

6. Review of Internal Audit

Strategic Director: Mark Williams, Chief Executive
Assistant Director: Donna Parham, Finance and Corporate Services
Lead Officer: Donna Parham, Finance and Corporate Services
Contact Details: donna.parham@southsomerset.gov.uk or 01935 462225

Purpose of the 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 2009/10.

Recommendations

That the Audit Committee notes the findings of the review.

Background

The South West Audit Partnership (SWAP) is a partnership that provides the Internal Audit service to all of the six Somerset authorities, Weymouth and Portland Borough Council, West Dorset District Council, and the Forest of Dean District Council. The Forest of Dean District Council joined the partnership in 2009 with Dorset County Council joining in April 2010.

Internal audit forms a part of the Corporate Governance and Internal Control Framework that provides accountability to stakeholders on all areas of the corporate 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 2009-10, which will be published as part of the Council's Statement of Accounts in June 2010.

There is a requirement under Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006 for authorities to review the effectiveness of their system of internal audit once a year and for the findings of the review to be 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 CIPFA Code

The 2006 CIPFA Code of Practice for Internal Audit sets out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Code does also refer to the wider elements of the "system of internal audit", including the role of an audit committee. The Code covers:

- scope and terms of reference of internal audit
- independence
- ethics and competence
- audit committees
- relationships
- staffing
- audit strategy and planning
- how audit work is undertaken
- due professional care
- reporting
- performance, quality and effectiveness.

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. It was found that overall the team performed well and that this view was supported by the comments of external auditors, client satisfaction and the Council's 'Use of Resources' scores. The table below shows some of the overall performance of the service during the year compared to the two previous years:

Performance Measure	2007/08	2008/09	2009/10
Levels of satisfaction from feedback questionnaires	80.0%	83.4%	84.39%
Audits completed in year compared to the plan (all at least at final draft stage)	84% (16 out of 19)	87.5% (21 out of 24)	83% (30 out of 36)
Managed audits completed in year compared to plan	100% (8 out of 8)	100% (8 out of 8)	100% (9 of 9)
Number of actions for improvements agreed by managers	246	175	181
Value for Money – average cost of audit day compared to private sector (benchmarking)	No PS data available.	No PS data available.	SWAP = £280 Private Sector = £320
SWAP outturn on spend compared to budget – (brackets indicate net income)	Budget £(27,670) Actual £(47,819)	Budget £(31,640) Actual £(11,763)	Budget £0 Actual £(76,117)

1. The table shows that the satisfaction with the audits carried out at SSDC continues to increase.
2. The number of audits has almost doubled to the number carried out in 2007/08 whilst SSDC has been able to reduce the overall number of audit days it pays for.
3. The number of actions for improvements has decreased in relation to the number of audits carried out for the year. So in 2007/08 an average of 10 improvements per audit were made but in 2009/10 this has reduced to just 5 recommendations. This is in part due to the "call in" procedure from Audit Committee but also shows that the authority has improved in relation to its management of risks and controls. It also reflects the continued quality of SWAP working with managers to bring forward improvements.
4. A new indicator has been added to show benchmarking in 2009/10 and SWAP compare well to the cost per audit day in the private sector.
5. The outturn position shows that each year the partnership continues to make a net profit from operations. All net income is returned to a reserve specifically set up for SWAP. This enables the partnership to finance once off items such as improvements to ICT. The partnership has been effective in being able to deal with Single Status, adding new partners, and generating further income from external work over the last three years.

2009/10 Action Plan

The following shows progress *in italics* against the actions to be completed in 2009/10:

- Revised risk register to be completed by 31st October 2009;
Risk register has been completely revised and approved by the Partnership Board in January 2010. Register has been further revised and renewed in March 2010.
- Improve monitoring to monthly reports to SSDC managers – 30th September 2009
We have purchased an additional module to our Audit IT system, which will enable us to roll out direct access to audit report data to SSDC managers. This is currently in hand and is being implemented across the partnership.
- Complete business plan for continuation of the partnership - 30th September 2009.
The revised business plan was approved by the Partnership Board in January 2010. All partners agreed to the new plan provisions which ensure the continuation of the partnership until 2015.

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 2010/11

A Triennial Review of SWAP was carried out by the Audit Commission in January 2009. The review is attached at the end of this agenda. Overall the report is very positive with the following actions outlined for further improvement:

- 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;
- New members of staff should not be allowed to work on audit areas of Partner organizations for a minimum of one year after joining SWAP;
- SWAP auditors should not act in operational duties for Partner organizations;
- An audit protocol should be prepared jointly with other internal audit bodies with whom they wish to share information;
- 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 and Review process.
- A monitoring process should be set up to ensure SWAP staff fulfill their continuous personal development (CPD) requirements as part of their formal appraisal process.
- A formalised written access and retention policy should be included in the Audit Manual;

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

Financial Implications

The actions outlined can be achieved within budget.

Background Papers: *Internal Audit Review*
