

A job worth doing

Raising the standard of internal audit in Scottish councils

A follow-up report

Key findings / Prepared for the Accounts Commission

July 2004



Key findings

The study

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. Council performance was assessed against the CIPFA Code of Practice for Internal Audit in Local Government (the Code). Councils were placed in one of four performance bands depending upon the extent to which they complied with the Code. The report made recommendations to councils on how to improve their internal audit service.

This is a follow-up study by Audit Scotland on behalf of the Accounts Commission. It reports how much progress councils have made since 2001. External auditors have assessed the extent to which all 32 councils were complying with the CIPFA Code in early 2004, using the 2001 study methodology.

Internal audit

Scotland's councils are required to have in place arrangements for ensuring propriety, regularity and Best Value in their stewardship of public funds. It is the responsibility of management 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
- ensure the most effective use of resources.

Internal audit aids management by objectively examining, evaluating and reporting to management on the adequacy of internal control arrangements.

Key findings

1 Compliance with the Code

Nearly all councils have improved their performance.

We placed each council in a performance band as set out in [Exhibit 1](#).

Twenty-seven councils demonstrated a higher level of compliance with the Code than in 2001. In one council (East Renfrewshire), one of the highest performers in 2001, compliance remained the same; in four councils (Dumfries & Galloway, East Lothian, Falkirk and Perth & Kinross), the level of compliance was slightly reduced.

Most councils improved their overall performance, but the extent of improvement varies significantly ([Exhibit 2](#)).

Four councils (Angus, East Ayrshire, Highland and Renfrewshire) scored particularly highly (94% compliance or more).

The biggest improvement was in three of the four councils who were previously in the lowest performance band (Argyll & Bute, Inverclyde and Shetland Islands). As a result, they now 'almost fully comply' with the Code.

2 Performance by subject area

Councils have improved in all aspects of internal audit, but there is room for further improvement.

Overall, scores improved in all areas of internal audit. Councils did particularly well in the following:

- having a clear role in relation to fraud
- effective organisational status

- internal audit's independence and freedom from operational responsibilities
- management, control and recording of internal audit work.

But councils still need to improve in the following areas:

- basing their work on a comprehensive risk assessment
- more structured planning
- following up recommendations to ensure action is taken
- developing an effective performance management framework
- clarifying the respective roles of management and internal audit in maintaining internal control.

3 Resourcing the internal audit service

A higher proportion of internal audit staff have a professional accountancy qualification.

Councils working in partnership with the private sector performed well.

In 2001, a richer skill mix was most commonly found in better performing councils. In 2004, a higher proportion of internal audit staff (55% in comparison with 45%) hold a professional accountancy qualification.

In 24 councils, the internal audit service was resourced fully by in-house staff. In the remaining eight councils, some services were outsourced. In four of these, this related, mainly, to the provision of computer auditing. In the other four councils (Argyll & Bute, Eilean Siar, Inverclyde and Renfrewshire), partnership arrangements with the

Exhibit 1

Number of councils in each performance band

The number of councils in the top performance band has risen from 4 to 17.

Performance band	Number of councils	
	2004	2001
1. Almost fully comply	17	4
2. Generally comply	11	16
3. Partially comply	4	8
4. Generally did not comply	0	4

Source: External auditors' returns 2001 and 2004

private sector had been put in place. These four councils are all now in the top performance band and 'almost fully comply' with the Code; two, (Argyll & Bute and Inverclyde), have moved from the bottom ('generally did not comply' with the Code) to the top performance band.

4 Audit committees

Two-thirds of councils still do not have audit committees operating fully under audit committee principles.

Although all councils indicated that they have established an audit committee or equivalent, two-thirds do not operate fully under audit committee principles:

- a fifth do not consider the adequacy of management response to internal audit advice and recommendations
- a third do not consider the resourcing of internal audit or consider all internal and external audit reports
- nearly a quarter do not meet in public.

The Accounts Commission has already expressed concern at the extent to which audit committee principles have been adopted by councils in the *Overview of the 2002/03 local authority audits*, published in April 2004.

5 Implementation of new responsibilities

There is scope for internal audit to make a greater contribution to the internal financial control statement.

The CIPFA Code of Practice for Internal Audit in Local Government was updated in 2003 and now includes references to internal control statements. These provide assurance to stakeholders on the adequacy of internal controls.

In assessing how well prepared Scottish councils are to meet the obligations of the new Code, specifically in relation to the statement on the system of internal financial control (SSIFC), introduced in 2002/03, we found that:

- in four councils, the chief internal auditor did not provide timely information to those charged with governance to use in the preparation of the SSIFC
- half of councils did not clearly state in their internal audit strategy how they were going to provide assurance for the SSIFC.

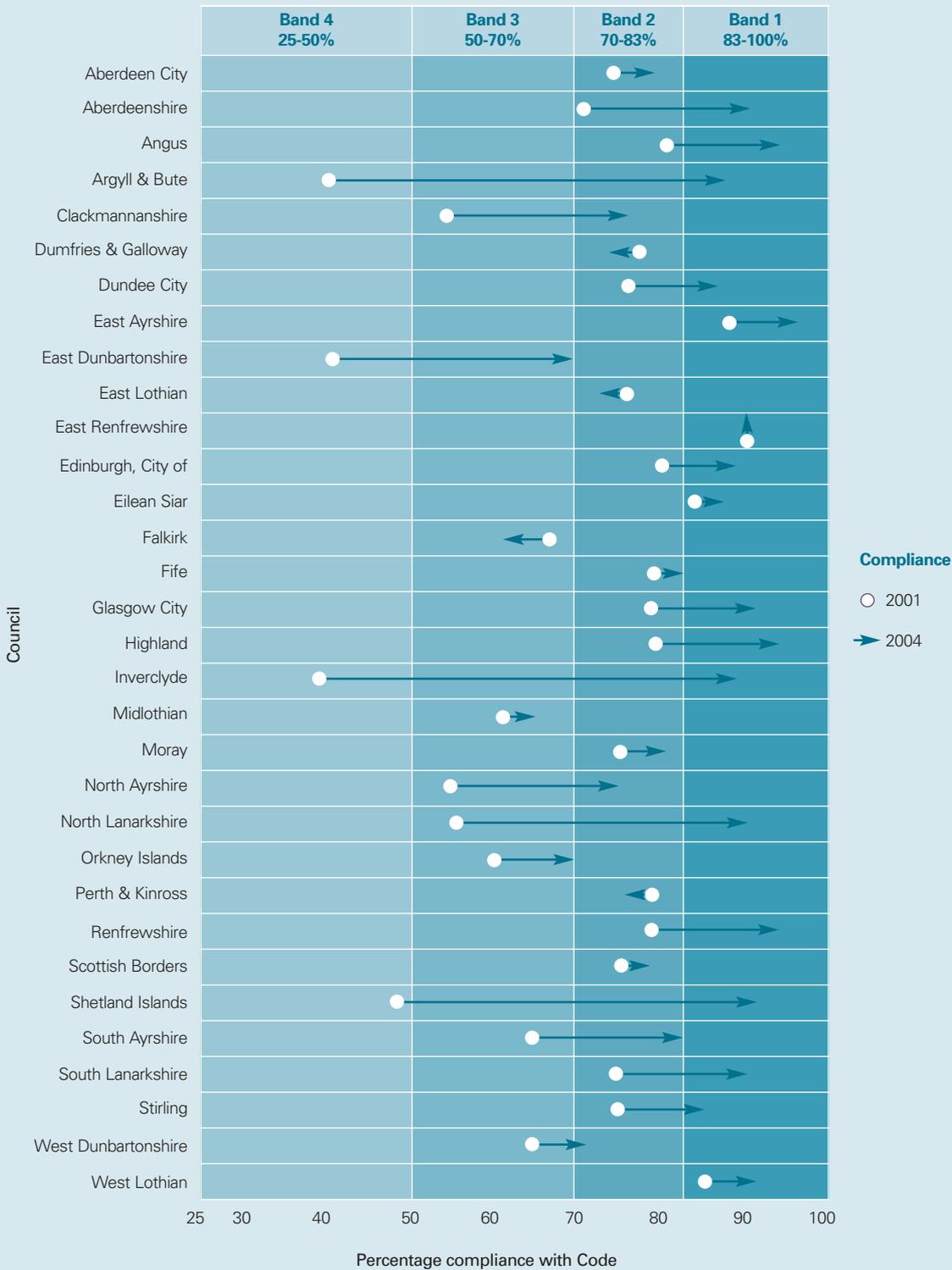
Next steps

Councils should address the recommendations listed in the main body of this report. External auditors will be preparing an individual report for each council, assessing their level of compliance with the CIPFA Code of Practice. Each council is expected to take action to address the issues contained in their external auditor's report.

Exhibit 2

Councils' improvement since the initial study

Councils originally in the lowest performance band have made the greatest improvement.



Source: External auditors' returns 2001 and 2004

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ISBN 1 904651 47 X