

Audit Committee – 23rd June 2011

## 7. Review of Internal Audit

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### 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 2010-11.

### 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, Dorset County Council, Weymouth and Portland Borough Council, West Dorset District Council, Forest of Dean District Council, and East Devon District 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 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 2010-11, which will be published as part of the Council's Statement of Accounts in September 2011.

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.

All aspects of the Code are signed up to by SWAP through the Audit Charter, reviewed and approved by the Audit Committee on an annual basis.

### The Review of SWAP

South Somerset District Council's 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 and client satisfaction. 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	2010/11
Levels of satisfaction from feedback questionnaires	80.0%	83.4%	84.39%	86.25%
Audits and reviews 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)	105% (39 out of 37)
Managed audits completed in year compared to plan	100% (8 out of 8)	100% (8 out of 8)	100% (9 of 9)	100% (10 out of 10)
Total completed audits and reviews	24	29	39	49 (1 in progress)
Cost of audit service to SSDC	£165,980	£154,310	£156,500	£156,500
Number of actions for improvements agreed by managers	246	175	181	170
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 = £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)	Budget £(48,943) Actual £(142,928)

1. The table shows the satisfaction with the audits carried out at SSDC at 86.25%.
2. The number of audits is more than double 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 2011/12 this has reduced to just 3 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. 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.

### 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 Head of SWAP/ Group Audit Manager at Audit Committee.	At least 2 times per annum	4 times in 2010/11
Attendance by Audit Manager at Audit Committee	At least 2 times per annum	3 times in 2010/11
Attendance by Head of SWAP at Corporate Governance Group	4 times per annum	3 times (note only three meetings held)
Liaison meetings with S151 Officer by Head of SWAP/Group Audit Manager	4 times per annum	4 times
Liaison meetings with S151 Officer and Audit Manager	6 times per annum	4 times but now set up on a six weekly basis
Agreement of Audit Plan:		
Prepared for Management Board/S151	By mid January each year	Delivered
Prepared for Audit Committee	By end January each year	Prepared by end January and presented to Audit Committee February 2011 meeting.
Audit Plan monitoring reports	4 times per annum including Annual Report	4 times per annum
Agreement of Audit Charter:		
Prepared for Management Board/S151	By mid January each year	Delivered
Prepared for Audit Committee	By end January each year	Prepared by end of January and presented to Audit Committee in February 2011
To assist with member/officer training in audit and governance	Once per annum	Not required in 2010/11

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## 2010/11 Action Plan

The following shows progress *in italics* against the actions to be completed in 2010/11:

- 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;

*This recommendation was implemented immediately. A spreadsheet register is now maintained.*

- 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;

*Our previous policy was 6 months, but we have now amended it to one year.*

- SWAP auditors should not act in operational duties for Partner organisations;

*This referred specifically to two SWAP officers who acted as Data Protection officers and/or Freedom of Information contact. In respect of SSDC, this no longer applies.*

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

*In Somerset SWAP has a protocol with the Audit Commission, the only major external organisation it engages with in respect of SSDC.*

- 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.

*This has been implemented.*

- A monitoring process should be set up to ensure SWAP staff fulfil their continuous personal development (CPD) requirements as part of their formal appraisal process.

*This has been incorporated into the staff development process. SWAP has a designated professional training officer responsible for monitoring this area.*

- A formalised written access and retention policy should be included in the Audit Manual;

*SWAP now has a formal document access and retention policy.*

- Evidence to support the periodic review and updating of the Audit Manual should be retained;

*SWAP admin maintain a register of all key policies and documents, including the audit manual, which includes revision dates. This is frequently monitored.*

- SWAP should implement an independent quality assurance framework to review and report on the quality of the audit files.

*This has yet to be achieved, although we are actively seeking suitably qualified organisations that could carry out this review on a reciprocal basis. Bringing in an external, qualified, assessor otherwise would be prohibitively expensive. In the meantime, SWAP is implementing a self-assessment exercise.*

## **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 2011/12**

SSDC requested that the Devon Audit Partnership review the annual return and control environment as part of the assurance framework for the statement of accounts (Letter attached at pages 24-25). In addition to this the Management Board has also reviewed the effectiveness and the following actions are recommended for 2011/12:

- To fully implement the Standards of Service outlined and monitor delivery for each partner.
- To review the governance arrangements of the Partnership.

## **Financial Implications**

The actions outlined can be achieved within budget.

**Background Papers:** None.

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