

## **Review of Internal Audit**

*Director:* Ian Clarke, Support Services  
*Lead Officer:* Paul Fitzgerald, S151 Officer  
*Contact Details:* Paul.fitzgerald@southsomerset.gov.uk or 07774 335746

### **Purpose of Report**

To inform the Audit Committee of the recent review of the effectiveness of Internal Audit, delivered through SWAP (South West Audit Partnership) during 2016-17.

### **Recommendations**

Audit Committee notes the findings of the review.

### **Background**

The South West Audit Partnership (SWAP) is a company wholly owned by its local authority partners that provides the Internal Audit service to 24 public sector organisations, as well as a number of related bodies such as the Somerset Waste Partnership.

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 as part of the Council's Statement of Accounts in July 2017.

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 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 and systems of internal control;
  - 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.

Therefore it is important that the findings of the review of the effectiveness of the system of Internal Audit are considered by the Audit 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.

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

The Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note set 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.

The Audit Charter for 2016-17 was approved by the Audit Committee in March 2016 to comply with these requirements. SWAP has a Quality Assessment Improvement Plan in place following a review undertaken independently by the Devon Audit Partnership last year.

### **The Review of SWAP**

South Somerset District Councils’ review of Internal Audit has been carried out by the S151 Officer. The findings have been reported to the Senior Leadership Team on 12 June 2017 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;
- Reports by the Council’s External Auditor covering the extent of reliance placed on internal audit work on key financial systems.

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 two years:

<b>Performance Measure</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Levels of satisfaction from feedback questionnaires	77%	83%	81%
Audits and reviews completed in year compared to the plan (all at least at final	90% (19 out of 21)	76% (21 out of 26)	94% (15 out of 16)

draft stage)			
Total completed audits and reviews	21 (2 in progress)	21 (5 in progress)	15 (2 in progress)
Cost of audit service to SSDC	£104,140	£104,140	£91,140
Number of actions for improvements agreed by managers	79	58	42

The table shows that the satisfaction with the audits carried out at SSDC is 81%, and is above the target set by the SWAP Board where 80% is 'good'.

### Service Standards

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 and whether these have been delivered for South Somerset District Council:

Service Standard	Expected Standard	Delivery of Standard
Attendance by SWAP Assistant Director at Audit Committee	At least 4 times per annum	Yes
Liaison meetings with S151 Officer and Audit Manager	6 times per annum	Yes
Agreement of Audit Plan: - 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	Yes Yes Yes
Agreement of Audit Charter	By 31 <sup>st</sup> March prior to reporting year by Audit Committee	Yes
To assist with member/officer training in audit and governance	Once per annum	A Training session was held with the Audit Committee in March 2016 and March 2017 about the year ahead/ key issues facing audit/any changes in SWAP. Two member training days were also held in October 2016 at Buckfast Abbey and Haynes Motor Museum, designed as a networking and training event. SWAP has also run a Strategic Risk Workshop with the Management Board to help them identify their strategic risks.

### 2016/17 Action Plan

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

Actions Arising from	Progress
----------------------	----------

Last Review	
To update and maintain the Quality Assurance and Improvement Programme	In progress - The QAIP is reviewed periodically by SWAP Senior Management Team and by the SWAP Board of Directors. The Plan is kept under review on a regular basis. Many actions have now been addressed or formed a part of the Marketing Plan. The one remaining action to carry forward will be the review of Key Performance Indicators.

### Opinion on the Effectiveness of Internal Audit

It is the opinion of the S151 Officer and the Senior Leadership Team that the system of internal audit is effective.

### Actions to be Completed in 2017/18

The SWAP QAIP contains actions in progress, which will be reported at the next review:

Actions Arising from This Review	Progress
To update and maintain the Quality Assurance and Improvement Programme	Responsible = SWAP Chief Executive Completion Date = March 2018 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.

### Financial Implications

There are no financial implications to SSDC arising from the review of the effectiveness of internal audit. The agreed actions can be delivered within existing SWAP budget.