



BRISTOL INTERNAL AUDIT

Information Classification: Level 1 Due care

INTERNAL AUDIT

Report Title: External Assessment of Swindon BC Internal Audit Service

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1. Executive Summary

- 1.1 Bristol City Council Internal Audit Service have undertaken an external assessment of the Internal Audit Service at Swindon Borough Council in accordance with the Terms of Reference agreed with Nick Hobbs, Swindon Borough Council's Head of Internal Audit and reported to the Chief Executive and Section 151 Officer. The Terms of Reference were agreed by the Audit Committee on 23 February 2016. See Appendix A.
- 1.2 In April 2013, a new set of Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The standards are intended to reflect that "a professional, independent and objective internal audit service is one of the key elements of good governance". The PSIAS introduced a requirement for an external assessment of an organisation's internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. Bristol City Council Internal Audit Service is not part of, or under the control of Swindon Borough Council and therefore meets the independence requirement. The team conducting the review were professionally qualified and suitably experienced.
- 1.3 The purpose of the external assessment was to determine the extent to which Swindon's Internal Audit Service complies with the PSIAS. Internal Audit is a key component of Swindon Borough Council's assurance framework and therefore it is essential that it complies with relevant legislation and best practice. The assessment provides assurance to stakeholders, including the Audit Committee, Corporate Management Team and other senior managers within the Council that Swindon Internal Audit Service is operating effectively. The assessment also identifies opportunities for development which helps to enhance the value of the audit function to the Council. Specifically, the assessment included:
- Independent validation of Swindon Internal Audit Service's self-assessment of compliance with PSIAS. This included a review of supporting documentation and details of responsibilities, resources, structure, activity, quality and performance measures and reports.
 - Examination of a sample of audit engagements.
 - Interviews with key staff to confirm audit procedures and process.
 - A survey of a sample of main stakeholders in Swindon Internal Audit Service's work which was compared to the Audit Service's own view of the corporate opinion of their service provision. A summary of responses is at Appendix B.
 - Interview with the Chair of the Audit Committee.
- 1.4 Our external assessment considered whether there was 'conformance', 'partial conformance' or 'non conformance' to the requirements of the PSIAS. We have concluded that Swindon Borough Council's Internal Audit Service **conforms** to the requirements of the PSIAS. There are some partial conformances and non-conformances which require further development and opportunities have been identified to do this which should enhance the strategic and operational function of Swindon Internal Audit Service. These do not significantly impact on the overall opinion. We have shared comments with the Head of Internal Audit who is aware that the specific non-conformances to the standards and the

impact of these must be disclosed to senior management and the Audit Committee. An action plan has been drafted to respond to the areas for future development and this is provided below.

2. Audit Findings

- 2.1 In summary, the assessment identified that Swindon Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. It is viewed as operating to ethical standards and with a high level of professionalism and integrity. This is achieved through both the planned programme of audit work but also the active engagement and involvement of the Service in developing systems and corporate working groups. Some specific strengths are detailed below:
- The Head of Internal Audit reports directly to the Chief Executive which maximises the independence of the Service.
 - The professionalism and engagement of the Head of Internal Audit was highly regarded by stakeholders.
 - The Internal Audit Annual Plan is approved by the Audit Committee at the beginning of the year to which it relates; stakeholders considered that they had useful input to the content of the plan.
 - The Audit Committee receives an internal audit update report at each of its meetings and is able to 'call in' individual reports which identify significant risk.
 - Internal Audit reports are generally regarded as good quality and recommendations generally add value.
 - The Internal Audit Annual Report is produced promptly after year end and provides the Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control
 - There was a positive response to the survey of stakeholders with 17 out of 22 senior managers responding (77%). The survey required respondents to agree or disagree with a number of positive statements made about Swindon Internal Audit Service; 85% of responses were 'fully agree' or 'generally agree'.
 - Positive messages were confirmed in interviews with key staff and the Chair of the Audit Committee.

3. Recommendations

- 3.1 Matters arising from the external assessment have been recorded below together with recommendations to address them and a management response.

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
1	<p>PSIAS 1000 Purpose, Authority and Responsibility</p> <p>Swindon Internal Audit Service has an Internal Audit Charter which formally defines the purpose, the authority, and the responsibility of the Service. It does not set out the responsibilities of the Service with regard to external work it undertakes on behalf of other bodies.</p>	<p>The Head of Internal Audit should develop the Internal Audit Charter to set out the nature of assurance services provided to parties external to the organisation.</p>	<p>Agreed. The Audit Charter is due to come to the November Audit Committee (as per the agreed work plan) so this change will be in place for that meeting.</p> <p>Head of Internal Audit November 2016</p>
2	<p>PSIAS 1100 Independence and Objectivity</p> <p>The Audit Committee approves Swindon Internal Audit Service's Annual Plan. The Annual Plan for 2016/17 approved by the Audit Committee did not include an analysis of the available audit days and how these would be used. This information would provide the Audit Committee with assurance that an adequate level of resource was dedicated to internal audit work.</p> <p>We note that this analysis was provided in previous years with estimated days set against each piece of work. We were informed that the information was not provided in 2016/17 because of concerns that the information was then publically available</p>	<p>The Head of Internal Audit should provide the Audit Committee with an analysis of the number of available audit days and how these are proposed to be used.</p> <p>If this information is considered to be 'commercially sensitive' then it could be provided in summary or as a 'confidential' item.</p>	<p>Agreed. The paper presenting the Annual Plan to Audit Committee will include summary figures in future.</p> <p>The Head of Internal Audit's annual report will also include a summary of proposed against actual.</p> <p>Head of Internal Audit April 2017</p>

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
	to other providers of internal audit services but was 'commercially sensitive'.		
3	<p>PSIAS 1100 Independence and Objectivity</p> <p>The terms of reference of the Audit Committee do not include involvement in decisions relating to the appointment and removal of the Head of Internal Audit or the provision of feedback for the Head of Internal Audit's performance appraisal.</p> <p>We note that the Head of Internal Audit has been in post for some considerable time and that the designation of the post as a 'Chief Officer' post means that Councillor involvement in appointment would be expected.</p>	<p>The terms of reference of the Audit Committee should be amended to:</p> <ul style="list-style-type: none"> • Require its involvement in decisions relating to the appointment and removal of the Head of Internal Audit. • Require it to provide feedback for the Head of Internal Audit's annual appraisal 	<p>Agreed in principle. The process will need to be agreed with the Chief Executive and Head of Human Resources.</p> <p>Head of Internal Audit October 2016</p>
4.	<p>PSIAS 2050 Co-ordination</p> <p>Swindon Internal Audit Service's Annual Plan for 2016/17 makes general reference to the approach to using other sources of assurance. It does not identify any work that has been done or may be required to place reliance upon those sources of assurance.</p> <p>Assurance mapping is acknowledged as good practice in identifying and determining the approach to using other sources of assurance. Swindon Internal Audit Service has yet to commence any formal assurance mapping.</p>	<p>The Head of Internal Audit should;</p> <ul style="list-style-type: none"> • Expand the Annual Plan to give greater detail on the approach to using other sources of assurance. • Consider undertaking an assurance mapping exercise to assist in identifying other sources of assurance. <p>We acknowledge that mapping all sources of assurance across all the Council's activities would be a very</p>	<p>Agreed. This will be included in the next Annual Audit Plan.</p> <p>Head of Internal Audit April 2017</p> <p>An assurance mapping exercise will also be undertaken.</p> <p>Head of Internal Audit November 2016</p>

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
		significant piece of work. We would therefore recommend that assurance mapping should focus initially on the Council's risk register to identify what assurances are available over mitigations of the key risks facing the Council.	
5	<p>PSIAS 2050 Co-ordination</p> <p>It is good practice for internal audit to share information and coordinate activities with other internal and external providers of assurance and consulting services.</p> <p>We note that Swindon Internal Audit Service does liaise with other providers of assurance services; however this work and the benefits derived from it are not formally reported.</p>	The Head of Internal Audit should formally report on the sharing of information and coordination of activities with other internal and external providers of assurance and consulting services.	<p>Agreed. It is intended that this will be included in the Head of Internal Audit's Annual report.</p> <p>Head of Internal Audit June 2017</p>
6	<p>2500 Monitoring Progress</p> <p>The Head of Internal Audit has established a process to monitor and follow up management actions in respect of significant risks identified in internal audit reports to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action.</p> <p>The outcomes of the follow up work and any conclusion as to whether management action is overall satisfactory is not reported.</p>	The Head of Internal Audit should formally report on the outcomes of the follow up of significant management actions in respect of internal audit reports.	<p>Agreed. Will look to incorporate this in to the Head of Internal Audit's update to each Audit Committee.</p> <p>Head of Internal Audit November 2016</p>
7	PSIAS 2600: Communicating the Acceptance of Risks	The Head of Internal Audit should develop the Internal	Agree. The Audit charter is due to come to the November Audit

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
	<p>Where the Head of Internal Audit concludes that management has accepted a level of risk that may be unacceptable to the organisation, he is required to discuss the matter with senior management. If, after discussion with senior management, the Head of Internal Audit continues to conclude that the level of risk may be unacceptable to the organisation, this should be communicated to the Audit Committee.</p> <p>We note that the Head of Internal Audit did not consider that management had, in practice, accepted risks that were unacceptable to the organisation. However the responsibility to report any such instances is not formally established in the Internal Audit Charter.</p>	<p>Audit Charter to include the requirement to report any acceptance by management of risks that may be unacceptable to the organisation, to the Audit Committee.</p>	<p>Committee (as per the agreed work plan) so this change will be in place for that meeting.</p> <p>Head of Internal Audit November 2016</p>

4. Distribution and Context

4.1 This report has been issued to:

- ❖ Nick Hobbs – Head of Internal Audit – Swindon Borough Council
- ❖ John Gilbert – Chief Executive – Swindon Borough Council


4.2 The report has been copied to:

- ❖ Nick Hobbs and John Gilbert will determine who at Swindon Borough Council will receive the report, although we have been informed that it will be formally reported to the Audit Committee

4.3 Audit staff involved in the review:

- ❖ Melanie Henchy-McCarthy - Chief Internal Auditor:
- ❖ Phil Eames – Group Auditor

4.4 Internal Audit would like to thank all staff involved in the review for their co-operation and assistance.



Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Public Sector Internal Audit Standards 2013)

Appendix A



BRISTOL INTERNAL AUDIT

Terms of Reference

Assignment Details:

Assignment: Peer Review – Swindon Borough Council

Prepared by: Suella Coman

Reviewed by: Nick Hobbs – Swindon Borough Council

Date Agreed: 5th February 2016

Timescale for Audit: May 2016

Audit Team Details:

Auditor: Phil Eames Audit Manager: Suella Coman

Chief Internal Auditor: Melanie Henchy-McCarthy

Client Contact Details:

N Hobbs – Head of Internal Audit – Swindon Borough Council

John Gilbert – Chief Executive – Swindon Borough Council

Objectives and Scope of the Audit Review:

The Accounts and Audit Regulations 2015 require that internal control is reviewed in line with 'proper practices'. The Public Sector Internal Audit Standards (PSIAS) together with a Local Government Application Note (LAN) produced by CIPFA (Chartered Institute of Public Finance and Accountancy) defines 'proper internal audit practice'. PSIAS standards 1311 and 1312 introduce the requirement for an external assessment of internal audit to be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The LAN includes the authoritative checklist for measuring the performance of internal audit against the PSIAS.

The purpose of the external assessment is to determine the extent to which Swindon's Internal Audit Service complies with the PSIAS. The assessment aims to be a supportive process that identifies opportunities for development which helps to enhance the value of the audit function to Swindon Borough Council (SBC).

Two possible approaches to external assessments are outlined in the standards; a full external assessment or an internal self-assessment which is validated by an external reviewer. BCC Internal Audit will undertake an independent review of SBC Internal Audit's self-assessment to:

- a) Provide an independent assessment of whether SBC Internal Audit work is undertaken in accordance with PSIAS and
- b) Identify any areas for improvement and make recommendations in that regard.

Our work will be limited to:

- a) Independent validation of SBC Internal Audit's self-assessment of compliance with PSIAS. This will include a review of supporting documentation and information such as the Internal Audit Charter/ Strategy or Terms of Reference, details of responsibilities, resources, structure, activity (including any external client organisations), quality and performance measures and reports.
- b) Examination of a sample of audit engagements
- c) Interviews with key staff to confirm audit procedures and process
- d) A survey of a sample of main stakeholders in SBC internal audit's work which will be compared to the audit service's own view of the corporate opinion of their service provision.

Internal Audit is a key component of the Council's assurance framework and therefore it is essential that it complies with relevant legislation and best practice. An independent review of the service will provide assurance to its stakeholders, including Audit Committee, Corporate Board and other senior managers within the Council, that the internal audit service is operating effectively.

Reporting Arrangements and Quality Assurance:

Our conclusions findings and recommendations will be set out in an Audit Report. Before it is issued the content will be discussed with relevant officers at SBC, who will be required to provide responses to our report and any recommendations we make. This is to ensure that the report is accurate and that any action plan for improvement is practical.

As such, our initial draft report will be provided to the Head of Internal Audit at SBC, for early discussions and to determine who else the matter should be reported. The final report will be provided to the Chief Executive of SBC and copied to the Head of Internal Audit. It is recommended that the results of this review are also shared with the Audit Committee.

The report will be sent electronically. If you prefer not to receive a report in this way, (for example, because it may be sensitive, and you have granted proxy rights to your e-mail), please let us know.

BCC Internal Audit issue quality assurance questionnaires with final audit reports to help ensure that the standard of our own services continually improves. We would appreciate it if you could provide feedback on your experience of the audit by completion and return of the questionnaires.

The Audit Team - Competence and Independence:

The PSIAS require that external reviewers should possess a recognised professional qualification, have appropriate experience of internal audit within the public sector / local government, have detailed knowledge of leading practices in internal audit and have current and in-depth knowledge of the Definition, the Code of Ethics and the International Standards for Internal Audit.

The following provides a brief summary of the Bristol's Audit Team Members who will undertake this review to enable SBC to demonstrate they are competent professionals:

Melanie Henchy-McCarthy. FCCA, MAAT – Chief Internal Auditor, Bristol City Council:

Melanie is a fully qualified accountant (Fellow of the Association of Chartered Certified Accountants) and has over 19 years Internal Audit experience in public sector organisations. She is currently Bristol City Council's Chief Internal Auditor (Job/Share), a role she has held for over 3 years and prior to that was an Audit Manager for Bristol's Internal Audit Service for 4 years. As well as managing the service to Bristol City Council, Melanie also manages the internal audit service delivery to our external customers including the local Fire and Rescue Service and academies.

Suella Coman BSc (hons), FCCA – Audit Manager, Bristol City Council:

Suella has over 11 years Internal Audit experience covering a range of public sector organisations including Fire Authorities, County Council and Unitary Authorities. She is a fully qualified accountant being a fellow of the Association of Chartered Certified Accountants. She is currently employed at Bristol City Council as an Audit Manager and prior to that was an Audit Manager with the South West Audit Partnership.

Phil Eames CIPFA – Group Auditor, Bristol City Council

Phil is a fully qualified accountant with over 14 years audit experience in both internal and external audit. He has worked with both the Audit Commission and Private Practice to deliver the external audit of local authorities. In subsequent assurance roles with Government funding bodies he undertook quality assurance reviews of internal audit provisions assessing compliance with Government Internal Audit Standards. He has four years' experience as Chief Internal Auditor with the Learning and Skills Council and has also worked more broadly in the audit field providing guidance to support public sector audit committees and the external auditors of funding bodies.

There is no conflict of interest in performing this assessment in respect of Swindon Borough Council's Internal Audit Service – Bristol Audit Service is not part of, or under the control of Swindon Borough Council.

Melanie Henchy-McCarthy

Chief Internal Auditor (I/S)

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Appendix B

SUMMARY OF RESPONSES TO A SURVEY OF A SAMPLE OF MAIN STAKEHOLDERS IN SWINDON INTERNAL AUDIT SERVICE'S WORK

QUESTION/ STAKEHOLDER RESPONSE (17 OF A SAMPLE OF 22 RESPONDED)	FULLY AGREE	GENERALLY AGREE	PARTIALLY AGREE	DO NOT AGREE
Q1. I trust and value the advice of the Head of Internal Audit and the internal audit service.	11	5	1	-
Q2. I understand and fully support the work of internal audit.	11	5	1	-
Q3. The internal audit service is delivered with professionalism at all times.	10	5	2	-
Q4. The internal audit service responds quickly to changes within the organisation.	5	7	4	1
Q5. The internal audit service provides healthy and independent challenge to management, processes and procedures which results in improved service delivery.	8	5	4	-
Q6. The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes.	8	6	3	-
Q7. The internal audit service ensures that recommendations made are commercial and practical in relation to the risks identified.	2	11	3	1
Q8. In devising the annual internal audit plan, the Head of Internal Audit seeks my views on key risk areas which would benefit from audit review.	15	1	1	-
Q9. Internal audit advice has a positive impact on the governance, risk and systems of internal control within the Council and enhances understanding of these areas across the Council.	7	8	2	-