

## **Review of Internal Audit**

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### **Purpose of Report**

To inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2014-15.

### **Recommendations**

That the Audit Committee notes the findings of the review.

### **Background**

The South West Audit Partnership (SWAP) is a company wholly owned by its local authority partners that provides the Internal Audit service to all of the six Somerset authorities, Dorset County Council, Weymouth and Portland Borough Council, West Dorset District Council, Forest of Dean District Council, East Devon District Council, Wiltshire Council, and Herefordshire Council as well as a number of related bodies such as the Somerset Waste Partnership.

Internal audit forms a part of the corporate governance and internal control framework that provides accountability to stakeholders on all areas of the Council Plan. Their opinion on the adequacy and effectiveness of the Council's internal control framework forms a part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2014-15, which will be published as part of the Council's Statement of Accounts in September 2015.

There are several statutory requirements regarding Internal Audit:

- The Accounts and Audit (England) Regulations 2011 require authorities to review the effectiveness of the system of Internal Audit. They also state "A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."
- Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the proper administration of those affairs." CIPFA has defined "proper administration" in that it should include "compliance with the statutory requirements for accounting and internal audit"
- The CIPFA Statement on the Role of the Chief Finance Officer in Local Government states that the Chief Finance Officer (CFO) must:
  - Ensure an effective internal audit function is resourced and maintained;
  - Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
  - Support the authority's internal audit arrangements: and;
  - Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

Therefore it is important for the findings of the review of the effectiveness of the system of Internal Audit are considered by a committee such as the Audit Committee as a part of the consideration of the system of internal control. This review has to be carried out by someone independent of SWAP.

### **Compliance with PSIAS and Local Government Application Note**

The Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note set out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Standards also refer to the wider elements of the “system of internal audit”, including the importance of the direct relationship between Internal Audit and the Audit Committee. The Standards cover:

- Purpose, authority, and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality Assurance and Improvement Programme;
- Managing the Internal Audit Activity;
- Nature of Work;
- Engagement Planning;
- Performing the Engagement;
- Communicating Results;
- Monitoring Progress.

The Audit Charter for 2014-15 was revised on 26<sup>th</sup> June 2014 and approved by the Audit Committee to comply with these new requirements. SWAP have a Quality Assessment Improvement Plan in place (as attached).

### **The Review of SWAP**

South Somerset District Councils’ review of Internal Audit has been carried out by the Assistant Director – Finance and Corporate Services (the Council’s S151 Officer). The findings have been reported to the Corporate Governance Group as part of the overall evaluation and supporting evidence for the Annual Governance Statement. The following criteria were used in the evaluation:

- Annual report and opinion of the Head of Internal Audit;
- Audit plan and monitoring reports;
- Reports on significant findings;
- Key performance measures and service standards;
- Reports by the Council’s External Auditor covering the extent of reliance placed on internal audit work on key financial systems.

It was found that overall the team performed well and that this view was supported by the comments of external auditors and client satisfaction. The table below shows some of the overall performance of the service during the year compared to the previous three years:

<b>Performance Measure</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Levels of satisfaction from feedback questionnaires	84.0%	78.1%	85%	77%
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	91% (41 out of 45)	90% (36 out of 40)	86% (31 out of 36)	90% ( 19 out of 21)

Total completed audits and reviews	45 (4 in progress)	40 (4 in progress)	36 (5 in progress)	21 (2 in progress)
Cost of audit service to SSDC	£128,500	£117,300	£117,300	£104,140
Number of actions for improvements agreed by managers	148	133	140	79
Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £320	SWAP remains the same at £280	SWAP remains the same at £280

1. The table shows that the satisfaction with the audits carried out at SSDC is 77%, and is above the target set by the Board where 75% is 'good'.
2. The audit days for 2014/15 were reduced by 12% (reduction of 51 audit days) which has resulted in a reduced number of audits planned. Also Audits for individual income streams have now been amalgamated into one review.

### Service Standards

In assessing SWAP's performance it is important to review the standards of service and that each authority is afforded the same standards and also senior officer time. The following table outlines the minimum standards to be introduced and whether they would have been delivered for South Somerset District Council had they been in place:

Service Standard	Expected Standard	Delivery of Standard
Attendance by SWAP Chief Executive / Director at Audit Committee.	At least 1 times per annum	This was complied with.
Attendance by Audit Manager at Audit Committee	At least 4 times per annum	Attended all Audit Committee meetings scheduled.
Attendance by SWAP Audit Manager at Corporate Governance Group	4 times per annum	Attended all Corporate Governance meetings scheduled.
Liaison meetings with S151 Officer and Audit Manager	6 times per annum	This was complied with.
Agreement of Audit Plan:		
Prepared for Management Board/S151	By mid January each year	This was complied with.
Prepared for Audit Committee	By end January each year	This was complied with.
Audit Plan monitoring reports	4 times per annum including Annual Report	This was complied with.

Agreement of Audit Charter: Prepared for Management Board/S151 Prepared for Audit Committee	By mid January each year  By end January each year	This was complied with.  This was complied with.
To assist with member/officer training in audit and governance	Once per annum	Member Training was provided by SWAP to all partners in October 2014.

### 2014/15 Action Plan

The following shows progress *in italics* against the actions to be completed in 2013/14:

- To update and maintain the Quality Assurance and Improvement Programme (update attached).

### Opinion

It is the opinion of the Assistant Director – Finance and Corporate Services and the Corporate Governance Group that the system of internal audit is effective.

### Actions to be completed in 2015/16

- To update and maintain the Quality Assurance and Improvement Programme (update attached).

### Financial Implications

The financial implications can be found from existing budgets