

Audit Committee – 26<sup>th</sup> June 2014

## 8. 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 2013-14.

### Recommendation

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, 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 2013-14, which will be published as part of the Council's Statement of Accounts in September 2014.

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 2013-14 was revised in August 2013 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>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
Levels of satisfaction from feedback questionnaires	86.25%	84.0%	78.1%	85%
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	105% (39 out of 37)	91% (41 out of 45)	90% (36 out of 40)	86% (31 out of 36)
Total completed audits and reviews	49 (1 in progress)	45 (4 in progress)	40 (4 in progress)	36 (5 in progress)
Cost of audit service to SSDC	£156,500	£128,500	£117,300	£117,300
Number of actions for improvements agreed by managers	170	148	133	140
Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £299	SWAP = £280 Private Sector = £299

1. The table shows that the satisfaction with the audits carried out at SSDC has increased to 85% which is the target set by the Board where 75% is 'good'.
2. The slight reduction in the number of planned audits compared to the previous year despite the number of audit days remaining the same at 419 days, is due to the removal of the key control audits for more specific risk based audits.
3. The average number of actions for improvements per audit has increased slightly from 3 to 4 however, this is due to new higher risk areas being reviewed instead of key control audits that in recent years were getting very few if any recommendations for improvement.

### 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:

<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
Attendance by SWAP Chief Executive / Director at Audit Committee.	At least 1 times per annum	1 time in 2013/14
Attendance by Audit Manager at Audit Committee	At least 4 times per annum	9 times in 2013/14
Attendance by SWAP Chief Executive at Corporate Governance Group	4 times per annum	The CEO for SWAP attended all Corporate Governance meetings in 2013/14
Liaison meetings with S151 Officer and Audit Manager	6 times per annum	6 times in 2013/14

Agreement of Audit Plan:		
Prepared for Management Board/S151	By mid January each year	Completed and approved in March 2014
Prepared for Audit Committee	By end January each year	Approved Revised Plan by Audit Committee in June 2014
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	Completed
Prepared for Audit Committee	By end January each year	Approved by Audit Committee in February 2014
To assist with member/officer training in audit and governance	Once per annum	SWAP provided Audit Committee Member training in June 2013

### 2013/14 Action Plan

The following shows progress *in italics* against the 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.

*Completed*

- Update the Audit Charter to reflect the new Public Sector Internal Audit Standards (PSIAS) to be approved by the Audit Committee in June 2013.

*Completed in August 2013*

- To update and maintain the Quality Assurance and Improvement Programme (update attached) and report conformance with the PSIAS in October 2013.

*Completed but not reported to Audit Committee*

### 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 2014/15

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

**Financial Implications**

The financial implications can be found from existing budgets

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