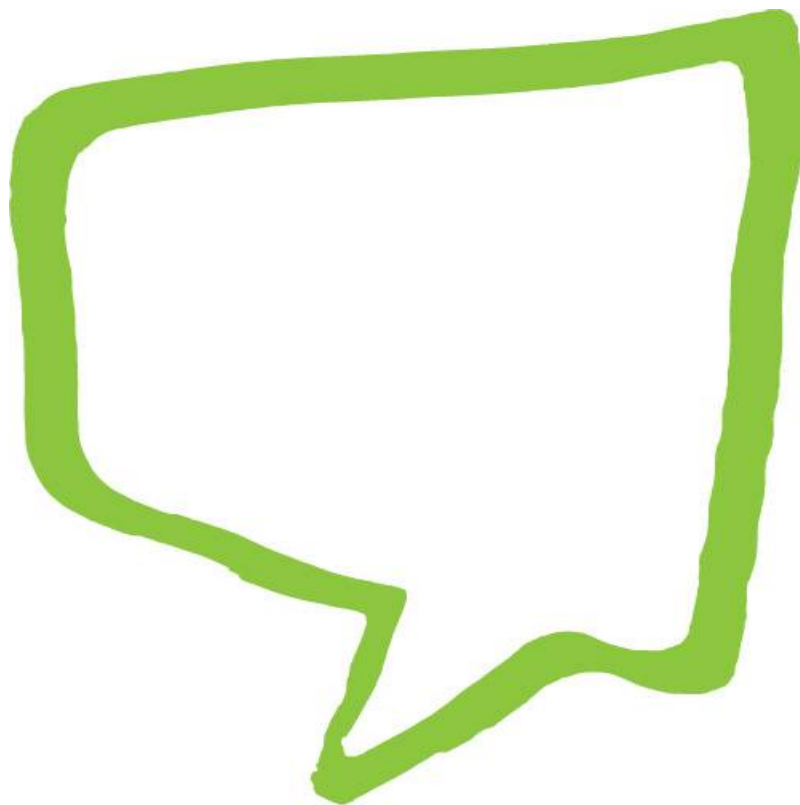


Triennial Review of South West Audit Partnership

Somerset Local Authorities

Audit 2009/10

March 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 Internal audit plays a key role in the management of local government bodies and works closely with external auditors to optimise overall levels of audit activity. As such it is important that councils have a high quality and professional Internal Audit function. In Somerset, this function is provided by the South West Audit Partnership (SWAP).
- 2 External auditors, in seeking to place reliance on Internal Audit work, need to review the function for compliance with the CIPFA Code of Internal Audit Practice ('the Code'), which is normally carried out on a triennial basis, as well as specifically reviewing work they intend to directly rely upon.
- 3 This report summarises our findings from our review of SWAP against the requirements of the Code. It does not cover the second element referred to at paragraph 2, the review of individual pieces of work upon which we intend to rely as part of our annual audit. Nor does it provide a conclusion on the effectiveness of Internal Audit- this needs to be assessed by each of the audited as part of the process for preparing their Annual Governance Statement.

Background

- 4 SWAP provides an internal audit service for a number of Local Authorities across the county of Somerset as well as some others outside Somerset. For the purposes of this triennial review, the specific organisations that SWAP provide an internal audit service for and for which the Audit Commission provide external audit services in Somerset are:
 - South Somerset District Council (SSDC);
 - Taunton Deane Borough Council (TDBC);
 - West Somerset District Council (WSDC);
 - Somerset County Council (SCC);
 - Mendip District Council (MDC); and
 - Sedgemoor District Council (SDC).
- 5 ISA 610 requires external auditors to consider the activities of Internal Audit and their effect on external audit procedures. It requires external auditors to obtain a sufficient understanding of Internal Audit activities to assist in planning the audit and developing an effective audit approach. The SAS requires external auditors to assess the Internal Audit function if they consider it may be possible and desirable to rely on Internal Audit work. It also requires external auditors, when using specific Internal Audit work to reduce the extent of their audit procedures, to evaluate that work to confirm its adequacy for their purposes.
- 6 We have carried out a review of compliance with the CIPFA code as detailed in the CIPFA publication Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 ('the Code'). There are eleven Standards listed, which include Organisational Standards and Operational Standards. These are.
 - Scope of internal audit.
 - Independence.
 - Ethics for Internal Auditors.
 - Audit Committees.
 - Relationships with management, other auditors and other review bodies.
 - Staffing, training and development.
 - Audit strategy and Planning.
 - Undertaking audit work.
 - Due professional care.
 - Reporting.
 - Performance, Quality and Effectiveness.

Background

- 7 Summaries of the evidence obtained for each of the standards, along with recommendations and conclusions, are detailed in the attached appendices.

Audit approach

- 8 In order to form an opinion on SWAP's compliance with the Standards, our approach has been to:
- provide a questionnaire for the Head of Internal Audit to complete and return with supporting documentary evidence;
 - consider the comments made;
 - compare these comments against our own knowledge of SWAP;
 - hold further discussions with the Head of Internal Audit as appropriate; and
 - examine relevant documentary evidence.

Audit personnel and key contacts

- 9 The work was carried out by Janet Cox and Stephen Clarke
- 10 The key contacts from SWAP were as follows.

Name	Role
Gerry Cox	Head of Internal Audit Partnership
Ian Baker	Group Auditor
Chris Gunn	Group Auditor

Main conclusions

- 11 During our review we found that SWAP complies in general with the CIPFA Code, and we can rely on their work for the purposes of our external audit. There were some departures from the Code, but these are not serious in nature and will not require significant work to ensure full compliance in the short term. Details of the work required to achieve full compliance are set out in the following sections of the report.

Appendix 1 – Standard 1: Scope of Internal Audit

Judgement/conclusion

- 1 South West Audit Partnership meets standard 1: Scope of Internal Audit.
- 2 Key evidence for this conclusion is as follows:
 - The scope of the internal audit is defined by the Internal Audit Charter.
 - The key principles of Internal Audit's terms of reference are contained within the 'Internal Audit Charter' (Charter).
 - The South West Audit Partnership (SWAP) is an organisation independent of all the partner bodies. Their scope to access records is laid out in the Charter and is not restricted.
 - The Charter sets out the reporting lines and responsibilities between the Head of Audit, those charged with Governance and other parties.
 - The Charter includes the terms of reference and is approved annually at Committee by each partner body.
 - Partners activities are risk assessed using a recognised scoring methodology to determine where the work of SWAP should be concentrated.
 - To ensure that other work including investigating Fraud and Corruption is included in the Charter and staff receive training.
 - SWAP provides the Partners with a service to lead and investigate fraud and corruption and whistle blowing.
- 3 There was a weakness identified in the recording of these arrangements. Although evidence was supplied to support a sample of the agreements, evidence of the approval process was not available to support approval by each partner. As the number of partner bodies joining SWAP is increasing, it is important that a register of agreements is kept so that all agreements are reviewed and approved at least annually.

Recommendation
R1 SWAP should maintain a register of when the Audit Charter was approved with each partner body. This should include the date of the meeting, a copy of the Charter approved and a copy of the minute approving the Charter.

Appendix 2 – Standard 2: Independence

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 2: Independence.
- 2 Key evidence for this conclusion is as follows:
 - The status of the Head of Internal Audit (HoIA) is set out in the Charter. The HoIA reports the findings of the SWAP reports to the management board of each Partner body. He also has access to the section 151 officer provided for in the Charter.
 - A declaration of independence is made by all staff members on an annual basis. This is reviewed before staff are allocated to assignments.
- 3 The Charter states 'no member of staff will be involved in an audit area where they have worked for an audited body during the previous six months'. This is too short a period, as it could lead to a conflict of interests. A period of at least one year is recommended.
- 4 At some partner sites, auditors also act as Data Protection officers and Money Laundering officers. This could lead to a potential conflict of interests.

Recommendations
R2 New members of staff should not be allowed to work on audit areas of Partner organisations for a minimum of one year after joining SWAP.
R3 SWAP auditors should not act in operational duties for Partner organisations.

Appendix 3 – Standard 3: Ethics for Internal Auditors

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 3: Ethics for Internal Auditors.
- 2 Key evidence for this conclusion is as follows:
 - SWAP staff are required to complete an annual ethics declaration. New staff complete this during their induction. The declaration includes a requirement of the need for confidentiality.
 - Feedback forms are completed by Partner organisations after each assignment.
 - The Charter precludes staff from involvement on audit areas where they have worked in the previous six months. This weakness has already been identified in Appendix 2.
 - The audit manual provides guidance on the audit approach. A review of the audit work, and risk is carried out before each assignment.

Appendix 4 – Standard 4: Audit Committees

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 4: Audit Committees.
- 2 Key evidence for this conclusion is as follows:
 - SWAP attends committees at each Partner body with responsibility for audit as directed in the Charter.
 - The SWAP board approve the internal audit strategy for each Partner. The Partner body committee is then responsible for approving and monitoring the strategy.
 - The HoIA attends and contributes to the committee as they require.

Appendix 5 – Standard 5: Relationships with management, other auditors and other review bodies

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 5: Relationships with management, other auditors and other review bodies.
- 2 Key evidence for this conclusion is as follows:
 - SWAP have prepared their Charter which sets out the relationship with management, other auditors, review bodies and elected members.
 - The Internal Audit plan, called the Audit Universe, is shared and agreed with management.
 - Feedback is requested from senior managers to help encourage good relationships.
 - Timing of audit work is discussed with the Partners before the annual plan is drawn up.
 - SWAP provides copies of their audit reports to external auditors and liaison meetings are held.
 - SWAP shares their audit plans with external audit.
- 3 There is a protocol in place between SWAP and the Audit Commission but SWAP has not agreed such protocols with other internal audit bodies with whom they need to share information.

Recommendation

- R4** An audit protocol should be prepared jointly with other internal audit bodies with whom they wish to share information.

Appendix 6 – Standard 6: Staffing, training and development

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 6: Staffing, training and development.
- 2 Key evidence for this conclusion is as follows:
 - Resource plans are prepared by SWAP. This assesses the number and qualification of staff required.
 - Under the terms of the Charter, the HoIA has the power to recruit staff with specialist skills if the expertise needed is not available within SWAP.
 - The HoIA is a qualified member and former Chairman of the Global Board of the Institute of Internal Auditors.
 - Up to date job descriptions have been prepared for internal audit staff.
 - Individual auditors maintain a record of their professional training and development.
- 3 Standard 6.2.1 of the CIPFA code requires the HoIA to define the skills and competencies required. A detailed review is being undertaken in relation to the Institute of Internal Auditors (IIA) framework for each member of SWAP staff. A completion date for this exercise has not been set.
- 4 Standard 6.2.2 of the CIPFA code requires internal auditors to maintain a record of professional training and development activities. This should include Continuing Professional Development (CPD).

Recommendations	
R5	Agreement of a timetable to complete the skills and competencies matrix is required. The periodic update and evidence of this review should be incorporated into the Staff Development Review (SDR) process.
R6	A monitoring process should be set up to ensure SWAP staff fulfil their CPD requirements as part of their formal SDR process.

Appendix 7 – Standard 7: Audit strategy and planning

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 7: Audit strategy and planning.
- 2 Key evidence for this conclusion is as follows:
 - SWAP prepares an internal audit strategy, although this is not contained in one document as recommended in the Code.
 - The Code requirements are covered in the trading agreements prepared for each Partner organisation.
 - SWAP prepare a 'Plan Risk Assessment Module and Partnership Risk Assessment' for each organisation.
 - SWAP hold an annual meeting with all Partner Corporate Management Teams (CMTs) at which the audit plan is agreed. This is confirmed by minutes. The plan is then approved by Audit Committee and minuted.
 - The Audit Universe is developed with the respective Partner and demonstrates an understanding of the Partners functions. The plan covers priorities, resourcing and work to be undertaken.
 - Performance reports are presented to committee at least biannually.

Appendix 8 – Standard 8: Undertaking audit work

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 8: Undertaking audit work.
- 2 Key evidence for this conclusion is as follows:
 - SWAP prepares an initiation document for each audit. This is discussed with the service manager. The audit approach is risk based, includes a plan to keep service managers informed, (included in a document called 'Keeping the Service Manager Informed') and requires feedback after the work is completed.
 - The requirements for reporting are laid down in the Audit Manual. As part of the process, quality reviews are undertaken. This is recorded on MKI, the internal audit software used.
 - SWAP has a retention policy of two years for working papers.
- 3 Although SWAP is aware of the requirement to have a policy for access to and retention of files, this is not formally recorded.

Recommendation
R7 A formalised written access and retention policy should be included in the Audit Manual.

Appendix 9 – Standard 9: Due professional care

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 9: Due professional care.
- 2 Key evidence for this conclusion is as follows:
 - All SWAP staff attend an induction course where they are given training on their duties in respect of:
 - fraud and corruption;
 - whistleblowing;
 - Internal audit standards: and
 - ethics.
 - We have seen from our file reviews that audit files are reviewed. The reports are also reviewed by Group Auditors who are copied into all reports.
 - SWAP has a Fraud and Corruption Policy which discloses the actions that staff should take if they suspect any fraud, corruption or improper conduct.

Appendix 10 – Standard 10: Reporting

Judgement/conclusion

3 South West Audit Partnership meets Standard 10: Reporting.

4 Key evidence for this conclusion is as follows

- SWAP include an opinion on the control environment and risk exposure in each report they prepare. A scoring system is used in accordance with the Audit Manual.
- We have seen evidence that quality assurance is provided through peer review during assignments, and there is a process for agreeing reports with the responsible service manager.
- Timescales and circularisation lists are laid down for the issue of these reports in the audit plan.
- SWAP has a standard template which all reports use. This ensures consistency in format and quality.
- The reporting process includes a feedback timetable which allows the service manager time to comment on the results shown in the report and to comment on the action plan.
- The recommendations are automatically prioritised according to risk by MKI, the software used in reporting.
- The HoIA provides an annual overall opinion of the status of risk and internal control within the organisation, based on the work of internal audit during the preceding year.

Appendix 11 – Standard 11: Performance, Quality and Effectiveness

Judgement/conclusion

- 1 South West Audit Partnership meets Standard 11: Performance, Quality and Effectiveness.
- 2 Key evidence for this conclusion is as follows:
 - The SWAP Audit Manual provides guidance on day to day audit work and follows best practice as set out by the Institute of Internal Auditors (IIA).
 - Peer review is embedded into the audit process and provides quality assurance in respect of individual audit assignments.
 - The results of the performance management monitoring across the audit service are reported as part of the annual audit report.
- 3 Section 11.1.1 requires the Head of Internal Audit to establish procedures which ensure the Audit Manual is regularly reviewed and updated, reflecting changes in working practices and standards. Although there is a review process in place, there is no evidence of this review.
- 4 Section 11.3.1 requires the Head of Internal Audit to have in place a performance management and quality assurance framework to demonstrate that the internal audit service is compliant with this Code. SWAP should implement an independent quality assurance framework to review and report on the quality of the audit files.

Recommendations	
R8	Evidence to support the periodic review and updating of the Audit Manual should be retained.
R9	SWAP should implement an independent quality assurance framework to review and report on the quality of the audit files.

Appendix 12 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R1 SWAP should maintain a register of when the Audit Charter was approved with each partner body. This should include the date of the meeting, a copy of the Charter approved and a copy of the minute approving the Charter.	2	Gerry Cox/ Nicky Gale	Yes	Register created and held by Nicky Gale, with date of last approval. Once partner corporate calendars are published, diary notes will be made to ensure charters are renewed in 2011.	Done
10	R2 New members of staff should not be allowed to work on audit areas of Partner organisations for a minimum of one year after joining SWAP.	3	Gerry Cox	Yes	All charters have been amended accordingly and will be approved by next available audit committees.	End March 2010
10	R3 SWAP auditors should not act in operational duties for Partner organisations.	3	Gerry Cox	Yes	Relevant partners have been informed and arrangements will end.	31 March 2010
13	R4 An audit protocol should be prepared jointly with other internal audit bodies with whom they wish to share information.	2	Gerry Cox/ Chris Gunn	Yes	This is only in respect of SW1 and, currently, Deloitte. New contractor from 1 April, 2010. Will approach as soon as we know who they are.	End May 2010
14	R5 Agreement of a timetable to complete the skills and competencies matrix is required. The periodic update and evidence of this review should be incorporated into the Staff Development Review (SDR) process.	2	Group Auditors/ Fiona Case	Yes		End March 2010

Appendix 12 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
14	R6 A monitoring process should be set up to ensure SWAP staff fulfil their CPD requirements as part of their formal SDR process.	2	Fiona Case	Yes	We are working with the IIA to come up with a workable process.	End June 2010
16	R7 A formalised written access and retention policy should be included in the Audit Manual.	2	Gerry Cox	Yes		End June 2010
19	R8 Evidence to support the periodic review and updating of the Audit Manual should be retained.	2	Gerry Cox	Yes		End March 2010
19	R9 SWAP should implement an independent quality assurance framework to review and report on the quality of the audit files.	3	Gerry Cox	Yes	SWAP will be commissioning a QAR in the next few months, in accordance with both the CIPFA Code and IIA Standards.	End December 2010

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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