

## **Review of Effectiveness of Internal Audit 2018/19**

*Director:* Netta Meadows, Director Strategy and Support Services  
*Lead Officer:* Paul Fitzgerald, S151 Officer  
*Contact Details:* Paul.fitzgerald@southsomerset.gov.uk or 07774 335746

### **Purpose of Report**

1. To inform the Audit Committee of the assessment and outcome of the review of the effectiveness of Internal Audit function performed by SWAP (South West Audit Partnership) during 2018/19.

### **Recommendations**

2. Audit Committee notes the findings of the review including the opinion of the S151 Officer regarding the effectiveness of the internal audit function.

### **Background**

3. The South West Audit Partnership (SWAP) is a company that provided the Internal Audit service to 24 public sector organisations, as well as a number of related bodies such as the Somerset Waste Partnership. The company is wholly owned by its local authority partners. Their client base is changing in future as a result of local government restructuring particularly in Taunton/West Somerset and Dorset.
4. 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 Annual Governance Statement (AGS) for 2018/19. The AGS will be published on the Council's website alongside the audited annual Statement of Accounts in July 2019.
5. There are several statutory requirements regarding Internal Audit, summarised below.
  - 5.1. The Accounts and Audit (England) Regulations 2015 require authorities to review the effectiveness of the system of Internal Audit. They also state: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."
  - 5.2. 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".
  - 5.3. 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 and systems of internal control
    - Support the authority's internal audit arrangements

- Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.
6. Therefore it is important that the findings of the review of the effectiveness of the system of internal audit are considered by the Audit Committee as a part of the consideration of the governance framework. This review has to be carried out by someone independent of SWAP.

### **Compliance with PSIAS and Local Government Application Note**

7. 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.
8. The Audit Charter for 2018/19 was approved by the Audit Committee in March 2018 to comply with these requirements. SWAP has a Quality Assessment Improvement Plan in place following a review undertaken independently by the Devon Audit Partnership in 2016. There is a requirement is for a Quality Assessment to be undertaken every 5 years. SWAP is scheduling their next Quality Assessment for later in 2019.

### **The Review of SWAP**

9. The Council’s review of Internal Audit has been carried out by the S151 Officer. Delivery of the Audit Plan and associate audit and governance matters are discussed quarterly with SLT, with the last meeting in April 2019. The performance of the internal audit function is taken into account in drafting the Annual Governance Statement, which was also reviewed at this SLT meeting. The following information is 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.
10. It was found that overall the function has continued to perform well and that this view was supported by the comments from client satisfaction surveys. The table below shows some measures of the overall performance of the function during the year compared to the previous two years:

| Performance Measure   | 2016/17               | 2017/18               | 2018/19               |
|---|-----------------------|-----------------------|-----------------------|
| Levels of satisfaction from feedback questionnaires   | 81%                   | 87%                   | 99%                   |
| Audits and reviews completed in year compared to the plan (all at least at final draft stage) | 94%<br>(15 out of 16) | 88%<br>(15 out of 17) | 91%<br>(21 out of 23) |
| Total completed audits and reviews  | 15                    | 17                    | 21                    |
| Cost of audit service to SSDC   | £94,140               | £94,140               | £101,670              |
| Number of actions for improvements agreed by managers   | 42                    | 18                    | 27                    |

11. As shown above, the satisfaction with the audits carried out at SSDC is 99%, which is excellent and well above the target set by the SWAP Board where 80% is 'good'. SWP have worked with the Council's Senior Leadership Team to provide a flexible and adaptable approach to the Audit Plan, reflecting the dynamic nature of the organisation during the implementation of the Transformation Programme and future operating model. The majority – 91% – of the audit plan has been delivered with 21 Final reports issued and two audits in progress at year end.
12. The number of management actions reported is higher than the previous year. This reflects the fact that the audit plan activity in 2017/18 was weighted towards advisory support – reflecting best use of resources to support the Council's transformation programme. SWAP have simplified the risk and ranking of recommendations to High, Medium, Low during the year, which helps management focus on the priority areas for improvement. Only one recommendation was rated as High priority from the delivered audit plan.
13. The cost of the service remained within budget. 2018/19 saw the first increase in audit fee rates charged by SWAP with daily rates being frozen throughout the previous twelve years.

### Service Standards

14. 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 and whether these have been delivered for South Somerset District Council:

| Service Standard   | Expected Standard          | Delivery of Standard  |
|--|----------------------------|---|
| Attendance by SWAP Assistant Director at Audit Committee | At least 4 times per annum | Yes – attendance at committee to provide regular updates on progress and advice to Members on good governance, control and risk management. |
| Liaison meetings with S151 Officer and Audit Manager     | 4 times per annum          | Regular liaison occurs during the year with formal updates discussed at quarterly SLT meetings with a governance focus.                     |
| Agreement of Audit Plan:                                 |                            |   |
| Prepared for S151 / SLT                                  | By mid-January each year   | Yes – draft audit plan reviewed to align with appropriate rolling programme of key control audits and to meet key risk areas identified.    |
| Prepared for Audit Committee                             | By end March each year     | Yes – draft plan completed, and presented to Audit Committee in March 2018  |

| <b>Service Standard</b>  | <b>Expected Standard</b>   | <b>Delivery of Standard</b>  |
|--|--|--|
| Audit Plan monitoring reports                                  | 4 times per annum including Annual Report                            | Yes – updates provided to Audit Committee in June, October, January and March.   |
| Agreement of Audit Charter                                     | By 31 <sup>st</sup> March prior to reporting year by Audit Committee | Yes – Audit Charter agreed March 2018.   |
| To assist with member/officer training in audit and governance | Once per annum   | Audit Committee training provided June 2019. Wider members training provided October 2018 and further training scheduled for October 2019. |

## 2018/19 Action Plan

15. The following shows progress against the actions to be completed in 2018/19:

| <b>Actions Arising from Last Review</b>  | <b>Progress</b>  |
|--|--|
| To update and maintain the Quality Assurance and Improvement Programme   | Quality Improvement Programme actions complete from 2016 and reported to the SWAP Board. Next external assessment will be in 2019. |
| Review new CIPFA Position Statement: Audit Committees in Local Authorities and Police, 2018 edition, and determine opportunities and delivery plan for Audit Committee development | Assessments complete against CIPFA Position Statement. To be discussed with Chair of the Audit Committee.                          |
| Prepare training and guidance for Audit Committee member development, to be delivered following district council elections in May 2019.  | Audit Committee training provided June 2019.   |

## Opinion on the Effectiveness of Internal Audit

16. It is the opinion of the S151 Officer that the system of internal audit is effective.

## Actions to be Completed in 2019/20

17. The review of the effectiveness of internal audit has not highlighted any significant issues. The following action(s) are proposed to ensure continuous improvement and effectiveness of the internal function:

| <b>Actions Arising from This Review</b>   |
|---|
| To support the improvement of the effectiveness of the audit committee in line with CIPFA Guidance and best practice. |

## Financial Implications

18. There are no financial implications to SSDC arising from the review of the effectiveness of internal audit. The agreed actions can be delivered within existing SWAP budget.