

Taunton Deane Borough Council

Corporate Governance Committee - 23rd June 2014

Review of Effectiveness of Internal Audit

Report of the Strategic Director (Shirlene Adam).

This matter is the responsibility of the Leader of the Council, Cllr John Williams

Executive Summary

This report shares the findings of the recent review of the effectiveness of internal audit carried out by Shirlene Adam, Strategic Director. The review found the service to continue to operate at a "satisfactory" level.

1. Background

- 1.1 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. There is also the potential for a new partner to join in the next few months.
- 1.2 SWAP has recently moved from being governed via a Joint committee format to a Company structure.
- 1.3 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.
- 1.3 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.

1.4 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 Corporate Governance 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.

2. Compliance With PSIAS and Local Government Application Note

2.1 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 1st 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.

2.2 The Audit Charter for 2013-14 was approved by the Corporate Governance Committee recently. 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.

3. The Review of SWAP

3.1 Taunton Deane Borough Councils’ review of Internal Audit has been carried out by the Director of Operations (the Council’s S151 Officer). The findings have been reported 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;
- View of the Council's External Auditor covering the extent of reliance placed on internal audit work on key financial systems.

3.2 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	2010/11	2011/12	2012/13	2013/14
Levels of satisfaction from feedback questionnaires	75% (18 Received)	79% (9 Received)	80% (16 Received)	80% (17 Received)
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	90%	95%	87%	89%
Managed audits completed in year compared to plan	100%	100%	100%	100%
Total completed audits and reviews	32	38	39 (4 draft & 3 in progress)	37
Cost of audit service to TDBC	£131,600	£131,600	£117,600	£117,600
Number of actions for improvements agreed by managers.	189	180	151	92*
No of audit recommendations considered High Risk (Priority 5)	4	6	4*	0
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
SWAP A/Cs outturn on spend compared to budget – (brackets indicate net income)	Budget £(48,943) Actual £(142,928)	Budget £(26,830) Actual £(99,256)	Budget £(4,540) Actual £(58,584)	Budget £(x) Actual £(x)

(X Final Accounts not ready until June 2014; outturn figure currently unavailable)

* Only in relation to assignments at final report stage.

- 3.3 The table shows that the satisfaction with the audits carried out at TDBC is 80%, similar to last year.
- 3.4 The number of audit projects undertaken within the days available has reduced slightly from the previous year to 37 from 39.
- 3.5 There were no new high priority recommendations in 13/14.
- 3.6 The outturn position is likely to show that, as in previous years, the partnership makes a surplus from operations. This gives some room for reinvestment in the business which is managed via the Board of Directors for SWAP.
- 3.7 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. As s151, I still have access to the SWAP Management Team to influence service delivery and priorities from a customers perspective.

4. Service Standards

- 4.1 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 Taunton Deane Borough 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 2013/14
Attendance by Audit Manager at Audit Committee	At least 4 times per annum	4 times in 2013/14
Attendance by Head of SWAP at Corporate Governance Officer Group	4 times per annum	1 time (Note only 2 meetings held) – Group Audit Manager Substitute for the other.
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	Delivered
Prepared for Audit Committee	By end January each year	Prepared by end January and presented to March 2014 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	Delivered.
Prepared for Audit Committee	By end January each year	Presented to Corporate Governance Committee in March 2014.
To assist with member/officer training in audit and governance	Once per annum	Not required in 2013/14

5. 2013/14 Action Plan

The following shows progress *in italics* against the actions to be completed in 2012/13:

- 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.

COMPLETE

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

COMPLETE

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

COMPLETE

6. Actions to be Completed in 2014/15

6.1 The following areas will be monitored for progress during 2014/15:-

- To improve the information flows between the SWAP MKI System and the Council, to reduce the manual intervention currently required to maintain up to date records of audit recommendations.
- To further develop the audit universe work started during 13/14 with the s151 officer and team – creating a database of knowledge to be used to manage risk across the Council.

- To look for further efficiencies in delivering audit work across Taunton Deane and West Somerset to benefit both Councils.
- To improve on the current 13/14 delivery times re moving from draft to final audit reports.
- To work with the Council on improving the reporting of key audit information to the Audit Committee.

7. Opinion

7.1 It is the opinion of the Director of Operations the system of internal audit is effective.

8. Financial Issues / Comments

8.1 There are no financial implications arising from this report.

9. Legal Comments

9.1 There are no legal implications from this report.

10. Links to Corporate Aims

10.1 No direct implications.

11. Environmental and Community Safety Implications

11.1 No direct implications.

12. Equalities Impact

12.1 The review of effectiveness of internal audit does not require an equalities impact assessment to be prepared.

13. Risk Management

13.1 Any risks identified will feed in to the corporate risk management process.

14. Partnership Implications

14.1 Outlined in the report.

15. Recommendation

15.1 The Corporate Governance Committee is requested to note the findings of the review of the effectiveness of internal audit for 2013/14.

Contact Officers:

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