

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	13 June 2013
REPORT TITLE	REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT - 2012/13
Report of	Chief Internal Auditor
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 out in the Chartered Institute of Public Finance's (CIPFA) Code of Practice for Internal Audit in Local Government 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, West Devon 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.

RECOMMENDATIONS:

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.

Officer contact: Allan Goodman, Chief Internal Auditor: 01803 861375
allan.goodman@swdevon.gov.uk

Background

1.1 The **Terms of Reference** for Internal Audit were presented to the Audit Committee in April 2010 and updated at the April 2012 Audit Committee (Minute reference A.36/11). They cover:

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 2011/12 and was approved by the Audit Committee in April 2012 (Minute reference A.36/11 refers) and covers:

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

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;
- Effectiveness of the Audit Committee;
- Assurance provided to the external auditor by Internal Audit;
- Client and management opinion; and
- 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 18th July 2013.

Compliance with the CIPFA Code of Practice for Internal Audit 2006

2.3 The Chief Internal Auditor carried out a self assessment of the Council's internal audit service against a schedule summarising the CIPFA Code kindly supplied by our internal audit colleagues at Teignbridge District Council as part of the collaboration between the teams.

- 2.4 The results were satisfactory with no significant issue arising, which was expected given that a similar assessment was made each year since the end of 2007/08 and the gaps identified closed. The audit process and key documents were changed at that time to reflect the findings and requirements of the 2006 Code of Practice.
- 2.5 CIPFA have produced an Application Note for the United Kingdom Public Sector Internal Audit Standards in April 2013, which will be reflected in the sections procedures for 2013/14.

Effectiveness of the Audit Committee

- 2.6 The Audit Committee met in a 'workshop' forum in June 2012 (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.
- 2.7 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.
- 2.8 A further 'workshop' is planned for June 2013 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 CIPFA Better Governance Forum document 'Audit Committee Update - helping audit committees to be effective'.
- 2.9 However, there is no reason to believe that the Effectiveness of the Audit Committee has diminished during 2012/13.

External Audit - Assurance Provided by Internal Audit

- 2.10 Grant Thornton, the Council's external auditor, in their Audit Plan for South Hams District Council for 2012/13, which was presented to the April 2013 Audit Committee said:

'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

- 2.11 For some years the audit team have issued a satisfaction survey electronically 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.
- 2.12 Satisfaction surveys received for 2012/13 continue to be satisfactory, with 100% of the 14 responses (98.6% from 6 at West Devon) marking us good or excellent (100% in 2011/12 from 13 returned) for the sub criteria under Audit Planning, Quality of Audit Report and Communication as shown in table 1:

Table 1: 2012/13 Satisfaction Survey Results.

Survey Criterion	Excellent	Good	Total 2012/13	Target	Total 2011/12
	%	%	%	%	%
Audit Planning - Consultation; Objectives.	59.5	40.5	100	90	100
Quality of Audit Report Clarity; Accuracy; Value; Presentation.	69.6	30.4	100	90	100
Communication Feedback; Helpfulness; Professionalism; Timeliness.	94.3	5.7	100	90	100
Overall %	77.4	22.6	100	90	100

There were no 'poor' markings and positive comments were made by 4 managers, which included the following:

- *'The auditor really listened to what I had to say and my thoughts in relation to the developments that were necessary to take the service forward. Not only that but she gave useful insights in to what had happened previously, which helped me to understand how the service had developed to where it currently is. She also made useful suggestions as to the ways in which certain aspects could be tackled which then formed the basis of a certain number of the developments for the future. She had a realistic view of what could be achieved with limited resources and did not set any deadlines that cannot, in theory, be met;*
- *'This audit and the last audit helped me immensely in setting up effective systems. The auditors are always pleasant and extremely helpful ';*
- *'I find that the audit team are very approachable/helpful and I have no hesitation in asking for their advice on anything I am concerned about' and*
- *'Another useful audit'.*

There were no negative comments made.

- 2.13 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

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

2.15 The Audit Plan for 2012/13 (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 at the commencement of each audit. Wherever possible these areas are included in the audit work of undertaken.

Internal Audit's Performance Indicators

3.1 The Internal Audit Strategy 2012/13 (April 2012 Audit Committee) sets out the performance indicators to be recorded.

Audit Reports Issued

3.2 The number of audit reports issued in 2012/13 were as follows:

Table 2: Number of audit reports issued in the past 5 years.

Audit Year	Number of Reports by Type			Annual Total
	Major Systems	Other systems/ Establishments	External Bodies	
2012/13	9	30	0	39
2011/12	9	22	2	33
2010/11	9	24	1	34
2009/10	9	30	1	40
2008/09	9	40	1	50

The total number of reports for SHDC fell in 2011/12 due to the provision of the shared service to West Devon as reported to the Audit Committee in the audit plans in April 2010 and 2011. The external bodies column does not include the shared service with WDBC

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

Performance Indicators	Target	2012/13	2011/12
% of Audit Plan completed, against target for South Hams	90%	99%	95%
% of Audit Plan completed, against target for West Devon	100%	100%	100%
Overall % of Audit Plan completed	90%	99%	96%

Performance Indicators (Cont.)	Target	2012/13	2011/12
Timeliness of reports:			
% of draft reports issued within 10 working days of the audit completion	100%	100%	100%
% of final reports issued within 10 working days of discussion on the draft	100%	100%	100%
External Audit			
Assurance provided to the Council's external auditor	Yes	Yes	Yes
Costs			
Direct cost of provision of service with oncosts/recharges (Gross)	-	£111.9k*	£106.2k*
Oncosts added to the above e.g. use of the building, ICT etc.	-	£15.7k	£17.4k
Recharges/income	-	(£36.7k)**	(£37.0k)**
Net cost of the service	£100.5k	£90.9k	£86.6k
Average cost per audit day:			
Average cost per audit day: Direct costs (without oncosts/recharges) and based on available days.	-	£180	£176
Average cost per audit day: direct costs with oncosts but not recharges.	-	£212	£205
Follow Up			
Percentage of audit reports where the agreed recommendations were satisfactorily actioned i.e. Implemented/Mainly implemented.	90%	80%***	82%***

* above: direct cost increase due to the European Grants Officer/Auditor being charged to Internal Audit budget at 50% for 2011/12, and in full for 2012/13. As a result, the 2011/12 cost per day has been restated when compared with the equivalent report last year to ensure consistency of calculation.

** above: includes income from West Devon of £27.0k, LAG recharge at £9.7k.

*** above: main reason cited for non implementation was the change in responsibilities following senior and middle manager reviews, and the impact of process change/new software.

Resources and Skills

3.6 An allowance of 18 sickness days was originally planned for 2012/13, with 15 days actually being used (9 days 2011/12), and 3 days Carers Leave also granted in line with the policy (1 day 2011/12).

3.7 Training provided (9.5 days used) to members of the team during the year included:

Chief Internal Auditor

- Assessing Corporate Governance Effectiveness (IIA Bristol);
- Achieving Success in Challenging Times (IIA Exeter);
- Middle Manager Development Programme (internal) – modules on Corporate Services (Constitution etc); Managing Attendance and Managing Change; and Customer Focus.
- Localisation of Council Tax (LG Futures, Totnes).

Senior Auditor:

- Achieving Success in Challenging Times (IIA Exeter);
- Excel 2007 Advanced (E Academy);
- RIPA Policy and Procedures (internal).

Auditor:

- Microsoft Outlook (E Academy); and
- Localisation of Council Tax (LG Futures, Totnes).

Shared Services West Devon Borough and Teignbridge District Councils

West Devon Borough Council

- 4.1 The third year of the provision of an internal audit service to West Devon Borough Council (WDBC) has been completed, 2012/13..
- 4.2 The work and findings have been reported to the WDBC Audit Committee using a similar suite of reports and with the same frequency as those received by the SHDC Audit Committee.
- 4.3 The relevant charges have been paid by WDBC.
- 4.4 It is intended that Members of both Council's Audit Committees will attend separate workshops planned for in June 2013, with a proposal for joint meeting on issues that affect both Committees later in the year.

Teignbridge District Council

- 4.5 The Audit Committee has been provided with frequent updates on the progress of 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.
- 4.6 The decision has never been rescinded and so the arrangement continues, to the benefit of both teams. The majority of the proposals for the extended internal audit collaboration have been completed or are continuing and include sharing of information, audit programmes, best practice, attending and feeding back on seminars etc.

- 4.7 The most significant arrangement is the mutual assurance of the highest priority work at both Councils with the approval of the Chairmen of the Audit Committees. This arrangement has not been required to date but remains a safeguard.

5. LEGAL IMPLICATIONS

- 5.1 Required under the Local Government Finance Act 1972 and subsequent Accounts and Audit Regulations – the latest being 2003, 2006, and 2011.

6. FINANCIAL IMPLICATIONS

- 6.1 Within existing budgets. The costs of the service are highlighted at paragraph 3.5 above.

7. RISK MANAGEMENT

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

Other Considerations:

Corporate priorities engaged:	All/Corporate
Statutory powers:	Local Government Finance Act 1972 Accounts and Audit Regulations 2003, 2006, 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 Code of Practice for Internal Audit in Local Government 2006; SHDC 5-year Audit Plan 2010/11 to 2015/16. Internal Audit Plan 2012/13 and Strategy (April 2012 Audit Committee); Internal Audit Terms of Reference(April 2010 and 2012 Audit Committees); Progress against the Internal Audit Plan reports to the Audit Committees of – September 2012, January 2013, and April 2013.
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.</p> <p>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.