

Taunton Deane Borough Council

Corporate Governance Committee – 20 June 2017

Review of Effectiveness of Internal Audit 2016/17

Report Author: Richard Doyle, Corporate Strategy and Performance 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 2016/17.

2 Recommendations

- 2.1 The Corporate Governance Committee is requested to note the findings of the review of the effectiveness of internal audit for 2016/17.

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

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	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
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
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. In total SWAP provides audit services for 18 Councils, 3 Police Authorities, 3 Office of Police Crime Commissioners as well as a number of related bodies such as the Somerset Waste Partnership.

4.2 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 2016/17, which will be published alongside the Council's Statement of Accounts in July 2017.

4.3 There are several statutory requirements regarding Internal Audit:

- 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." (part 5)
- 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
- Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

4.4 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 1 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 (Corporate Governance) 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 Assistant Director Strategic Finance and 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 two years:

Performance Measure	2014/15	2015/16	2016/17
Levels of satisfaction from feedback questionnaires	82% (15 Received)	85% (13 Received)	83% (14 received)
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	75%	62% (End of March)	89% (End of March)
Key Controls audits completed in year compared to plan	100%	66% (end of March)	88% (end of March)
Total completed audits and reviews	28 (Additional 3 in draft & 7 In progress)	29 (9 in draft & 2 In progress)	27 (4 draft & 1 in Progress)
Cost of audit service to TDBC	£97,300	£97,300	£97,300
Number of actions for improvements agreed by managers.	99	138	87*
No of audit recommendations considered High Risk (Priority 5)	0	0*	0
Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = Not benchmarked	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 (£73,890) Actual (projected) (£120,900)	Budget (£85,812) Surplus Actual (£44,600) Surplus	Budget (£37,617) Surplus Actual (£7,698) 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 89% of the audit plan for 2016/17 has been delivered by 31 March 2017. SWAP is committed to completing the plan and is on track to deliver 100% of the plan. The process of Internal Audit requires engagement from TDBC officers at all levels and with competing delivery priorities with services and late changes to the audit plan there will be invariably some delays and work carried over from 31 March.
- 6.6 There were no new high priority recommendations (service level priority 5) in 2016/17.
- 6.7 The outturn position for SWAP is likely to show that, as in previous years, the partnership makes a surplus from operations.
- 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
Attendance by Audit Assistant Director at Corporate Governance Committee	At least 4 times per annum	3 times in 2016/17 (Director of Quality attended the other)
Attendance by SWAP Chief Executive at Corporate Governance Officer Group	4 times per annum	0 times (Was Attended by Assistant Director SWAP) This group has not met that frequently. The meetings are attended by the Assistant Director where required.

Service Standard	Expected Standard	Delivery of Standard
Liaison meetings with S151 Officer and Audit Assistant Director	6 times per annum	Monthly meetings were held with the Assistant Director for SWAP and relevant TDBC Client Officers.
Agreement of Audit Plan:		
Prepared for Management Board/S151 Officer	By mid-January each year	Delivered
Prepared for Corporate Governance Committee	By end January each year	Prepared by end February and presented to March 2017 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 Officer	By mid-January each year	Delivered. Presented to Corporate Governance Committee in March 2017.
Prepared for Corporate Governance Committee	By end January each year	
To assist with member/officer training in audit and governance	Once per annum	Two half day sessions were held for Members in the autumn of 2016.

8 2016/17 Action Plan

8.1 The following shows progress against the actions to be completed in 2016/17.

Action	Progress / Outcome
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).	Whilst the target of 95% has not been achieved there has been significant improvement in the delivery of the audit plan with 89% completed by the end of March. This is a positive 'direction of travel'.
Improving engagement with TDBC as a customer of SWAP so as to ensure	Monthly liaison meetings are held. Any issues with the progress of audits are

Action	Progress / Outcome
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.	raised for TDBC client officers to pursue.
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.	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.	This is a continuous process and is ongoing.

9 Actions to be completed in 2017/18

9.1 The following new actions are to be progressed during 2017/18.

Actions Arising from This Review	Progress
To update and maintain the Quality Assurance and Improvement Programme	At the next meeting of the Board on 22nd June 2017, it is proposed that the Board partakes in a facilitated discussion to come up with some key quality improvement actions for the Company, and to complete the review of Key Performance Indicators.
Current Key Performance Indicators (KPIs) will be reviewed and where necessary new ones will be introduced in consultation with client officers.	This is a continuous process and is ongoing.

10 Links to Corporate Aims / Priorities

10.1 It is the responsibility of the S151 Officer to ensure the Council 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.

11 Finance / Resource Implications

11.1 There are no financial implications arising from this report.

12 Legal Implications

12.1 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.

13 Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, and Consultation Implications

13.1 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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