

Address:
7th Floor, Plaza Tower
East Kilbride G74 1LW
Website:
www.audit-scotland.gov.uk

Telephone:
0845 146 1010
Email:
info@audit-scotland.gov.uk



Angela Wilson
Executive Director of Corporate Services
West Dunbartonshire Council
Garshake Road
Dumbarton
G82 3PU

27 March 2013

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 – specific status of internal auditing 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 which we are proposing to place reliance on once those areas of work have been completed.

Annual Review of Arrangements

We earlier completed a preliminary assessment of the adequacy of internal audit for 2012/13, in conjunction with our risk assessment process and concluded that internal audit have adequate documentation, standards and reporting procedures. This evaluation allows us to review and place reliance on a number of aspects of their work during 2012/13, this will therefore avoid 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 do however acknowledge that the Audit & Risk Manager has the ability to directly access the Executive Director of Corporate Services or Chief Executive independently of direct line management reporting.

In addition to Internal Audit, the Audit & Risk Manager has operational responsibility for ICT security, risk management, health & safety, insurance, business continuity and civil contingencies.

In order to ensure appropriate independence and objectivity is maintained, consideration needs to be given to how internal audit is structured including management reporting channels, personal performance assessment and the approach to audit planning, performance and review. This should be formally documented to support transparency of decision making.

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 inform which areas should be subject to audit scrutiny in year. Familiarity with the detailed mechanisms that support the risk based methodology is limited to the Section Head of Internal Audit and the methodology is not formally documented.

Internal Audit progress reporting

In our 2011/12 'Review of the Adequacy of Internal Audit Arrangements' letter we highlighted that, whilst the internal audit progress reports submitted to the Audit & Performance Review Committee report the planned days, actual days and variance against audit categories (i.e. risk based audit, regularity etc.), they do not report on the progress made against the specific audits detailed in the annual audit plan. Action was taken by Internal Audit to address this and they now report on the percentage complete for each assignment however actual time versus budgeted time for the reviews is not reported.

Follow up of action plan points

Internal Audit report on progress made by the Council in implementing agreed actions to address issues raised in previous audit reports. A number of action plan points classified as 'High Risk' have missed the agreed deadlines by a considerable period of time. Reporting of progress could be more effective through:

- ensuring agreed timescales are realistic
- providing greater clarity about what 'high', 'medium' and 'low' risk means
- inviting responsible operational officers to report to the A&PRC on why timescales have been missed for recommended actions.

Computer audit

The Council have purchased the CIPFA Matrix on Computer Audit which provides 18 different computer audit programmes. These have been referred to when building some computer audit practices in to the risk based system audits, however none of the programmes have been considered

in their entirety. Consideration should be given to the value which could be obtained from developing in house computer audit skills within the Internal Audit section.

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. 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:

- Payroll
- General ledger
- Non-domestic rates liability
- Housing rents arrears and collection
- Council tax billing
- Treasury management

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



Elaine Boyd
Senior Audit Manager

cc Colin McDougall, Audit & Risk Manager