

# Taunton Deane Borough Council

## Corporate Governance Committee – 21 June 2016

### Review of Effectiveness of Internal Audit

Report Author: Jo Nacey, Deputy Section 151 Officer

#### 1 Purpose of the Report

- 1.1 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 2015/16.

#### 2 Recommendations

- 2.1 The Corporate Governance Committee is requested to note the findings of the review of the effectiveness of internal audit for 2015/16.

#### 3 Risk Assessment

##### Risk Matrix

Description	Likelihood	Impact	Overall
The Authority fails to maintain an adequate system of internal control; monitored and controlled by internal audit leading to financial exposure and reputational and operational risk	3	4	12
The Authority has put in place suitable internal audit arrangements.	1	4	4

## Risk Scoring Matrix

<b>Likelihood</b>	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)	High
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)	High
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)	
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)	
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)	
			1	2	3	4	5	
			Negligible	Minor	Moderate	Major	Catastrophic	
			<b>Impact</b>					

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

## 4 Background and Full details of the Report

- 4.1 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, Wiltshire Council and Herefordshire Council as well as a number of related bodies such as the Somerset Waste Partnership.
- 4.2 The Partnership undertook a significant staff restructure over the last year and have been settling into the new structure with new staff to train. It is fair to say that this has taken a while and we have seen a few new starters leave after a short time and this has led to some disruption of continuity in the service we have received.
- 4.3 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 2015/16, which will be published alongside the Council's Statement of Accounts in September 2016.

#### 4.4 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 administration of those affairs.” CIPFA has defined “proper administration” as including “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.

4.5 Therefore it is important that 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.

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

5.1 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 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.
- Communicating the acceptance of risks

## 6. The Review of Internal Audit (SWAP)

6.1 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 will also provide supporting evidence for the Annual Governance Statement. The following criteria were used in the evaluation:

- Annual report and opinion of the Assistant Director of SWAP;
- 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.

6.2 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>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Levels of satisfaction from feedback questionnaires	80% (16 Received)	80% (17 Received)	82% (15 Received)	85% (13 Received)
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	87%	89%	75%	62% (End of March)
Key Controls audits completed in year compared to plan	100%	100%	100%	66% by end of March
Total completed audits and reviews	39	37	28 (Additional 3 in draft & 7 In progress)	29 (9 in draft & 2 In progress)
Cost of audit service to TDBC	£117,600	£117,600	£97,300	£97,300
Number of actions for improvements agreed by managers.	151	153	99	94*
No of audit recommendations considered High Risk (Priority 5)	4	4	0	0*

Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = £299	SWAP = £280 Private Sector = £299	SWAP = £280 Private Sector = Not benchmarked	SWAP = £280 Private Sector = Not benchmarked
SWAP A/Cs outturn on spend compared to budget – (brackets indicate net income)	Budget (£4,540) Actual (£58,584)	Budget (£0) Actual (£97,840)	Budget (£73,890) Actual (projected) (£120,900)	Budget (£85,812) Surplus Actual (£44,600) Surplus

\* Only in relation to assignments at final report stage.

- 6.3 The table shows that the satisfaction from client feedback questionnaires for the audits carried out at TDBC is broadly consistent with previous years.
- 6.4 The average cost of an ‘audit day’ for SWAP remains unchanged at £280.
- 6.5 In total 62% of the audit plan for 2015/16 has been delivered by 31 March 2016. SWAP are committed to completing the plan but there have been several delays which are concerning. We have sought and received assurances from SWAP that this reduction in completion rates is a temporary issue and that they intend to return to 100% delivery of the plan in year from 2016/17 onwards. This is an unfortunate situation as we had received assurance that the 2015/2016 Audit Plan would be 95% completed by year end but the new structure has taken longer than anticipated to stabilise and the completion rate has again slipped.
- 6.6 There were no new high priority recommendations (service level priority 5) in 2015/16.
- 6.7 The outturn position for SWAP is likely to show that, as in previous years, the partnership makes a surplus from operations. Resources have already been assigned to increase capacity at TDBC and WSC.
- 6.8 As SWAP is a company limited by guarantee the Directors of the company will be required to act in the interests of the company. As Section 151 Officer, I have access to the SWAP Management Team to influence service delivery and priorities from a customer’s perspective. Additionally, the ‘Members Board’, which is comprised of Elected Member representatives from each partner authority, meets quarterly to review the performance of the company.

## 7. Service Standards

- 7.1 In assessing SWAP’s performance it is important to review the standards of service to ensure 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
<b>Attendance by SWAP Chief Executive / Director of Quality at Corporate Governance Committee</b>	At least 1 times per annum	1 time in 2015/16
<b>Attendance by Audit Assistant Director at Corporate Governance Committee</b>	At least 4 times per annum	3 times in 2015/16 (Director of Quality attended the other)
<b>Attendance by SWAP Chief Executive at Corporate Governance Officer Group</b>	4 times per annum	0 times (Was Attended by Assistant Director SWAP)
<b>Liaison meetings with S151 Officer and Audit Assistant Director</b>	6 times per annum	Monthly meetings were held with the Audit Manager during 2015/16, which were attended by the AD Corp Services and Corp Strategy & Performance Manager. The S151 Officer attended quarterly.
<b>Agreement of Audit Plan:</b>  Prepared for Management Board/S151  Prepared for Audit Committee  Audit Plan monitoring reports	By mid-January each year  By end January each year  4 times per annum including Annual Report	Delivered  Prepared by end February and presented to March 2015 meeting  4 times (quarterly report) per annum
<b>Agreement of Audit Charter:</b>  Prepared for Management Board/S151	By mid-January each year	Delivered. Presented to Corporate Governance Committee in March 2015.

Prepared for Corporate Governance Committee	By end January each year	
<b>To assist with member/officer training in audit and governance</b>	Once per annum	Two half day sessions were held for Members in the autumn of 2015

## 8. Review of SWAP

- 8.1 In February of this year we took part in a survey undertaken on behalf of SWAP to collect feedback on SWAP's performance. This was a useful exercise and we received a follow-up call to discuss our responses. We gave a fair assessment of some of the issues we had experienced and also fed back on the areas e.g. communication that SWAP do well.

## 9. 2015/16 Action Plan

- 9.1 The following shows progress against the actions to be completed in 2015/16:

- SWAP to work with TDBC to ensure that the percentage of audits completed in year for 2015/16 increases to 95% of the audit plan delivered (with the remaining 5% delivered in the first 2 months of the following year).

CURRENT STATUS: At the time of writing this report this has not been achieved. SWAP have given a commitment to work towards this in 16/17.

- Improving engagement with TDBC as a customer of SWAP so as to ensure TDBC are aware at an early point of known changes to service delivery, changes to key personnel or other relevant matters affecting the delivery of audit services to the Council.

CURRENT STATUS: In progress. We have regular meetings with the Assistant Director SWAP to discuss the status of the Audit Plan and any new developments re new staff, findings, etc. We have also met with the Chief Executive and Executive Director SWAP this year to discuss our concerns regarding the progress against the plan and to hear their assurances about the structure and the year to come.

The Executive Director SWAP also gives a very useful quarterly update to the Senior Finance Officers Group which brings together the s151s across the county.

- SWAP to undertake a review of the current report template structure in order to identify improvements in clarity and content, in consultation with client officers.

CURRENT STATUS: This has been completed and we now have consistent reports across the two councils in a useful and easy to read format

- Current Key Performance Indicators (KPIs) will be reviewed and where necessary new ones will be introduced in consultation with client officers.

CURRENT STATUS: Ongoing

## **10. Actions to be Completed in 2016/17**

10.1 The following new actions are to be progressed during 2016/17:-

- SWAP to work with TDBC to ensure that the percentage of audits completed **in year** for 2016/17 increases to 95% of the audit plan delivered (with the remaining 5% delivered in the first 2 months of the following year).
- Improving engagement with TDBC as a customer of SWAP so as to ensure TDBC are aware at an early point of known changes to service delivery, changes to key personnel or other relevant matters affecting the delivery of audit services to the Council.
- Current Key Performance Indicators (KPIs) will be reviewed and where necessary new ones will be introduced in consultation with client officers.

## **11 Looking Forward: The South West Counter Fraud Partnership**

11.1 During 2015/16 the South West Counter Fraud Partnership was established, with a new team set up within SWAP providing fraud and corruption prevention and investigation services to Taunton Deane plus West Somerset and South Somerset district councils. The Partnership is funded through to March 2017 by a combination of a successful bid to Government for grant funding, plus contributions from the three councils.

11.2 The services provided by the partnership are separate to the Internal Audit Plan and therefore enhance the control environment rather than replace or duplicate the work of the internal audit function. A specific set of priorities is agreed for the SWCFP, focussing on: awareness raising/training, using data analytics to identify possible fraud cases, targeted reviews in specific areas such as right to buy, council house tenancy, council tax discount claims etc.

11.3 The aim of the partnership is to prevent and recover losses to fraud, corruption and bribery, thus deliver savings to the Councils initially to fund the service and moreover to better protect to the 'public purse'

## **12 Links to Corporate Aims / Priorities**

12.1 It is the responsibility of the S151 Officer to ensure the Authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

## **13 Finance / Resource Implications**

13.1 There are no financial implications arising from this report.



## **14 Legal Implications**

14.1 There are no direct legal implications within this report although poor governance arrangements, leading to unmitigated risks could expose the Council to unanticipated claims / litigation. An effective internal audit function helps mitigate these risks.

## **15 Environmental Impact Implications**

15.1 There are no implications in respect of this report.

## **16 Safeguarding and/or Community Safety Implications**

16.1 There are no implications in respect of this report.

## **17 Equality and Diversity Implications**

17.1 There are no implications in respect of this report.

## **18 Social Value Implications**

18.1 There are no implications in respect of this report.

## **19 Partnership Implications**

19.1 There are no implications in respect of this report.

## **20 Health and Wellbeing Implications**

20.1 There are no implications in respect of this report.

## **21 Asset Management Implications**

21.1 There are no implications in respect of this report.

## **22 Consultation Implications**

22.1 There are no implications in respect of this report.

### **Democratic Path:**

- **Corporate Governance Committee – Yes**
- **Executive – No**
- **Full Council – No**

**Reporting Frequency: Annually**

### **Contact Officers**

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