of the efficient management of any organisation.
2. The legislative framework in Scotland requires all Councils to have arrangements for internal audit to ensure propriety, regularity and value for money in the stewardship of public funds. It is the responsibility of management to decide the extent of the control system, which is appropriate to the authority, to ensure that adequate internal controls are in place to:
 - ensure that their council's resources are applied in the manner, and on the activities intended;
 - deter fraud and impropriety; and
 - ensure the most effective use of resources.
3. In August 2001, the Accounts Commission's report "A job worth doing – raising the standard of internal audit in Scottish councils" examined the internal audit arrangements in Scottish councils. A follow-up to this review has now been completed with the national report being issued on 22 July 2004.
4. As a contribution to the national follow-up study and to assess the extent to which good practice has been adopted in Angus Council, our 2003/04 audit included a review of the Council's internal audit arrangements. This report sets out the findings from that review and the extent to which the Council's internal audit arrangements meet the standards of good practice as set out in the CIPFA publication the Code of Practice For Internal Audit in Local Government in the United Kingdom in:
 - setting clear and properly focused objectives;
 - maintaining internal audit independence;
 - planning and controlling the work of internal audit;
 - resourcing the internal audit work programme;
 - reporting and follow-up arrangements; and
 - holding internal audit to account for its performance.
5. This report details the findings arising from our review. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist.

Audit Findings

6. We found that the Council had robust internal audit arrangements, which meet many of the standards of good practice outlined in the Code. The Council's internal audit service scores particularly highly (greater than 94% compliance with good practice) across a range of indicators and this high level of performance is highlighted within Audit Scotland's national report. A comparison of the Council's relative performance against other authorities is shown at Appendix 1.
7. Our audit identified the following aspects of good practice in the operation of the internal audit service:
 - Internal audit has set clear and properly focused objectives;
 - Internal audit's terms of reference protect its independence and give the right of access to all Council records and employees;

- Internal audit is adequately resourced and staff have suitable training and development plans;
 - The Chief Internal Auditor adequately plans and controls the audit and maintains effective relationships with stakeholders. Audit plans are prioritised using a risk assessment approach. We regard the Chief Internal Auditor's involvement in providing advice in implementing the Council's approach to risk management as a key element of best practice;
 - Internal audit reports clearly present conclusions and recommendations, and are followed-up to ensure that appropriate action has been taken by managers; and
 - Internal audit reports and accounts for its performance to Members through the Audit Sub-Committee.
8. In our view, therefore, the Council's internal audit service is achieving a high level of performance. We have, however, noted the following weaknesses within existing arrangements:
- We note that the independence of internal audit may be mitigated by the following matters which do not fully comply with best practice:
 - the Chief Internal Auditor is managed at a lower organisational level than the corporate management team; and
 - a significant part of the Chief Internal Auditor's time is devoted to strategic and operational line management tasks such as insurance and risk management. We recognise the positive benefits associated with the integration of risk management and internal audit responsibilities however we also recognise that this approach does create an element of conflict between internal accountability and management systems. This is an area which requires sensitive management to ensure an appropriate balance is applied in order to prevent the Chief Internal Auditor's independence being compromised;
 - we understand that the Council has taken some action to address the balance of strategic, operational and audit tasks allocated to the Chief Internal Auditor since the audit with a view to strengthening the Chief Internal Auditor's independence.
 - We note that internal audit's plans (prior to 2004/05) concentrated available resource on critical and high risk areas. As a result audit work on systems identified as medium/low risk was restricted. This approach may not be appropriate over the long term as it may result in some financial systems never receiving audit attention;
 - The Council has set up an Audit Sub-committee to consider audit, governance and regularity matters impacting on the Council. The Audit Sub-committee has raised the profile of audit issues and works effectively in many areas, however, we have noted the following weaknesses within existing arrangements:
 - the Sub-committee is not a formal committee of the Council;
 - it only meets on a six monthly basis; and
 - it does not address all corporate governance and performance management issues as a Member/Officer Performance Monitoring Group considers issues of a corporate or strategic nature.
 - There is scope to further develop the use of targets and performance indicators to better monitor and assess the performance of the internal audit service. These performance indicators should be reported regularly to the Audit Sub-committee.

Management Action

9. Detailed recommendations on those actions where improvements could be made are summarised in the following action plan. The assistance provided by officers contacted during the course of our review is gratefully acknowledged.

Gary Devlin
Senior Audit Manager

Action plan

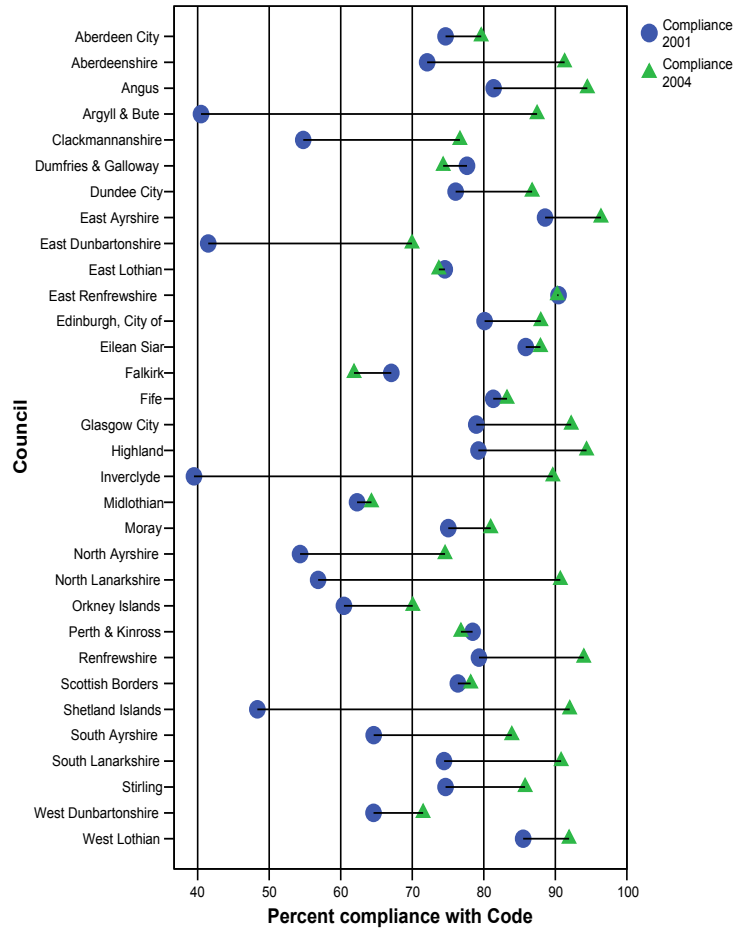
No	Recommendation	Importance	Responsible Officer	Management Response	Action date
1.	<p>The Chief Internal Auditor is managed at a lower organisational level than the corporate management team.</p> <p><i>The Council should consider the reporting lines for the Chief Internal Auditor to ensure full compliance with the Code.</i></p>	Significant	Director of Finance	<p>The importance of the Chief Internal Auditor being able to report her findings in her own name without fear or favour is fully recognised. In order to ensure that any risk of the independence of the Chief Internal Auditor being compromised is mitigated a “hatched line” already exists within the structure between the Chief Internal Auditor and the Director of Finance which reflects direct access rights and allows the Audit Manager a reporting relationship where she feels there may be a potential conflict of interest reporting on a specific audit task to the Head of Corporate Finance.</p> <p>It is my view that the arrangements outlined above protect the independence of the Chief Internal Auditor, fit with the Council’s present management structure and comply with the “spirit” of the CIPFA code.</p>	Already in place

No	Recommendation	Importance	Responsible Officer	Management Response	Action date
2.	<p>A significant part of the Chief Internal Auditor's time is taken up with strategic and operational line management tasks (mainly risk management). We recognise the positive benefits associated with the integration of 'risk management' and internal audit responsibilities. This approach does create an element of conflict between internal accountability and management systems. In order to protect the Chief Internal Auditor's independence it is important that an appropriate balance is struck. The Council should review this area to ensure that an appropriate balance is being struck between internal accountability and management systems.</p> <p><i>The Council should consider whether the positive benefits associated with the integration of 'risk management' and internal audit management responsibilities outweigh the risks associated with any conflict between internal accountability and management systems.</i></p>	Significant	Director of Finance	To further assist the appropriate balance it has been decided that the Head of Corporate Finance will chair the Operational Risk Management Group and will sit on the Strategic Risk Management Group. The Chief Internal Auditor will however be retained by the Strategic Risk Management Group as an advisor on an 'as needs' basis. The Chief Internal Auditor will sit on the Operational Risk Management Group as an advisor and will be the Finance department "Risk Champion" in terms of the Council's Risk Management Strategy.	July 2004
3.	<p>We note that internal audit's plans (prior to 2004/05) proposed restricted audit work on systems identified as medium/low risk. This approach may not be appropriate over the long term as it may result in some financial systems never receiving audit attention.</p> <p><i>The Council should ensure that Internal Audit plans adequately address all areas of assessed risk over the long term audit cycle.</i></p>	Low	Chief Internal Auditor	Where resources allow, the principle of auditing a sample of the medium and low level risks which is already reflected in the 2004-05 internal audit plan will continue	April 2004

No	Recommendation	Importance	Responsible Officer	Management Response	Action date
4.	<p>The Audit Sub-committee is not a formal committee of the Council and meets only on a six monthly cycle to consider any audit business (additional meetings can be called to consider specific issues where appropriate).</p> <p>This approach means that many audit issues and reports are not considered by the Sub-committee timeously. The six monthly cycle also results in a 'full' agenda for each meeting with over twenty-five internal or external audit reports due for consideration. This workload may result in insufficient consideration being given to individual audit reports.</p> <p>The Council should consider whether the Audit Sub-committee should be a standing committee in order to raise the profile of audit issues.</p> <p><i>The frequency of committee meetings should be reviewed to ensure arrangements are adequate for effective coverage of audit issues.</i></p>	Significant	Chief Executive/Director of Finance	This will be reviewed by the Chief Executive and Director of Finance in conjunction with recommendation 6 and the conclusions and recommendations arising will be reported both to the Audit Sub-Committee and the Performance Monitoring Group.	October 2004

No	Recommendation	Importance	Responsible Officer	Management Response	Action date
5.	<p>Internal audit reports progress against plans to the Audit Sub-committee and submits the Directors' of Finance indicators annually. There is, however, scope to further develop the use of performance indicators to assess the service through the Council's Balanced Scorecard approach to performance management</p> <p><i>Internal audit should consider introducing more detailed local performance indicators to be used to assess the service through the Council's Balanced Scorecard approach.</i></p>	Low	Chief Internal Auditor	Development of Performance Indicators and the relevant collection systems will be taken forward. If appropriate, they will be included in the Finance balanced scorecard but will, at minimum, be reported to the Audit Sub-Committee	For 05/06 audit year
6.	<p>It was further noted that the Performance Monitoring Group consider issues of a corporate or strategic nature. The scrutiny of performance management issues is, therefore, separated from scrutiny of governance issues.</p> <p><i>The Council should consider the remit of the Audit Sub-committee and the Performance Monitoring Group to evaluate whether the establishment of and Audit & Scrutiny Committee would provide a more effective basis to allow members to scrutinise corporate governance and performance issues.</i></p>	Significant	Chief Executive/Director of Finance	This will be reviewed by the Chief Executive and Director of Finance in conjunction with recommendation 4 and the conclusions and recommendations arising will be reported both to the Audit Sub-Committee and the Performance Monitoring Group.	October 2004

Relative levels of compliance with the Code of Practice



Source: Audit Scotland