

## **Review of Effectiveness of Internal Audit 2019/20**

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### **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 2019/20.

### **Recommendations**

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

### **Background**

3. The South West Audit Partnership (SWAP) is a company that provides the Internal Audit service to 22 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.
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 2019/20. The AGS will be published on the Council's website alongside the audited annual Statement of Accounts in October 2020.
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 2019/20 was approved by the Audit Committee in May 2020. There is a requirement is for an External Independent Quality Assessment to be undertaken every 5 years to ensure SWAP are conforming to the Public Sector Internal Audit Standards (PSIAS). A review was undertaken in March which confirmed that SWAP fully conforms to the Standards, there are some recommendations that we have accepted and these will form part of our Quality Assessment Improvement Plan.

### **The Review of SWAP**

9. The Council’s review of Internal Audit has been carried out by the S151 Officer and Deputy S151 Officer. The Deputy S151 has been more involved in the review this year to reflect the fact this Officer stepped into the S151 role for 6 months of 2019/20. Delivery of the Audit Plan and associated audit and governance matters are discussed quarterly with SLT, with the last meeting in April 2020. 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:

<b>Performance Measure</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Levels of satisfaction from feedback questionnaires	87%	99%	99.6%
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	88% (15 out of 17)	91% (21 out of 23)	86% (22 out of 23)
Total completed audits and reviews	17	21	22
Cost of audit service to SSDC	£94,140	£101,670	£104,720
Number of actions for improvements agreed by managers	18	27	73

11. As shown above, the satisfaction with the audits carried out at SSDC is 99.6%, 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 continue to provide a flexible and adaptable approach to the Audit Plan, reflecting the dynamic nature of the organisation. The majority of the audit plan has been delivered with 22 Final reports issued.
12. The actual percentage of audits and reviews completed has seen a small decline, however this decline only relates to one audit not being able to be completed which was at SSDC's request due to its timing. This audit was the ICT Wide Area Network Review – requested to be deferred due to pressure/changes on our IT resource – with the timing of this coinciding with the recruitment of the Digital Services team. This is the performance measure that can be challenging to achieve when SWAP are asked not to start work until late February or early March.
13. The number of management actions reported is significantly higher than the previous year. This can be broken down as one Priority 1, twenty-nine Priority 2 and forty-three Priority 3 recommendations. Members will recall discussing the SWAP Internal Audit Outturn Report 2019/20 taken to Audit Committee in June 2020 which gave a full comprehensive list of these proprieties broken down by Audit.
14. The cost of the service slightly increased – 3% on 2018/19 figure. 2018/19 was the first increase in audit fee rates charged by SWAP with daily rates being frozen throughout the previous twelve years.

### **Service Standards**

15. 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:

<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
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<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
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	Liaison meetings take place during the year as and when required.
Agreement of Audit Plan:		
Prepared for S151 / SLT	By mid-January each year	Yes – including liaison with all SLT Members to allow input into the draft audit plan.
Prepared for Audit Committee	By end March each year	Yes – Approved by Members at the Audit Committee in May (Covid-19 delayed)
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 – Approved by Members at the Audit Committee in May (Covid-19 delayed)
To assist with Member/officer training in audit and governance	Once per annum	Standard met

## 2019/20 Action Plan

16. The following shows progress against the actions to be completed in 2019/20:

<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. New Quality Improvement Plan produced from March 2020 External Assessment.
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 and SWAP wide training and networking session run in October 2019.

### **Opinion on the Effectiveness of Internal Audit**

17. It is the opinion of the S151 Officer and Deputy S151 Officer that the system of internal audit is effective.

### **Actions to be Completed in 2020/21**

18. The review of the effectiveness of internal audit has highlighted that SSDC has a significant number of actions to be implemented from the 2019/20 audits carried out. These will need to be closely monitored and reported to the Audit Committee where necessary - concerns on this have already been discussed at Audit Committee in June 2020.
19. Monitoring the impact of COVID19 on SSDC is going to be significant for 2020/21. The assessment of impact will be especially critical for those services already highlighted as needing improvement.
20. SWAP to maintain the Quality Assurance and Improvement Programme (QA&IP) follow the External Quality Assessment in March 2020. Please refer to separate committee paper on outcomes from the External Quality Assessment.

### **Financial Implications**

21. 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.
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