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APPENDIX A



Angela Wilson
Executive Director of Corporate Services
West Dunbartonshire Council
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19 February 2014

Dear Angela

West Dunbartonshire Council
Review of Adequacy of Internal Audit Arrangements

Audit Scotland's Code of Audit Practice (the 'Code') sets out the wider dimension of public sector audit and requires the external auditor to undertake an annual assessment of the adequacy, strengths and weaknesses of the internal audit function. In addition, based on this assessment, we outline the areas where we plan to place formal reliance on the work of internal audit.

Our review covered the following:

- Organisational status – the specific status of internal audit within the Council and the effect this has on the degree to which it can be objective.
- Technical competency – whether internal audit is performed by persons with adequate technical training and proficiency as internal auditors.
- Nature of assignments – the scope and coverage of the internal audit function.
- Standard of audit work – whether internal audit's work is properly planned, supervised, reviewed and documented.

Evidence to support findings was drawn from discussions with relevant Council officers.

We will perform a review of the internal audit files for the areas on which we are proposing to place reliance once those areas of work have been completed.

Annual Review of Arrangements

We have completed a preliminary assessment of the adequacy of internal audit for 2013/14 in conjunction with our overall risk assessment process for the Council and concluded that internal audit have adequate documentation, standards and reporting procedures. This evaluation should allow us to place reliance on a number of aspects of their work during 2013/14 therefore avoiding duplication of audit coverage.

We would, however, wish to raise the following points:

Independence

Section I of the Council's financial regulations state that '*A continuous internal audit, under the independent control and direction of the Chief Executive shall be undertaken.*' The Council's Audit & Risk Manager reports to the Head of Finance & Resources who, in turn, reports to the Executive Director of Corporate Services. As the Head of Finance & Resources has responsibility for a number of operational areas which will be routinely subject to audit there may be a concern that internal audit is not sufficiently independent of line management. We discussed this with the Council in 2012/13 and we note that appropriate measures had been implemented to ensure the independence of Internal Audit is maintained. We further note that the Audit & Risk Manager has scheduled meetings with the Chief Executive which facilitates a direct reporting line where this is deemed necessary.

Section I of the Council's financial regulations previously stated that the approval of the Chief Executive was required before any investigatory work was undertaken by any Officer of the Council. This was amended in October 2013 to state that investigatory work would only be undertaken with the approval of either the Head of Finance and Resources or Head of People and Transformation depending on whether the allegation relates to financial or human relations issues. We have been given assurances that this will not impact upon the independence of internal audit. The Council has agreed that the financial regulations could be reviewed if it is considered that appropriate independence is not being maintained.

We will monitor this through our review of internal audit files, discussion with relevant officers and attendance at the Audit & Performance & Review Committee.

Risk based methodology

Internal Audit has adopted a risk based methodology which informs their annual plan. The results of this assessment allocates an overall 'score' to each area and this score is used to identify which areas should be subject to audit scrutiny in year. In our 2012/13 'Review of the Adequacy of Internal Audit Arrangements' letter we highlighted that familiarity with the detailed mechanisms that support the risk based methodology was limited and not formally documented. Whilst we recognise that appendix 1 to the Audit Manual sets out the methodology for the annual update of the risk matrix we note that there could be further clarity over the allocation of scores to systems. For example systems are given a score of between 1 and 10 for 'Materiality', 1 and 5 for 'Sensitivity' and 1 and 5 for 'Management Concerns' but it is unclear how these scores are ascertained.

Internal Audit involvement in system changes

Although managers are free to contact internal audit to consult them on system changes there is no formal process in place and limited use has been made of this opportunity. The Audit and Risk Manager has contacted the relevant officers within the Council regarding Internal Audit's availability in assisting with system changes. However, to date, officers have not yet taken up this offer. Involving Internal Audit early in system design can help reduce the risk of new, or changed, systems being implemented without appropriate key controls in place.

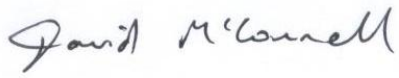
Reliance on Internal Audit

We plan to place formal reliance on internal audit's work, in terms of International Statement of Auditing 610 (Considering the Work of Internal Audit), for our financial statements audit work, in the following areas:

- General ledger
- Council tax recovery and enforcement
- Treasury management
- NDR billing

If you have any queries regarding any of the points raised here, or would like to discuss these in more detail you can contact either myself or Laurence Slavin at the above telephone number.

Yours sincerely

A handwritten signature in dark ink, reading "David McConnell". The signature is written in a cursive style with a large 'D' and 'M'.

David McConnell
Assistant Director

cc Colin McDougall, Audit & Risk Manager