

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 22 JUNE 2015

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 continues 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, Wiltshire Council and Herefordshire Council as well as a number of related bodies such as the Somerset Waste Partnership.
- 1.2 SWAP has moved from being governed via a Joint committee format to a Company structure. The company has over the past year undertaken a significant staffing restructure in order to ensure that it remains appropriately structured to deliver services to its client authorities and as an independent company.
- 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 2014/15, which will be published as part of the Council’s Statement of Accounts in September 2015.
- 1.4 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 proper 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.

1.5 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.

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 2014/15 was approved by the Corporate Governance Committee on 9 March 2015. All aspects of the Standards will be covered by SWAP through the Audit Charter and reviewed and approved by the Corporate Governance Committee on an annual basis.

3. The Review of Internal Audit (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 will also provide 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 The table below shows some of the overall performance of the service during the year compared to the previous three years:

Performance Measure	2011/12	2012/13	2013/14	2014/15
Levels of satisfaction from feedback questionnaires	79% (9 Received)	80% (16 Received)	80% (17 Received)	82% (15 Received)
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	95%	87%	89%	75%
Key Controls audits completed in year compared to plan	100%	100%	100%	100%
Total completed audits and reviews	38	39	37	28 (Additional 3 in draft & 7 In progress)
Cost of audit service to TDBC	£131,600	£117,600	£117,600	£97,300
Number of actions for improvements agreed by managers.	180	151	153	99*
No of audit recommendations considered High Risk (Priority 5)	6	4	4	0*

Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £299	SWAP = £280 Private Sector = £299	SWAP = £280 Private Sector = Not benchmarked
SWAP A/Cs outturn on spend compared to budget – (brackets indicate net income)	Budget £(26,830) Actual £(99,256)	Budget £(4,540) Actual £(58,584)	Budget £(0) Actual £(97,840)	Budget £(73,890) Actual (projected) £(120,900)

* Only in relation to assignments at final report stage.

- 3.3 The table shows that the satisfaction from client feedback questionnaires for the audits carried out at TDBC is broadly consistent with previous years.
- 3.4 The cost of the service has reduced from previous years, due to our request to reduce the number of audit days. The average cost of an ‘audit day’ for SWAP remains unchanged at £280.
- 3.5 In total only 95% of the audit plan for 2014/15 will be delivered, which is just within the minimum contractual target agreed with SWAP. The 5% shortfall has resulted from a temporary disruption in service delivery during the staffing restructure undertaken by SWAP. We have sought and received assurances from SWAP that this was a temporary issue and that they intend to return to 100% delivery of the plan from 2015/16 onwards.
- 3.6 There were no new high priority recommendations (service level priority 5) in 2014/15.
- 3.7 The number of audit reviews completed in year has fallen, as you would expect when we have a reduced number of audit days. This has however been heightened by the temporary disruption in service delivery resulting from the restructure within SWAP. This is an area in which we will monitor very closely during 2015/16.
- 3.8 The outturn position for SWAP is likely to show that, as in previous years, the partnership makes a surplus from operations. This gives some scope for reinvestment in the business and hiring additional resource if required and is managed via the Board of Directors for SWAP.
- 3.9 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 Section 151 Officer, I still 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.

4. Service Standards

4.1 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 SWAP Chief Executive / Director of Quality at Corporate Governance Committee	At least 1 times per annum	1 time in 2014/15
Attendance by Audit Assistant Director at Corporate Governance Committee	At least 4 times per annum	4 times in 2014/15
Attendance by SWAP Chief Executive at Corporate Governance Officer Group	4 times per annum	0 times (NB. Only one meeting was held in 2014/15 and SWAP were represented at that meeting by the Audit Manager for TDBC)
Liaison meetings with S151 Officer and Audit Assistant Director	6 times per annum	Monthly meetings were held with the Audit Manager during 2014/15, which were attended by the AD-Corp Services and Corp Strategy & Performance Manager. The S151 Officer attended quarterly.
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 February 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	By mid January each year	Delivered. Presented to Corporate Governance Committee in March

Board/S151		2014.
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 2014 (3 & 10 October)

5. Audit Review of SWAP

- 5.1 The Devon Audit Partnership have undertaken an independent review of SWAP. This review specifically focussed on the accounting arrangements within SWAP and concluded that SWAP had appropriate arrangements in place.
- 5.2 Whilst this audit review was not focussed on the delivery of the service provided by SWAP it does provide assurance to the Council, as a shareholder, regarding the financial probity of SWAP.

6. 2014/15 Action Plan

6.1 The following shows progress against the actions to be completed in 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.

CURRENT STATUS: The system interfaces have not been developed, but TDBC are implementing alternative solutions to reduce the requirement for manual intervention by audit action owners.

- 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.

CURRENT STATUS: A consistent Audit Universe has been devised across all SWAP partners within MK Insight (Audit Tool) which is in line with the LGA list of local authority services. This is to aid greater sharing of audit findings and good practice across the partners. The Audit Universe will continue to be assessed and developed for each annual planning cycle.

- To look for further efficiencies in delivering audit work across Taunton Deane and West Somerset to benefit both Councils.

CURRENT STATUS: Joint audits are being delivered where it is permissible and appropriate to do so, maximising the potential delivery from our limited audit resource.

- To improve on the current 13/14 delivery times re moving from draft to final audit reports.

CURRENT STATUS: There has been a slight improvement but further work is required in this area.

- To work with the Council on improving the reporting of key audit information to the Corporate Governance Committee.

CURRENT STATUS: the content of reports has been reviewed and improved. However, this is an area which will continue to be developed during 2015/16.. We want to work with the Corporate Governance Committee to not only ensure they are getting the information needed to fulfil their responsibilities, but they are given the opportunity to discuss audit issues flagged with the relevant service manager.

7. Actions to be Completed in 2015/16

7.1 The following new actions are to be progressed during 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).
- 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.
- 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 Key Performance Indicators (KPIs) will be reviewed and where necessary new ones will be introduced in consultation with client officers.

8. Opinion

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

9. Financial Issues / Comment

9.1 There are no financial implications arising from this report.

10. Legal Comments

10.1 There are no legal implications from this report.

11. Links to Corporate Aims

11.1 No direct implications.

12. Environmental and Community Safety Implications

12.1 No direct implications.

13. Equalities Impact

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

14. Risk Management

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

15. Partnership Implications

15.1 Outlined in the report.

16. Recommendation

16.1 The Corporate Governance Committee is requested to note the findings of the review of the effectiveness of internal audit for 2014/15.

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