

# Report

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Report to:	<b>Risk and Audit Scrutiny Forum</b>
Date of Meeting:	<b>13 November 2012</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Compliance with CIPFA Code of Practice and Best Practice Guidance for Audit Committees</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Advise the Risk and Audit Scrutiny Forum of Internal Audit's level of compliance with the CIPFA Internal Audit Code of Practice for Local Authorities
- ◆ Update the Risk and Audit Scrutiny Forum of progress with the alignment of the Forum's activities to CIPFA best practice guidance
- ◆ Present the attached action plan to address the gaps in compliance

## 2. Recommendation(s)

2.1. The RASF is asked to approve the following recommendation(s):-

- (1) that Internal Audit's level of compliance with the Code of Practice is noted
- (2) that progress with aligning the Risk and Audit Scrutiny Forum's activities to CIPFA best practice guidance is noted
- (3) that the attached action plan is noted

## 3. Background

- 3.1. Internal Audit activity is delivered in line with the Internal Audit Code of Practice for Local Authorities. The level of compliance with the Code is self-assessed annually and reported within the Internal Audit annual assurance report. In addition, in 2011/2012, the Council's External Auditor (PricewaterhouseCoopers) undertook a review of the Service against this Code and the Council's Internal Audit Manual. This concluded that the Internal Audit function was operating as expected and in line with the requirements of the Manual.
- 3.2. As part of its Best Value improvement plan in 2009, the Council revised its scrutiny arrangements and established the Risk and Audit Scrutiny Forum (RASf) to report through the Executive Committee. One of the first tasks undertaken was to consider the level of the Forum's compliance against CIPFA's audit committee principles. A compliance report was prepared and an action plan for further scrutiny improvements was endorsed by the Forum. A recent exercise has been undertaken to reassess the progress against best practice as part of the Council's general review of its decision-making areas in advance of the new Council.
- 3.3. The opportunity to consolidate both of these improvement strands has been taken and an action plan prepared (see Appendix 1).

#### **4. Compliance with the Code of Practice**

- 4.1. The annual self-assessment exercise was undertaken in March 2012 to provide assurance that audit work undertaken in the year 2011/2012 complied with the Code of Practice and to provide comfort over the quality of audit work underlying the assurance statement. The self-assessment checklist covers a range of areas including the scope of Internal Audit, independence, ethics, audit committees, relationships, staffing and training, audit delivery, due professional care, annual reporting and performance.
- 4.2. The review assessed the Council's Internal Audit Service as being 88% compliant with only a few areas identified as either partially or non-compliant. These areas are now reflected in an action plan (see Appendix 1). On full delivery of the action plan, some areas will still remain as not fully compliant, but these are not significant and equate to only 3% of the total areas of compliance.
- 4.3. A new draft Code of Practice was issued in July 2012 for consultation. The new Code will become effective from April 2013. A consultation exercise is now underway and a formal response was submitted to the Relevant Internal Audit Standard Setters (RIASS) by the Chief Auditors' Group in September 2012. As part of the new Code, it is expected that the level of compliance will be subject to an external review for the first time. These will be scheduled every five years with the existing self-assessment approach being applied in the intervening period.

#### **5. Risk and Audit Scrutiny Forum Improvement Plan**

- 5.1. The original report detailing compliance with CIPFA best practice guidance for audit committees was presented to the Forum in December 2009. Progress has been reported via the Forum to the Executive Committee. Any actions not implemented were delayed, in the main, to coincide with the Council's review of its decision-making arrangements. These have now been considered and are included as appropriate in the revised action plan.

#### **6. Employee Implications**

- 6.1 There are no employee implications directly associated with this report.

#### **7 Financial Implications**

- 7.1 There are no financial implications directly associated with this report.

#### **8 Other implications**

- 8.1 There is the residual risk that non-compliance may remain in some areas, although these are not significant and do not impact on the quality of the internal audit service.
- 8.2 There are no implications for sustainability in terms of the information contained in this report.

#### **9 Equality impact assessments and consultation arrangements**

- 9.1 There is no requirement to carry out an impact assessment in terms of the information contained within this report.
- 9.2 There is no requirement for consultation in respect of the content of this report

**Paul Manning**  
**Executive Director (Finance and Corporate Resources)**

4 October 2012

**Link(s) to Council Values/Improvement Themes/Objectives**

- ◆ Improvement Theme – Governance and Accountability
- ◆ Objective – Governance and Risk Management

**Previous References**

- ◆ Internal Audit Annual Assurance Report (RASf 4 September 2012)

**List of Background Papers**

- ◆ Code of Practice for Internal Audit for Local Authorities – CIPFA
- ◆ Audit Committee Principles in Local Authorities in Scotland – CIPFA (guidance note)

**Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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## Action Plan

## Appendix One

Point	Proposed Action	Response	Responsibility	Timescale
1	Discuss revised remit with the new RASF.	<b>Complete</b> - Revised remit approved by Executive Committee. Briefing to RASF delivered August 2012 covering remit, roles and responsibilities	Heather McNeil, Head of Audit and Improvement	n/a
2	Update and review draft profiles for scrutiny forum members and chairs.	<b>Agreed</b>	Rosemary Lake, Head of Administration	31 December 2012
3	Prepare and publish a handbook for RASF members.	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 December 2012
4	Future agendas to include reports that provide assurance that any issues arising from the process of drawing up, auditing and certifying the Council's annual accounts are properly dealt with.	<b>Complete</b> - External Auditors now routinely provide the following information to RASF <ul style="list-style-type: none"> <li>September - Interim Management Letter and Follow Up report</li> <li>November - External audit year end presentation</li> <li>February - External audit plan</li> <li>April or June - Interim Management Letter</li> </ul>	Yvonne Douglas, Audit Manager	n/a
5	Internal Audit to report to RASF on need for and use of other resources e.g. IT tools	<b>Complete</b> – electronic working papers not presently a priority. Currently progressing use of CCM and Figtree to further enhance use of IT tools in audit work. Any resourcing constraints considered by RASF as part of routine progress and annual Audit Plan reports.	Yvonne Douglas, Audit Manager	n/a
6	Review format of audit reports in the period October 2012 – March 2013 to develop Executive Summaries and pilot with Resources with a view to improving reporting practice.	<b>Agreed</b> , format of audit reports to be amended and piloted with Resources.	Heather McNeil, Head of Audit and Improvement Services	31 March 2013
7	Internal Audit Terms of Reference to be updated to: <ul style="list-style-type: none"> <li>◆ recognise Internal Audit's contribution to the effectiveness of the control environment</li> <li>◆ define the role of Internal Audit in any consultancy work</li> <li>◆ reflect where Internal Audit staff have been consulted during system, policy or procedure development, they are precluded from reviewing and making comments during routine or future audits</li> <li>◆ include policy for escalation</li> </ul> Present revised Terms of Reference to CMT and RASF for approval	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 March 2013

Point	Proposed Action	Response	Responsibility	Timescale
8	Services provided in partnership to be identified and formally establish how assurances will be sought and access rights agreed if appropriate.	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 March 2013
9	Develop effective working relationship between the RASF and Internal Audit and formally advise RASF members of right of access to Audit Manager.	<b>Agreed</b> - RASF advised of right of access to Audit Manager at briefing session August 2012	Yvonne Douglas, Audit Manager	31 March 2013
10	Present the Audit Strategy to RASF and demonstrate progress with application.	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 March 2013
11	Establish an overview of outputs from regulatory and inspection agencies that interact with the organisation to inform audit planning and annual statement of assurance (including the LAN).	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 March 2013
12	Update manual to reflect formal process of informing client of interim findings where key (serious) issues have arisen.	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 March 2013
13	Update of work of Internal Audit to be reported bi-annually to CMT through presentation of one mid-year report in addition to annual report.	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 March 2013
14	Internal Audit annual assurance report to include analysis of performance demonstrating further improvement in 2012/13	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 March 2013
15	Internal Audit Charter to be developed and approved by CMT and RASF	<b>Agreed</b>	Yvonne Douglas, Audit Manager	31 March 2013
16	Audit Manager to report in own name to members and officers	<b>Agreed</b> – annual report author to be Audit Manager.	Yvonne Douglas, Audit Manager	31 March 2013
17	Audit Manager should be managed by a member of CMT	<b>Not agreed</b> , however reporting arrangements do allow for direct report to Executive Director (Finance and Corporate Resources) if required	n/a	n/a