

INTERNAL AUDIT ANNUAL REPORT

Purpose of the Report

1. Introduction

- 1.1 The Accounts and Audit (Amendment) (England) Regulations 2011 place a statutory duty on local authorities to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.
- 1.2 The guidance accompanying the Regulations recognises the 'Public Sector Internal Audit Standards' as representing 'proper internal audit practices'. The Standard defines the way in which the internal audit service should be established and undertakes its functions.
- 1.3 The Regulations also require the Authority, at least once in each year, to conduct a "review of the effectiveness of internal audit" and that the findings are used to inform the review of its "system of internal control". The Regulations also state that this should be undertaken by a committee of the Authority (or by members of the Authority meeting as a whole) prior to approving the Annual Governance Statement.
- 1.4 One of the key requirements is that Internal Audit should prepare a formal annual report and, in addition, should make arrangements for interim reporting during the course of the year to provide the Committee with an awareness of significant issues that are emerging from internal audit work.
- 1.5 These two reporting requirements are achieved through this report and the presentation of regular quarterly reports of internal audit's work and details of any significant risks that have been identified through this work throughout the year. Both reports include a full list of completed audits, together with their corresponding "assurance" rating and ranking of any recommendations that have been made.
- 1.6 The Standard also requires that an opinion is given on the overall adequacy and effectiveness of the internal control environment from the work undertaken by the Service. Following a re-structure of the SWAP Senior Management Team, this assurance is provided by the Director of Planning (SWAP).
- 1.7 It also places a further specific requirement that the report must draw attention to any issues judged relevant for consideration in the preparation of the Council's Annual Governance Statement.

2. Scope of Internal Audit Work

- 2.1 Internal audit work is programmed in accordance with the Audit Plan for the year which, following a wide ranging consultation process is reported to and approved by this Committee. This constitutes the operational work programme which is commissioned from, and undertaken by, the South West Audit Partnership (SWAP) on behalf of the Council.
- 2.2 The Annual Internal Audit Plan is compiled in accordance with the requirements of the Standard using a risk-based approach. This has regard to the full spectrum of the Council's operations and activities, not simply financial matters.
- 2.3 Reactive work assignments also strongly feature in the work delivered by the Service. These can occur for a variety of reasons and each looks to consider and address emerging issues that are either identified during audit review work, or which are brought to us by senior management and/or reported to the Council from external sources (e.g. Financial Irregularities, Whistleblowing referrals, Special Projects etc.). Dependant upon the specific circumstances these can lead to extremely time consuming pieces of work. However, these assignments represent an extremely important aspect of our support work for the Council in ensuring that the integrity and reputation of the Authority is upheld and that the control environment remains robust to support the effective stewardship of the public purse.

3. Review of the Effectiveness of Internal Audit

- 3.1 The Accounts and Audit Regulations require that the Authority undertakes, at least once in each year, a "review of the effectiveness of internal audit". They also require that the findings of this review inform the Council's consideration of its "system of internal control" leading to the compilation of the Council's Annual Governance Statement.
- 3.2 Guidance suggests that where there is an Audit Committee, this is the appropriate group to receive and consider the results of the review as this committee already has oversight of internal audit. However, the guidance does not cover the form that the review should take.
- 3.3 Internal Auditing Standards
 - 3.3.1 As explained earlier, for the 2013/14 year of audit, the Public Sector Internal Audit Standards (PSIAS) were recognised as the proper practice for the internal audit function in local authorities.
 - 3.3.2 Following the decision by the Council to join the South West Audit Partnership with effect from November 2011, compliance with the requirements of these Standards are contained in the 'Internal Audit Charter', which is presented for consideration and approval to this Committee annually, alongside the Audit Plan.
- 3.4 External Auditor's Assessment of the Internal Audit
 - 3.4.1 The External Auditor reviews the work carried out by Internal Audit and, wherever possible, places reliance on this work to help them discharge their duties more

efficiently and effectively in reaching their own independent assurance opinion. This is generally referred to as the 'managed audit approach' through which the Authority's key controls are examined.

- 3.4.2 In seeking to place reliance on the work of internal audit, the External Auditor also looks to satisfy themselves in respect of the respective competence of the Service. In 2013/14 this was with reference to the CIPFA Code of Practice for Internal Audit and the outcomes reported to this Committee in September 2013. Their review considers performance against the following key elements of the Standard, with assessment awarded against each element (i.e. either 'Non-Compliant'; 'Minor Deficiencies'; or 'Fully Compliant' with the Standard). Their conclusions were as follows;

<u>Standard</u>	<u>Assessment of Internal Audit</u>
Scope of internal audit	Fully Compliant
Independence	Fully Compliant
Ethics for internal audit	Fully Compliant
Audit Committee	Minor Deficiencies
Relationships with management, other auditors and other review bodies	Minor Deficiencies
Staffing, training and development	Fully Compliant
Audit strategy and planning	Fully Compliant
Undertaking audit work	Minor Deficiencies
Due professional care	Fully Compliant
Reporting	Fully Compliant
Performance, quality and effectiveness	Minor Deficiencies

- 3.4.3 These judgements are extremely pleasing and reassuring, especially as they are the subject of independent assessment.

- 3.4.4 The Council's external auditor, KPMG, is scheduled to present their 'Interim Audit Report' elsewhere on this Committees agenda which also provide their view on the performance of the Council's internal audit arrangements for 2013/14.

3.5 Service Improvement Plan - SWAP

- 3.5.1 The Council's Internal Audit Service is fully committed to a process of continuous improvement. Membership of SWAP provides an opportunity to work collaboratively with other councils; secure access to a much wider pool of staff; benefit from increased levels of knowledge and expertise; provide improved development and career opportunities for auditors; and, at the same time, deliver cost efficiencies.

- 3.5.2 SWAP has also benefited from a structured review involving a self-assessment and external validation process. This has sought to map its current service arrangements against the internationally recognised standards of the Institute of Internal Auditors (IIA). The review again provided a positive outcome judging the Partnership to be acting in accordance with recognised practice. This review also ensures that SWAP complies with the new requirement of the Public Sector Internal Audit Standards that a periodic independent review takes place, at least every 5

years.

3.5.3 During the year the Audit Committee set up a Task Group to examine IA processes, documentation and it's reporting to the Audit Committee. A number of recommendations were made and from March 2014, changes were made to the reports presented to the Audit Committee quarterly.

3.5.4 Members of the Committee also attended a presentation by SWAP. This included an update of the Public Sector Internal Audit Standards and also an outline of the new CIPFA guidance for Audit Committees in Local Authorities.

3.6 Annual and Quarterly Reporting

Annual and quarterly reporting of Internal Audit activity to this Committee is well established. The reports detail any significant weaknesses identified during internal audit reviews and assist Committee in monitoring the timely rectification of them. This provides one of the key strands of evidence for the Council's Annual Governance Statement.

3.7 Performance Measures

3.7.1 In addition to other independent external judgements and measures referred to above, the Internal Audit Service has also established a number of key performance targets to measure service delivery and its quality. The previous year's results for SWAP are shown in brackets for comparison purposes.

Performance Target	Average Performance
<u>Audit Plan</u> Percentage Completion – 90% or more	100% (100%)
<u>Draft Reports</u> Reports Issued within 5 days Reports Issued within 10 days	55% (67%) 69% (81%)
<u>Final Reports</u> Reports Issued within 10 days of discussion of draft report	22% (27%)
<u>Quality of Audit Work</u> Individual Audit Assignment Feedback 'Customer Satisfaction Questionnaires'	82% (81%)

4. **Conclusion**

4.1 This report, when considered in conjunction with the reports presented to the Committee for previous quarters of the financial year, highlights a considerable amount of work undertaken by the Internal Audit Service during 2013/14.

- 4.2 It is also my opinion that the Committee can take assurance from the Council's overall arrangements, as outlined in Section 3, that an "effective internal audit" function is in place and that this has been evidenced.
- 4.3 I would also welcome any further observations that Members may have on areas for improvement that would strengthen the current arrangements.

Proposal

1. Members are asked to note the opinion of the Director of Planning (SWAP).

Reasons for Proposals

2. To ensure an effective IA function and strong control environment.

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Unpublished documents relied upon in the preparation of this Report: None.

Appendices: A – IA Annual Report 2013/14
B – IA detailed Audit Plan and monitoring statement 2013/14