

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	5 June 2014
REPORT TITLE	REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT - 2013/14
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 by the Chartered Institute of Public Finance'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, 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.

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Background

- 1.1 The Terms of Reference (Charter) for Internal Audit were presented to the Audit Committee in April 2013 (Minute reference A.28/12) and covers:

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 A.28/12 refers). It 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, which was superseded during the year by the Public Sector Internal Audit Standards (PSIAS);
- 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 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 since the end of 2007/08 and the gaps identified closed.

2.5 At the September 2013 Audit Committee members accepted the view that the audit process 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 10: Minute reference A.17/13 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 PSiAs;
- Defining of the 'Board' – for South Hams District 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 South Hams 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 PSiAs'. The Chief Internal Auditor will discuss ideas with Devon colleagues for a cost effective method of delivery of an external assessment and report the results to the next Audit Committee. The Committee will be asked to consider any proposals.

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 South Hams District Council for 2013/14, which was presented to the April 2013 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 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.

2.13 Satisfaction surveys received for 2013/14 continue to be satisfactory, with 99.4% of the 15 responses (100% from 7 at West Devon) marking us good or excellent (100% in 2012/13 from 14 returned) 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 2012/13
	%	%	%	%	%
Audit Planning - Consultation; Objectives.	68.9	31.1	100	90	100
Quality of Audit Report Clarity; Accuracy; Value; Presentation.	76.7	21.7	98.4	90	100
Communication Feedback; Helpfulness; Professionalism; Timeliness.	89.3	10.7	100	90	100
Overall %	80.0	10.4	99.4	90	100

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

- *"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.*

- *Both myself and colleague found the auditor's advice invaluable;*
- *Very happy in all respects; and*
- *I can only congratulate the auditor on the professionalism and report presentation. There is a lot to get one's head around on this complex subject. Given that the Agency's own format was used, I now feel more confident to face their audit process should they choose to select us.*

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 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 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 were as follows:

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

Audit Year	Number of Reports by Type			
	Major Systems	Other systems/ Establishments	External Bodies	Annual Total
2013/14	9	32	-	41
2012/13	9	30	-	39
2011/12	9	22	1	33
2010/11	9	24	1	34
2009/10	9	30	1	40

The total number of reports for SHDC fell in 2012/13 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	2013/14	2012/13
% of revised Audit Plan completed, against target for South Hams	100%	100%	99%
% of Audit Plan completed, against target for West Devon	100%	100%	100%
Overall % of Audit Plan completed	100%	99%	99%
Timeliness of reports:			
% of draft reports issued within 10 working days of the audit completion	100%	98%	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)	-	£113.9k	£111.9k
Oncosts added to the above e.g. use of the building, ICT etc.	-	£10.0k	£15.7k
Recharges/income	-	(£35.1k)*	(£36.7k)*
Net cost of the service	-	£88.8k	£90.9k
Average cost per audit day:			
Average cost per audit day: Direct costs (without oncosts/recharges) and based on available days.	-	£183	£180
Average cost per chargeable audit day: direct costs with oncosts but not recharges.	-	£226	£234
Follow Up			
Percentage of audit reports where the agreed recommendations were satisfactorily actioned i.e. Implemented/Mainly implemented.	90%	83%**	80%

* above: includes income from West Devon of £25.9k, LAG recharge at £10.8k.

** above: main reason cited for non implementation was the impact of process change/new software and T18.

Resources and Skills

3.6 An allowance of 18 sickness days was originally planned for 2013/14, 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).

3.7 Training provided (3.3 days used) to members of the team during the year 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) (Internal)
- Audit Management Software demonstration

Auditor:

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

Shared Services West Devon Borough and Teignbridge District Councils

West Devon Borough Council

4.1 The fourth year of the provision of an internal audit service to West Devon Borough Council (WDBC) has been completed, 2013/14

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. The relevant charges have been paid by WDBC.

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.

Teignbridge District Council

4.4 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.

4.5 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.

4.6 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 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 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; SHDC 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 Charter and 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.