

Review of Effectiveness of Internal Audit 2017/18

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Purpose of Report

1. To inform the Audit Committee of the assessment and outcome of the review of the effectiveness of Internal Audit function performed by SWAP (South West Audit Partnership) during 2017/18.

Recommendations

2. Audit Committee notes the findings of the review including the opinion of the S151 Officer regarding the effectiveness of the internal audit function.

Background

3. The South West Audit Partnership (SWAP) is a company 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. The company is wholly owned by its local authority partners.
4. 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 Annual Governance Statement (AGS) for 2017/18. The AGS will be published on the Council's website alongside the audited annual Statement of Accounts in July 2018.
5. There are several statutory requirements regarding Internal Audit, summarised below.
 - 5.1. 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."
 - 5.2. 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".
 - 5.3. 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
- Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

6. 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 governance framework. This review has to be carried out by someone independent of SWAP.

Compliance with PSIAS and Local Government Application Note

7. 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.

8. The Audit Charter for 2017/18 was approved by the Audit Committee in March 2017 to comply with these requirements. SWAP has a Quality Assessment Improvement Plan in place following a review undertaken independently by the Devon Audit Partnership in 2016.

The Review of SWAP

9. The Council's review of Internal Audit has been carried out by the S151 Officer. The findings were reported to the Senior Leadership Team in June 2018 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.

10. It was found that overall the function has continued to perform well and that this view was supported by the comments of external auditors and client satisfaction. The table below shows some measures of the overall performance of the function during the year compared to the previous two years:

Performance Measure	2015/16	2016/17	2017/18
Levels of satisfaction from feedback questionnaires	83%	81%	87%
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	76% (21 out of 26)	94% (15 out of 16)	88% (15 out of 17)
Total completed audits and reviews	21 (5 in progress)	15 (2 in progress)	17
Cost of audit service to SSDC	£104,140	£94,140	£94,140
Number of actions for improvements agreed by managers	58	42	18

11. As shown above, the satisfaction with the audits carried out at SSDC is 87%, and is above the target set by the SWAP Board where 80% is 'good'. The majority of the audit plan has been delivered and two residual audits from the 2016/17 plan were completed in 2017/18.
12. The number of management actions reported is lower than in previous years, reflecting the weighting of audit activity towards advisory support – reflecting best use of resources to support the Council's transformation programme. This has proven to be successful with this 'up front' support to the development of controls and procedures being very welcome by the project team and those involved in this design activity.
13. The cost of the service remained at on budget, with SWAP daily rates continuing to be frozen in 2017/18 – this continued the trend with no fee increases seen since the inception of the partnership twelve years ago.

Service Standards

14. 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 – attendance at committee to provide regular updates on progress and advice to Members on good governance, control and risk management.
Liaison meetings with S151 Officer and Audit Manager	6 times per annum	Fewer meetings during the year in 2017/18 however effective communication has been maintained.
Agreement of Audit Plan:		
Prepared for S151 / SLT	By mid-January each year	Yes – draft audit plan reviewed to align with appropriate rolling programme of key control audits and to meet key risk areas identified.
Prepared for Audit Committee	By end January each year	Yes – draft plan completed, and presented to Audit Committee in March 2017
Audit Plan monitoring reports	4 times per annum including Annual Report	Yes – updates provided to Audit Committee in June, September, November, February.
Agreement of Audit Charter	By 31 st March prior to	Yes – Audit Charter agreed March 2017.

Service Standard	Expected Standard	Delivery of Standard
	reporting year by Audit Committee	
To assist with member/officer training in audit and governance	Once per annum	Two member training days were also held in October 2016 at Buckfast Abbey and Haynes Motor Museum, designed as a networking and training event.

2017/18 Action Plan

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

Actions Arising from Last Review	Progress
To update and maintain the Quality Assurance and Improvement Programme	The QAIP focused on the delivery of the Top 10 Company Priorities. These include: Review of partner correspondence & Audit Reports; Document Management and Information Management; Quality review model; Embedding Added Value; Marketing Strategy; Partners Commissioning; Commercial Strategy; Workforce Planning; Management Team Agenda and Board Champions. The majority of these have been delivered. Further details can be found from the SWAP Board QAIP update report.

Opinion on the Effectiveness of Internal Audit

16. 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 2018/19

17. The review of the effectiveness of internal audit has not highlighted any significant issues. The following action(s) are proposed to ensure continuous improvement and effectiveness of the internal function:

Actions Arising from This Review	Progress
To update and maintain the Quality Assurance and Improvement Programme	QAIP being reviewed and updated at next SWAP Board meeting.
Review new CIPFA Position Statement: Audit Committees in Local Authorities and Police, 2018 edition, and determine opportunities and delivery plan for Audit Committee development	Not yet due
Prepare training and guidance for Audit Committee member development, to be delivered following district council elections in May 2019.	Not yet due

Financial Implications

18. 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.
