

**REPORT RE AUDIT SCOTLAND REVIEW OF INTERNAL AUDIT (FOLLOW-UP)**

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**1. SUMMARY**

- 1.1 Audit Scotland conducted a review of local authority internal audit provision beginning in the Autumn of 2000 which culminated in a report "A job worth doing" in August 2001. In its assessment of compliance with a CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government, the then external auditors appointed by Audit Scotland, PriceWaterhouseCoopers, placed Argyll and Bute in the bottom quartile of authorities. As part of its response to this assessment the Council appointed the accountancy firm KPMG to advise and assist it regarding audit and assurance matters.
- 1.2 Audit Scotland have indicated that a follow-up to that initial review will take place in this financial year, probably in February and March 2004. The purpose of this report is to advise the Audit Committee the actions being taken to ensure that the internal audit section will be assessed as being amongst the most compliant with best practice in Scotland.

**2. RECOMMENDATIONS**

- 2.1 That this committee notes the actions to be taken in respect of the follow-up review of internal audit

**3. DETAILS**

- 3.1 The Accounts Commission aims to ensure that all councils achieve the highest standards of financial stewardship, governance and public accountability. In the year 2000, the Commission requested Audit Scotland to carry out a national study of internal audit in local authorities to:
- establish a clear picture of the performance of internal audit services in all councils in Scotland; and
  - provide benchmarking data to support continuous improvement.
- 3.2 The approach taken by Audit Scotland was to assess compliance with a Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) by reference to 97 tests on individual council processes and outcomes. Councils were then grouped into four bands depending on their scores against these tests. Argyll and Bute were placed into the 4<sup>th</sup> band.
- 3.3 As a result of this grading, KPMG were appointed to assist the Council in moving towards compliance with the code and to implement recommendations made during the assessment. A large number of policies and procedures have been adopted over the past 20 months designed to move the internal audit section to a position where it complies with the Code of Practice

3.4 It was always the intention of Audit Scotland to follow-up the initial review to ensure that improvement actions had been taken. Argyll and Bute Council are keen to ensure that this follow-up review will result in an improved assessment of their internal audit provision.

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3.5 Internal Audit and the manager from KPMG have agreed the following action immediately prior to the Audit Scotland review:-

- KPMG to review along with the Argyll and Bute audit team compliance with the 97 statements used in the initial review; progress against recommendations made in that review; and any other actions that might need to be taken as a result of the CIPFA Code of Practice having recently being updated;
- Where the conclusion is that the Council complies with best practice the relevant evidence is to be identified that demonstrates that this is the case;
- Where it is felt that there is either no compliance or that evidence of compliance is lacking action will be taken to become demonstrably compliant;
- KPMG will undertake a review of compliance with the Code of Practice using a member of staff who has had no input into this process so far so that she can give an independent opinion about the extent to which there is compliance and any further actions that still need to be taken;
- Argyll and Bute to implement any actions resulting from this independent review.

3.6 Having already undertaken a self-assessment review of compliance with the Code, both KPMG and Internal Audit are of the opinion that a great deal of progress has been made and that there is a high degree of demonstrable compliance with the code. Recommendations made at the initial review have either been implemented completely or progress in implementation is nearly complete.

#### **4. IMPLICATIONS**

4.1	Policy:	None
4.2	Financial:	None
4.3	Personnel:	None
4.4	Legal:	None
4.5	Equal Opportunities:	None

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