

# Taunton Deane Borough Council

## Corporate Governance Committee – 19 March 2019

### Review of Effectiveness of Internal Audit 2018/19

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 2018/19.

#### 2 Recommendations

- 2.1 The Corporate Governance Committee is requested to note the findings of the review of the effectiveness of internal audit for 2018/19.

#### 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
			<b>Impact</b>				

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 2018/19, which will be published alongside the Council's Statement of Accounts in July 2019.

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:

<b>Performance Measure</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Levels of satisfaction from feedback questionnaires	83% (14 received)	89% (5 received)	99% (18 issued 16 Received)
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	89% (End of March)	86% (End of March)	76% (end of February)
Key Controls audits completed in year compared to plan	88% (end of March)	100% (end of March)	83% (end of February)
Total completed audits and reviews	27	30	25 (4 draft 6 in progress as of end of February)
Cost of audit service to TDBC	£97,300	£97,300	£105,084
Number of actions for improvements agreed by managers.	120	105	52* (+ 44 Healthy Organisation)
SWAP A/Cs outturn on spend compared to budget – (brackets indicate net income)	Budget (£37,617) Surplus  Actual (£7,698) Surplus	Budget (£4,834) Surplus  Actual (£16,513) Surplus	Budget (£455) Surplus  Predicted (£72,500) Surplus

\* Only in relation to assignments at final report stage. Also note priority criteria change for 2018-19 from 1-5 to 1-3.

6.3 The table shows that the satisfaction from client feedback questionnaires is high. A new questionnaire template was used for 2018-19 that covered: *did our audit work meet or exceed expectations; our Communication; Auditor Professionalism and Competence; and Value to the Organisation.*

6.4 In total 76% of the audit plan for 2018/19 has been delivered by the end of February 2019. The plan is on track to be materially complete by the 31 March 2019 and

100% will be delivered for 2018-19.

- 6.5 The number of recommendations when taking into account the Healthy Organisation review is broadly in line with previous years. However, please note that the priority rates have changed from a 1-5 rating to a 1-3.
- 6.6 The outturn position for SWAP is likely to show that, as in previous years, the partnership makes a surplus from operations. This has been down to an unusually greater staff turnover within the partnership than in previous years with savings from vacancies.
- 6.7 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:

<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
Attendance by Audit Assistant Director at Corporate Governance Committee	At least 4 times per annum	4 times in 2018/19
Attendance by SWAP Assistant Director at Corporate Governance Officer Group	Attendance as required	Meetings attendant where held.
Liaison meetings with S151 Officer/and or Client Liaison Officer and Audit Assistant Director	6 times per annum	Regular meetings were held with the Assistant Director for SWAP and relevant TDBC/WSC Client Officers.

<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
Agreement of Audit Plan:  Prepared for Management Board/S151 Officer  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 February and presented to the Shadow Corporate Governance and Standards Committee in March 2019 meeting.  4 times (quarterly report) per annum
Agreement of Audit Charter:  Prepared for Management Board/S151 Officer  Prepared for Corporate Governance Committee	By mid-January each year  By end January each year	Being presented to the Shadow Corporate Governance and Standards Committee in March 2019.
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 2018.

## 8 2018/19 Action Plan

8.1 The following shows progress against the actions to be completed in 2018/19.

<b>Actions Arising from This Review</b>	<b>Progress</b>
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.
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 2019/20

9.1 The following new actions are to be progressed during 2019/20.

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.

## 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**
- **Scrutiny - No**
- **Executive – No**
- **Full Council – No**

**Reporting Frequency: Annually**

**Contact Officers**

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