

## 6. 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 2012-13.

### 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, East Devon District Council, and Wiltshire 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 2012-13, which will be published as part of the Council's Statement of Accounts in September 2013.

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 2006 CIPFA Code of Practice for Internal Audit has been superseded by the Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note on the 1<sup>st</sup> April 2013 that sets 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 2012-13 was approved by the Audit Committee in February 2012 under the previous Code of Practice. All aspects of the Standards will be covered by SWAP through the Audit Charter and reviewed and approved by the Audit Committee on an annual basis.

### **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:

| Performance Measure   | 2009/10                              | 2010/11                               | 2011/12                              | 2012/13                              |
|---|--------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|
| Levels of satisfaction from feedback questionnaires   | 84.39%                               | 86.25%                                | 84.0%                                | 78.1%                                |
| Audits and reviews completed in year compared to the plan (all at least at final draft stage) | 83% (30 out of 36)                   | 105% (39 out of 37)                   | 91% (41 out of 45)                   | 90% (36 out of 40)                   |
| Managed audits completed in year compared to plan   | 100% (9 of 9)                        | 100% (10 out of 10)                   | 100% (8 out of 8)                    | 100% (8 out of 8)                    |
| Total completed audits and reviews  | 39                                   | 49 (1 in progress)                    | 45 (4 in progress)                   | 40 (4 in progress)                   |
| Cost of audit service to SSDC   | £156,500                             | £156,500                              | £128,500                             | £117,300                             |
| Number of actions for improvements agreed by managers   | 181                                  | 170                                   | 148                                  | 133                                  |
| Value for Money – average cost of audit day compared to private sector (benchmarking)         | SWAP = £280<br>Private Sector = £320 | SWAP = £280<br>Private Sector = £320  | SWAP = £280<br>Private Sector = £320 | SWAP = £280<br>Private Sector = £299 |
| SWAP outturn on spend compared to budget – (brackets indicate net income)                     | Budget £0<br>Actual £(76,117)        | Budget £(48,943)<br>Actual £(142,928) | Budget £(26,830)<br>Actual £(99,256) | Budget £(x)<br>Actual £(x)           |

(X Final Accounts not ready until June 2013; outturn figure currently unavailable)

1. The table shows that the satisfaction with the audits carried out at SSDC at 78.1%. This is lower than expected but has been greatly affected by a low return rate and within that the Creditor Fraud audit received 51%, otherwise overall performance would have been in-line with the previous years.
2. The slight reduction in the number of audits compared to the previous year represents the 9% cut made in reducing the audit plan from 459 to 419 days. This provided a financial saving of £11,200.
3. The average number of actions for improvements per audit has remained at just 3 recommendations compared to an average of 10 in 2007/08. 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. The net income is returned to a reserve specifically set up for SWAP. It was agreed in setting up SWAP as a company limited by

guarantee that 200,000 euros would be transferred to the new company with the remaining reserve distributed back to the local authority partners.

As SWAP is now a company limited by guarantee the Directors of the company will be required to act in the interests of the company. The SWAP partners have therefore agreed to meet twice per year to discuss performance, risk, the review of internal audit, and audit plans separately to the business of managing the company.

### 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 1 times per annum                | 1 time in 2012/13   |
| Attendance by Audit Manager at Audit Committee                      | At least 4 times per annum                | 1 time in 2012/13<br>(Note, 10 not 12 meetings in the year)   |
| Attendance by Head of SWAP at Corporate Governance Group            | 4 times per annum                         | 1 time (Note only 3 meetings held)  |
| Liaison meetings with S151 Officer and Audit Manager                | 6 times per annum                         | 8 times in 2012/13  |
| 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 at 23 <sup>rd</sup> February 2012 meeting. |
| Audit Plan monitoring reports                                       | 4 times per annum including Annual Report | 4 times (quarterly report) per annum  |
| Agreement of Audit Charter:   |   |   |
| Prepared for Management Board/S151                                  | By mid January each year                  | Delayed due to change in governance   |
| Prepared for Audit Committee  | By end January each year                  | Delayed due to change in governance agreed by Audit Committee in March 2013                         |
| To assist with member/officer training in audit and governance      | Once per annum                            | Not required in 2012/13   |

**12/13 Action Plan**

The following shows progress *in italics* against the actions to be completed in 2011/12:

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

*Completed*

- To review the governance arrangements for the partnership. 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;

*Completed*

**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. However, the action plan below reflects a need to implement and monitor the new Public Sector Internal Audit Standards that were introduced on the 1<sup>st</sup> April 2013:

**Actions to be Completed in 2013/14**

- SSDC has requested that the Devon Audit Partnership review the annual return and control environment as part of the assurance framework for the statement of accounts. This will be completed over the next few weeks.
- Update the Audit Charter to reflect the new Public Sector Internal Audit Standards (PSIAS) to be approved by the Audit Committee in June 2013.
- To update and maintain the Quality Assurance and Improvement Programme (update attached) and report conformance with the PSIAS in October 2013.

**Financial Implications**

The financial implications can be found from existing budgets.

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