

West Somerset District Council

Audit Committee – 19 March 2019

Review of Effectiveness of Internal Audit

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 Audit Committee is requested to note the findings of the review of 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
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 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 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.

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 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.
- Communicating the acceptance of risks

6. The Review of Internal Audit (SWAP)

6.1 West Somerset Councils' review of Internal Audit has been carried out by 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 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	2016-17	2017-18	2018-19
Levels of satisfaction from feedback questionnaires	84% (3 Returned)	89% (2 Returned)	100% (10 issued 9 Returned)
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	83% end of March (100% for year)	85% end of March (100% for Year)	65% end of February
Key Controls audits completed in year compared to plan	100%	100%	80%
Total completed audits and reviews	18	20	17 (3 draft, 6 in progress)
Cost of audit service to WSC	£56,780	£56,780	£61,322
Number of actions for improvements agreed by managers.	88	65	18* (+ 44 Healthy Organisation)
SWAP A/Cs outturn on spend compared to budget – (brackets indicate net income)	Budget (£37,617) Surplus Actual (projected) (£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 65% of the audit plan at the end of February has been delivered. Of the six reviews in progress, 4 relate to transformation and are due to run until the end of March and early April and two were not scheduled to commence until March 2019. Therefore, 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. The Section 151 Officer has 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 West Somerset Council had they been in place:

Service Standard	Expected Standard	Delivery of Standard
Attendance by Audit Assistant Director at Audit Committee.	At least 4 times per annum	4 times in 2017/18
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.

Service Standard	Expected Standard	Delivery of Standard
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	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 Prepared for Audit 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:

Actions Arising from This 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.

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	

10 Links to Corporate Aims / Priorities

10.1 It is the responsibility of the S151 Officer to ensure the Authority 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 Implications

13.1 There are no implications in respect of this report.

14 Safeguarding and/or Community Safety Implications

14.1 There are no implications in respect of this report.

15 Equality and Diversity Implications

15.1 There are no implications in respect of this report.

16 Social Value Implications

16.1 There are no implications in respect of this report.

17 Partnership Implications

17.1 There are no implications in respect of this report.

18 Health and Wellbeing Implications

18.1 There are no implications in respect of this report.

19 Asset Management Implications

19.1 There are no implications in respect of this report.

20 Consultation Implications

20.1 There are no implications in respect of this report.

Democratic Path:

- **Audit Committee – Yes**
- **Cabinet – No**
- **Full Council – No**

Reporting Frequency: Annually

Contact Officers

Name	Richard Doyle
Direct Dial	01823 218743
Email	r.doyle@tauntondeane.gov.uk