

Argyll and Bute Council

Progress Implementation Review- Internal Audit

30 May 2008

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1 Executive Summary

Introduction

Internal audit is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives. 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. As such, it is a central element of the Council's overall governance arrangements.

The Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA in 2006 sets out good practice in delivering internal audit services.

We reviewed the Council's internal audit department against the requirements of the Code and reported our findings in our 2006-07 audit. This report details our follow up review of the Council's progress in implementing our recommendations from our report, *Review of Internal Audit*, issued in May 2007.

Findings

Our review on the progress of implementation of prior year recommendations found that only 4 out of the 12 outstanding recommendations from our 2006-07 report have been fully implemented. Of the remaining recommendations, 6 were not implemented within the specified timeframe and 2 were in progress at the time of our audit. Table 1 summaries the progress of implementation across each of the Code standards.

Table 1: Summary of the progress of implementation

Standard	Implemented	Not Implemented	In Progress
Scope of Internal Audit			1
Independence		2	
Audit Committees	2		1
Staffing, Training and Continuing Professional Development	1		
Audit Strategy and Planning		1	
Undertaking Audit Work		1	
Reporting	1	2	
TOTAL	4	6	2

Of the remaining outstanding recommendations, one was regarded as high risk, four were related as medium risk and one as low risk.

The outstanding high risk recommendation relates to ensuring that the audit days allocated to the audit plan match reflects the current capacity of the internal audit department. We noted that the internal audit manager is currently on secondment to the shared services team and this is not reflected in the resource availability for the 2008-09 audit plan.

The medium risk recommendations that remain outstanding include:

- reviewing the requirement for a 'head of internal audit' position;
- ensuring that any internal audit staff who go on secondment to other areas of the Council is in line with agreed policies; and
- ensuring the rationale for awarding a high controls assurance grading is reflected in the working papers on file.

At the time of our audit, we noted that the internal audit manual had not been updated to take account of the requirements of the 2006 Code of Practice. We understand that this has now been implemented and the a revised internal audit manual has been issued to staff.

We noted that 1 recommendation was not yet due at the time of our audit. We note that the audit committee intends to produce a report to the Council by June 2008 on the internal control framework, risk management and governance arrangements during the financial year to 31 March 2008. This would meet the Council's commitment in relation to our recommendation on this matter.

Way Forward

We have summarised management's progress of implementation on recommendations made in our 2007 Review of Internal Audit Report in Appendix A.

Management should seek to ensure that the outstanding recommendations that have not been implemented within the specified timeframe are prioritised for completion.

Status of our report

This report is part of a continuing dialogue between the Council and Grant Thornton UK LLP and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

Acknowledgements

We would like to take this opportunity to thank the officers who have been involved in this review for their assistance and co-operation.

Appendix A - Summary of the progress of implementation

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
Scope of Internal Audit					
1	The Council's procedures for the prevention of fraud and corruption are detailed within the Financial and Security Regulations and include guidance for staff reporting suspected fraud. The guidance does not specifically detail the role of internal audit in fraud investigations.	Medium	The Council should update its 'guidance for staff reporting suspected fraud' to include specific reference to the role of internal audit.	The Council Constitution will be amended to recognise the role of internal audit in the investigation of suspected frauds. April 2008.	In Progress Guidance on internal audit's role in the investigation of fraud is included in the current version of the Council Constitution. The Council are still in the process of updating the whole document, including the fraud section, to take into account the restructure following the new administration in place since May 2007.
Independence					
2	Secondments from internal audit may compromise the independence of auditors should their return to the department not be effectively managed at the end of their secondment.	Medium	Wherever possible, the Council should ensure that internal auditors do not have any operational duties. Internal audit should develop a policy for managing staff returning from secondment to ensure the effective working and independence of the department is not compromised.	Internal audit do not undertake operational duties. However, it is beneficial to allow internal audit staff to gain a broader understanding of the Council where they apply and are successful in securing secondments. Internal audit will produce a policy whereby seconded staff will not cover areas in which they have been involved for the next 2 years. July 2007.	Not Implemented We note that the internal audit manager has recently been seconded to the shared services team. The Council should ensure any secondments from internal audit are in line with the agreed policy. A formal secondment policy has been drafted and will be presented to the audit committee for consideration in September 2008.

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
3	The Council does not operate with a single head of internal audit position. This does not comply with the Code which recommends the appointment of a 'head of internal audit'.	Medium	The Council should formally designate a head of internal audit post. This would raise the profile of internal audit and would help clarify reporting lines and responsibilities within the department.	This situation will be reviewed at the end of the internal audit partnership. April 2008.	Not Implemented The internal audit partnership ended on 31 March 2008, and the Council has now extended the agreement. The creation of a 'head of internal audit' position remains under review.
Audit Committee					
4	The findings from internal audit work are currently not reported to the audit committee.	High	Internal audit work should be reported to the audit committee in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.	A report will be submitted to the next audit committee outlining the options regarding the reporting of internal audit work. This will range from full copies and reports to executive summaries and action plans. July 2007.	Implemented Internal audit work is now reported to the audit committee.
5	The audit committee does not prepare an annual report to Council summarising its work during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements.	Medium	The audit committee should consider preparing an annual report to the Council summarising its work during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements.	This will be put to the first audit committee with a view to submitting a report to the Council in April 2008.	In Progress An annual report to go to the Council in June 2008 to coincide with the approval of the draft 2007-08 financial statements.

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
6	There are currently 3 vacancies in the internal audit department. The Council has appointed some part-time contractors to help fill the shortfall, however, internal audit is currently not fully resourced to meet its objectives.	High	The Council should ensure internal audit are fully resourced to meet objectives.	The recruitment process will commence in the next few weeks with a view to staff being in place by September 2007.	Implemented The internal audit department has recruited two trainees during 2007-08 taking full time employees up to five, accompanied by two part time contractors.
Staffing, Training and Continuing Professional Development					
7	Internal audit staff do not receive annual performance assessments in line with Council policy. The skills and competencies required of each auditor grade are not defined and performance objectives are not made explicit. As a result, the future training and staff development needs of the internal audit department are not linked to a systematic needs assessment.	High	The Council should ensure that all staff receive an annual appraisal in line the requirements of the Performance Development Review (PDR) and define the skills and competencies required of each level of auditor. The annual appraisal process should act as a prompt for future training needs and aid staff development.	PDRs will be reintroduced for all members of staff within internal audit. July 2007.	Implemented All permanent staff have completed a PDR during 2007-08.
Audit Strategy and Planning					
8	The total audit days allocated to the 2006-07 audit plan included 555 days expected to be met by the three auditors who were on secondment and unavailable for audit work at the time the plan was prepared. There is a risk that the audit plan cannot be delivered if the resource allocation is not based on the actual resources available.	High	The resource requirement calculation for audit planning should reflect the actual audit days available based on the current capacity of the department.	The annual audit plan for 2007/08 stated that there were vacancies and that they would be covered by contract staff. There will be a continuous review and reporting of the situation to the audit committee. Done.	Not Implemented The internal audit strategic plan 2008-2011 was presented to the March audit committee. We note that the internal audit manager's secondment in the early part of 2008-09 is not reflected in the resource allocation.

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
Undertaking Audit Work					
9	Our review of internal audit's work on core financial systems found that detailed system notes were produced for each audit undertaken. We noted that there was no walk through test performed to confirm that the system was operating as documented.	Low	Audit documentation should include a walk through test to confirm that controls are operating as per the systems notes and flowcharts on file.	This will be done in 2007/08.	Not Implemented Our review of the internal audit files on key financial systems during 2007-08 found that there was no evidence of walkthrough testing being performed.
Reporting					
10	Internal audit provide management with an annual report summarising its work, key findings for the year and opinion on the effectiveness of the Council's internal financial control arrangements. There is scope to link this opinion more clearly to the overall assurance conclusions reported for each audit assignment.	Low	Internal audit's conclusion on the effectiveness of the Council's internal financial control arrangements should be more clearly supported by the overall assurance conclusions reported for each audit assignment.	This is done in the 'overall conclusion and assessment against objectives' section. This gives assessment of 1-5 ticks. Implemented.	Implemented We reviewed the internal audit management report for 2006-07 and were satisfied with the arrangements.
11	In some of the audit reports, the grading awarded in relation to controls assurance did not appear to correspond to the detailed findings within the audit report and the recommendations contained in the action plan.	Medium	The Council should ensure that the rationale for awarding a high controls assurance grading is clearly reflected within supporting working papers.	This will be covered in the Audit Manager review of the working papers file. Auditees responses are also taken into consideration.	Not Implemented Our review of 2007-08 audit reports confirmed our 2006-07 report finding that the overall assurance grading provided by internal audit is not always matched to audit findings.

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
12	<p>The internal audit manual was last updated in November 2003. The responsibility for updating the manual is assigned to KPMG as part of the partnership agreement.</p>	<p>Medium</p>	<p>It is recommended that the Manual is updated to reflect the requirements of the 2006 Code of Practice. The Manual should be reviewed following each revision to the Code.</p>	<p>This will be done in conjunction with KPMG. July 2007.</p>	<p>Not Implemented at the time of our audit</p> <p>The internal audit manual was not available for review at the time of our audit.</p> <p>We understand that the internal audit manual has since been completed and issued to staff.</p>



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