

# TAUNTON DEANE BOROUGH COUNCIL

## CORPORATE GOVERNANCE COMMITTEE 27 JUNE 2011

### 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 be operating at a “satisfactory” level.

#### **1. Background**

- 1.1 The Internal Audit function forms a part of the Corporate Governance and Internal Control Framework that provides accountability to stakeholders on all areas of the corporate plan.
- 1.2 The Internal Audit function is provided to Taunton Deane Borough Council by the South West Audit Partnership (SWAP). This is a partnership that provides the Internal Audit service to all of the six Somerset authorities, Weymouth and Portland Borough Council, West Dorset District Council, the Forest of Dean District Council, and East Devon District Council and Dorset County Council.
- 1.3 Their opinion on the adequacy and effectiveness of the Council's internal control framework forms a key part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2010-11, which will be published at the same time as the Council's Statement of Accounts later this year.
- 1.2 There is a requirement for authorities to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by Members. This review has been carried out by Shirlene Adam, Strategic Director, who is independent of SWAP.

## 2. Compliance With CIPFA Code

2.1 The CIPFA Code of Practice for Internal Audit sets out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Code does also refer to the wider elements of the “system of internal audit”, including the role of an audit committee. The Code covers:

- scope and terms of reference of internal audit
- independence
- ethics and competence
- audit committees
- relationships
- staffing
- audit strategy and planning
- how audit work is undertaken
- due professional care
- reporting
- performance, quality and effectiveness.

## 3. The Review of SWAP

3.1 Taunton Deane Borough Councils’ review of Internal Audit has been carried out by the Strategic Director (the Council’s S151 Officer). The review considered:

- How the audit plan was created
- The links to Corporate Strategy, Corporate Risks and Governance
- How the audits were carried out – planning, staffing and risk
- Reporting arrangements during the year
- The Internal Audit Charter
- The total cost of the Audit function and how this is recharged
- Measures to determine success - audits completed against plan
- Feedback from Managers on recent audits
- Feedback from the Audit Commission.

3.2 It was found that overall, the team performed at a **satisfactory** level, and that this view was supported by the comments of external auditors. The table below shows key statistics on the overall performance of the service during the year compared to the two previous years:

<b>Performance Measure</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Levels of satisfaction from feedback questionnaires	73% (7 Received)	77% (4 Received)	74.86% (18 received)
Managed Audits completed in year compared to plan.	100%	100%	100%
Audits completed in year compared to the plan	88%	92%	90%
Total completed audits and reviews	22	30	32
Number of actions for improvements agreed by managers	146	233	189
No of audit recommendations considered High Risk	No data	8	4
Cost of audit service to TDBC	£131,600	£131,600	£131,600
Value for Money – average cost of audit day compared to private sector (benchmarking)	No PS data available.	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £320

1. The table shows that the satisfaction with the audits carried out at TDBC at 74.86%.
2. The number of audits has increased by 45% compared to the number carried out in 2008/09 whilst TDBC has been able to reduce the overall number of audit days it pays for
3. The number of actions for improvements has decreased slightly between years.
4. The number of high risk recommendations has decreased significantly. This is due to a change in areas traditionally examined and the particularly large number picked up in the partnerships audit during 2009/10.

## 5. **Confirming Future Service Standards**

- 5.1 In reviewing SWAP's performance, the Management Board has agreed the following standards of service. This will help ensure that each partner receives the same level and quality of service.
- 5.2 The following table outlines the minimum standards that will be introduced during 2011/12 – and gives an indicative view on whether they would have been met for 2010/11 at TDBC.

<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
<b>Attendance by Head of SWAP/ Group Audit Manager at Corporate Governance Committee</b>	At least 2 times per annum	4 times in 2010/11
<b>Attendance by Audit Manager at Audit Committee</b>	At least 2 times per annum	3 times in 2010/11
<b>Attendance by Head of SWAP at Corporate Governance Group</b>	4 times per annum	1 time (note only 1 meeting held – this is a new group)
<b>Liaison meetings with S151 Officer by Head of SWAP/Group Audit Manager</b>	4 times per annum	4 times
<b>Liaison meetings with S151 Officer and Audit Manager</b>	6 times per annum	6 times
<b>Agreement of Audit Plan:</b> Prepared for s151  Prepared for Corporate Governance 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 January and presented to March 2011 meeting.  4 times per annum
<b>Agreement of Audit Charter:</b>  Prepared for Management Board/S151  Prepared for Corporate Governance Committee	By mid January each year  By end January each year	Delivered  Prepared by end of January and presented to March 2011 meeting

<b>To assist with member/officer training in audit and governance</b>	Once per annum	Not required in 2010/11
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## 7. 2010/11 Action Plan

7.1 The following shows progress *in italics* against the actions to be completed in 2010/11:

- Best practice should be shared across the SWAP customer base.  
*Work has started on this, although there is still room for more to be done. This is discussed regularly at the Management Board.*
- The Annual Audit Plan should give greater focus to the Corporate Strategy, Corporate Risks and Corporate Governance when identifying the internal audit work for the year.  
*The Internal Audit Plan for 11/12 was prepared with this in mind. A further mid-year review will take place to ensure the plan continues to focus on areas of risk.*
- The Annual Audit Plan should be reviewed and agreed by the Corporate Management Team.  
*The Internal Audit Plan for 11/12 was reviewed and agreed by the Governance Group (statutory officers). The plan was developed with involvement of the Theme Managers and the s151 Officer.*
- The Annual Audit report should include a priority summary of all recommendations. (High/Medium/Low)  
*The Annual Audit Report prepared by SWAP will be considered by this Committee in the summer.*
- A new performance measure should be introduced to monitor the turnaround time for audit reports. The final report should be produced within 20 working days of the completion of the audit.  
*This has not been progressed. Timeliness of reporting continues to be an issue and this will be discussed again with SWAP.*
- A greater number of audits should be completed and reported to Corporate Governance Committee. A target of 80% should be introduced for 2010/11.  
*All audits that have "high risk" recommendations are shared with the Corporate Governance Committee. This is more appropriate than sharing a specific % of reports. Members of Corporate*

*Governance Committee can have access to all audit reports on request.*

## **8. Actions To Be Completed In 2011/12**

8.1 The following actions are recommended for 2011/12:

- To fully implement the Standards of Service outlined in section 6.2 above.
- To review the current Governance arrangements of the SWAP Partnership and make recommendations for improvement.
- To support the Council in using the MKI management information system for monitoring progress against audit recommendations.
- To ensure that the controls tested, and the sample sizes used, meet the requirements of the Audit Commission for all Managed Audits.
- To ensure the “Managed Audits” are completed to final report stage by the end of January each year (to support the external audit work).

## **9. Opinion**

9.1 It is the opinion of the Strategic Director that the system of internal audit is effective.

## **10. Financial Issues / Comments**

10.1 The actions outlined can be achieved within the agreed budget for internal audit.

## **11. Legal Comments**

11.1 There are no legal implications from this report.

## **12. Links to Corporate Aims**

12.1 No direct implications.

## **13. Environmental and Community Safety Implications**

13.1 No direct implications.

**14. Equalities Impact**

14.1 The approval of the internal audit plan does not require an equalities impact assessment to be prepared.

**15. Risk Management**

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

**16. Partnership Implications**

16.1 Outlined in the report.

**17. Recommendation**

17.1 The Corporate Governance Committee is requested to note the findings of the review of the effectiveness of internal audit for 2010/11.

**Contact Officers:**

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