

NAME OF COMMITTEE	Audit Committee
DATE	10th June 2014
REPORT TITLE	EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT - 2013/14
Report of	Chief Internal Auditor; and S.151 Officer.
WARDS AFFECTED	All/Corporate

Summary of report:

The purpose of this report is to provide members with assurance that the System of Internal Audit is in place and effective.

Its intention is to demonstrate that the Council's internal audit section continues to reach the standards set by the Chartered Institute for Public Finance and Accountancy's (CIPFA) enabling the external auditor to gain assurance from the work of the section, and that the service provided to clients continues to be well received.

The internal audit section also continues to work with its partners, South Hams as a shared internal audit service and collaboration with Teignbridge, and review its own processes to ensure that the improvements of recent years are maintained in the future.

This review also aims to demonstrate that the wider System of Internal Audit is effective and therefore contributes to the assurance provided by the Chief Internal Auditor's 'Opinion on the Adequacy of Internal Control', which is provided in a separate Internal Audit annual report presented to this Committee.

Financial implications:

There are no direct financial implications of the monitoring of the Internal Audit service. The internal audit costs for the year are as budgeted.

RECOMMENDATION:

It is recommended that members note the findings of the Review of the Effectiveness of the System of Internal Audit set out in this report.

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1. BACKGROUND

- 1.1 The Terms of Reference for Internal Audit were presented to the Audit Committee in April 2013 (Minute reference *AC 34) and cover:

Statutory Requirements
Purpose, Authority and Responsibility;
Independence;
Audit Management;
Scope of Internal Audit's Work;
Audit Reporting; and
Audit Committee.

- 1.2 The Audit Strategy was updated for 2013/14 and was approved by the Audit Committee in April 2013 (Minute reference *AC 34) and covers:

Objectives and Outcomes;
Opinion on Internal Control;
Local and National Risk Issues;
Provision of Internal Audit; and
Resources and Skills.

2. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

- 2.1 The process to produce the Annual Governance Statement requires the Council through the Chief Internal Auditor to review the effectiveness of the system of internal audit covering:

- Compliance with the standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government 2006, which was superseded during the year by the Public Sector Internal Audit Standards (PSIAS);
- Effectiveness of the Audit Committee;
- Reliance on Internal Audit by the external auditor;
- Client and management opinion; and
- The extent to which IA adds value and helps delivery of corporate objectives.

- 2.2 The Annual Governance Statement will be presented to the Audit Committee at the meeting of the 22nd July 2014.

Compliance with the CIPFA Code of Practice for Internal Audit/PSIAS

- 2.3 The Chief Internal Auditor carried out a self assessment of the Council's internal audit service against a schedule summarising the Chartered Institute for Public Finance and Accountancy's (CIPFA) Code and linked to the Public Sector Internal Audit Standards through the related assessment checklist in the CIPFA application note on PSIAS.

- 2.4 The results were satisfactory with no significant issue arising, which was expected given that a similar assessment was made each year and any gaps identified closed.

- 2.5 At the September 2013 Audit Committee members accepted the view that the audit approach and key documents remained fit for purpose and will be

brought strictly into line with the new Public Sector Internal Audit Standards for 2014/15 (Agenda Item 6: Minute reference *AC 18 refers).

This paragraph also highlighted the differences which were either addressed in 2013/14 or will be in 2014/15:

- The mandatory nature of the PSIA's;
- Defining of the 'Board' – for West Devon Borough Council the Board will be the Audit Committee;
- The role of the Monitoring Officer and Head of Paid Service in Internal Audit – the current Terms of Reference/Charter are clear in terms of anti fraud corruption and bribery, and, access by the Chief Internal Auditor if required;
- Requirement for the Chief Audit Executive (for West Devon the Chief Internal Auditor) to hold a professional qualification;
- Use of Computer Assisted Audit Techniques (CAATs) – to be part of the planned Counter Fraud work for 2013/14; and
- Quality assurance programme to include an external assessment. Only when this is completed can reports carry the phrase 'conducted in conformance with PSIA's'.

2.6 The annual report including the Chief Internal Auditor's 'Opinion on the Adequacy of Internal Control' 2013/14 appears on the agenda of this Committee as a separate item.

Effectiveness of the Audit Committee

2.7 The Audit Committee met in a 'workshop' forum in June 2013, (and has done so for a number of years prior to that) to consider a number of issues and carry out a self assessment of the effectiveness of the Audit Committee.

2.8 The assessment was based on a schedule from the CIPFA document 'Audit Committees: Practical Guidance for Local Authorities' and the result was satisfactory. A review of the resolutions made during the year and the actions taken as a result is also a typical agenda item.

2.9 A further 'workshop' is planned for June 2014 although at the date of writing this report the final details have not been completed. Among the Agenda items will be a review of the Audit Committee year past and consideration of the latest CIPFA guidance on the role of the Audit Committee.

2.10 There is no reason to believe that the Effectiveness of the Audit Committee has diminished during 2013/14.

External Audit - Assurance Provided by Internal Audit

2.11 Grant Thornton, the Council's external auditor, in their Audit Plan for West Devon Borough Council for 2013/14, which was presented to the April 2014 Audit Committee said in the *Results of Interim Audit Work*:

'We have reviewed internal audit's overall arrangements. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.

Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council. We will continue to review the findings of internal audit to inform our audit planning’.

Client and Management Opinion

2.12 The audit team issue a satisfaction survey to the main client officers with the final audit report for each of the audits that we undertake. Completion and return is encouraged but is discretionary. An option for completion electronically has also been provided.

2.13 Satisfaction surveys received for 2013/14 are satisfactory, with 98.6% of the responses from 6 returns (100% from 14 returns at South Hams) marking us good or excellent for the sub criteria under Audit Planning, Quality of Audit Report and Communication as shown in table 1:

Table 1: 2013/14 Satisfaction Survey Results.

Survey Criterion	Excellent	Good	Total 2013/14	Target	Total 2011/12
	%	%	%	%	%
Audit Planning - Consultation; Objectives.	90.5	9.5	100	90	100
Quality of Audit Report Clarity; Accuracy; Value; Presentation.	92.9	7.1	100	90	97.2
Communication Feedback; Helpfulness; Professionalism; Timeliness.	97.1	2.9	100	90	96.7
Overall %	94.0	6.0	100	90	98.6

There were no ‘poor’ markings and the following positive comments were made by managers:

- *‘I found the audit process a really positive experience. It is so helpful to get fresh eyes on this broad subject and a new perspective. I have been consulted all the way and have felt my comments and challenges have been heard and responded to. Thank you very much for bringing some more clarity and focus to this ever developing area; and*
- *Always happy with the support from the internal audit team.*

There were no negative comments made.

2.14 We continue to learn from any comments made and are ensuring that, wherever possible, we take on board suggestions for improvement.

Extent to which Internal Audit adds value and helps delivery of corporate objectives

2.15 The customer survey results and comments help to demonstrate that Internal Audit adds value.

2.16 The Audit Plan for 2013/14 (Appendix A of the ‘Annual Report and Opinion’ presented separately to this Committee) is linked to the Council’s Priorities

and Heads of Service/service managers are invited to express areas of concern to the auditor in producing the plan for the year and at the commencement of each individual audit. Wherever possible these areas are included in the audit work undertaken.

3. INTERNAL AUDIT'S PERFORMANCE INDICATORS

- 3.1 The Internal Audit Strategy 2013/14 (April 2013 Audit Committee) sets out the performance indicators to be recorded.

Audit Reports Issued

- 3.2 The number of audit reports issued in 2013/14 was as follows:

Table 2: Number of audit reports issued

Audit Year	Number of Reports by Type		
	Main Financial Systems	Other systems/ Establishments	Annual Total
2013/14	8	16	24
2012/13	8	13	21
2011/12	8	11	19
2010/11	8	9	17

- 3.3 We are continuing to be alert to development in the profession of meaningful targets for the section, and monitor our performance against them and always seek to benchmark key indicators with other Devon internal audit teams whenever possible.

Other Indicators

- 3.4 Timeliness is an important element of audit reporting, and therefore we monitor against two targets for this:

- The timely issue of draft audit reports: within 10 working days of completing the audit work;
- The timely issue of finalised audit reports: within 10 working days of completing discussions on the draft report, and completing the action plan on recommendations.

- 3.5 We are also monitoring the % of the audit plan that is completed during the year. Completion is influenced mainly by the level of unplanned work carried out in the year, for which some contingency time is planned.

- 3.6 The following table shows that Internal Audit is meeting its targets, as set out below:

Table 3: Internal Audit Performance against Targets 2013/14

Performance Indicator	Target	2013/14	2012/13
Assurance provided to the external auditor by the work of Internal Audit	Yes	Yes	Yes
Timeliness of reports:			
% of draft reports issued within 10 working days of the audit completion	90%	96%	100%
% of final reports issued within 10 working days of discussion on the draft	90%	100%	100%

% of Audit Plan Completed			
% of Audit Planned days completed, against target	95%	100%	100%

Source: Internal Audit Strategy 2013/14

Resources and Skills

- 3.1 The shared service internal audit team provided West Devon with the planned 105 days as reported to the Audit Committee.
- 3.2 An allowance of 18 sickness days was originally allowed for in the South Hams 2013/14 Internal Audit Plan, with 4 days actually being used (15 days 2012/13), and 2.5 days Carers Leave also granted in line with the policy (3 days 2012/13).
- 3.3 Training and professional updates provided to members of the team during the year (3.3 days in total) included:

Chief Internal Auditor

- Smartsheet Overview (Internal)
- Update re changes to Council Tax and Business Rates (NDR) (Internal)
- Audit Management Software demonstration

Senior Auditor:

- Information Security and Cybercrime (IIA Exeter)
- Update re changes to Council Tax and Business Rates (NDR)
- Audit Management Software demonstration

Auditor:

- Smartsheet Overview (Internal)
- Update re changes to Council Tax and Business Rates (NDR) (Internal)
- Audit Management Software demonstration

4. OTHER PARTNERS

South Hams District Council

- 4.1 2013/14 is the fourth year of the provision of an internal audit service for West Devon Borough Council (WDBC) shared with South Hams District Council. A total of 121 days of audit work was carried out, which was the 105 days of planned audit plus additional work on T18 Transformation Programme, Housing Enabling etc.
- 4.2 The relevant charges have been made to and paid by West Devon to South Hams and at £25,983 are within the budgeted £27,931 and providing an annual saving of £10,000 to the West Devon Borough Council.
- 4.3 The internal auditors maintain timesheets to a quarter hour units for all work completed, which enables relatively accurate apportionment of costs to take place. The timesheets are also required for controlling and monitoring the progress on the audit plan, and an attendance/hours worked record.

4.4 The Shared Service arrangement with our Internal Audit colleagues at Teignbridge District Council following the decision of the Joint Steering Group (JSG) in June 2008 has not been reversed. This constitutes an extended collaboration and the mutual assurance of the high priority parts of the Councils' audit plans in times of crisis, subject to approval by the two Audit Committee Chairmen.

4.5 The majority of the proposals for the extended collaboration have been completed or are continuing and include sharing of information, audit programmes, best practice, attending and feeding back seminars.

5. LEGAL IMPLICATIONS

5.1 Required under the Local Government Finance Act 1972 and subsequent Accounts and Audit Regulations – the latest being 2011.

6. FINANCIAL IMPLICATIONS

6.1 Within existing budgets. The costs of the service are highlighted at paragraph 3.6 above.

7. RISK MANAGEMENT

7.1 The risk management implications follow after the table of other considerations:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Local Government Finance Act 1972 Accounts and Audit Regulations 2011
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	No specific biodiversity issues arising from this report.
Sustainability considerations:	No specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards 2013; CIPFA Code of Practice for Internal Audit in Local Government 2006; WDBC 5-year Audit Plan 2010/11 to 2015/16. Internal Audit Plan 2013/14 and Strategy (April 2013 Audit Committee); Interim Reports to the 2013/14 Audit Committees.
Appendices attached:	None

No	Risk Title	Risk/Opportunity Description	Inherent risk status			Mitigating & Management actions	Ownership	
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Failure of the System of Internal Audit	The Council's Annual Governance Statement cannot be signed if the System of Internal Audit fails.	3	2	6	↔	<p>An annual Internal Audit Strategy reviewed by the Audit Committee at the beginning of each financial year sets out how the audit plan is to be delivered.</p> <p>A risk based Internal Audit plan is reviewed by senior managers and members, and updated to reflect emerging as appropriate through the year. The plan is linked to the Council's objectives and risks to these objectives.</p> <p>The Internal Audit approach adheres to the appropriate professional standards set by CIPFA...</p> <p>Regular monitoring of performance of Internal Audit is carried out by the S.151 Officer and the Audit Committee. Liaison with the external auditors ensures that duplication of scarce audit resources is avoided and that they are able to gain assurance on internal Audit's work.</p> <p>Liaison with Heads of Service and managers ensures Internal Audit adds value.</p> <p>The Audit Committee reviews its effectiveness annually.</p>	S.151 Officer; Chief Internal Auditor; Audit Committee Chairman.