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To: All Members of the Audit Committee

Please ask Steve Jones (01793 463602)
for: email:
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Dear Councillor,

Audit Committee - Tuesday, 15 July 2014

I refer to the agenda for the above meeting and enclose reports in relation to the following Agenda Item. I also give notice that the Chair has indicated that he is minded to consider the item below as a matter of urgency, in accordance with Section 100B(4)(b) of the Local Government Act 1972, on the basis that this report informs the Committee's consideration of the Draft Annual Governance Statement (*to be considered elsewhere on the agenda*).

14. Review of the effectiveness of the system of internal audit HIA (Pages 1 - 12)

Yours faithfully,

Steve Jones (01793 463602)
for Director of Law and Democratic Services



Stephen P. Taylor M.A (Oxon), Solicitor
Director of Law and Democratic Services

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Review of the effectiveness of the system of internal audit

Audit Committee

Date: 15th July 2104

Author: Head of Internal Audit

Wards: None

Locality Affected: None

Parishes Affected: None

1. Purpose and Reasons

- 1.1 In order to comply with The Accounts and Audit (Amendment) (England) Regulations 2011 the Council must, at least once a year, conduct a review of the effectiveness of its system of internal audit.
- 1.2 The Accounts and Audit Regulations 2011 state that 'the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit'. The regulations go on to state that the findings of this review be considered by a committee of the relevant body, or by members of the relevant body as a whole, as part of the wider consideration of an organisation's system of internal control.
- 1.3 The system of internal audit is one of the key areas of assurance for the Audit Committee and therefore has a significant impact on the Council's Annual Governance Statement. It is important that the Committee can be assured that the system for internal audit itself is effective.
- 1.4 The regulations and guidance relating to the assessment of the system of internal audit allow for different methods of review but it is accepted that where an Audit Committee exists that this would be an appropriate body to conduct the review.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that the Audit Committee agree that they should carry out this review of effectiveness.
- 2.2 It is recommended that Members review the effectiveness of the system of internal audit using the sources of assurance detailed in this report and against the Public Sector Internal Audit Standards (which has replaced the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006) and the updated CIPFA Audit Committee Toolkit self-assessment checklist.
- 2.3 It is recommended that where Members note any non-compliance with best practice they request the Head of Internal Audit to bring back to a future meeting of the Committee details of changes to procedures or amendments to documents for approval.

Further information on the subject of this report can be obtained from Nick Hobbs,
Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

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3. Detail

Introduction

- 3.1 The Audit Committee is considered to be an appropriate body to review the effectiveness of the system of internal control, although other methods of review can be considered.
- 3.2 This report sets out various areas of assurance that the Audit Committee can look to rely on when reviewing whether the system of internal audit is effective.

The Accounts and Audit (Amendment) (England) Regulations 2011

- 3.3 The Accounts and Audit Regulations have put greater emphasis on internal audit's role beyond looking at just financial controls.
- 3.4 Internal Audit is therefore a key source of assurance to the Audit Committee when it considers the Council's Annual Governance Statement (a requirement of the regulations).
- 3.5 The final Annual Governance Statement will be presented to Audit Committee in September before being signed off by the Leader and Chief Executive. The draft Statement is an agenda item at this meeting of the Committee.

Public Sector Internal Audit Standards (Applying the IIA International Standards to the UK Public Sector)

- 3.6 The Public Sector Internal Audit Standards came in to effect from 1st April 2013. These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.
- 3.7 The standards cover the following key areas:
- Definition of Internal Auditing
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing

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- 3.8 These standards are summarised in a comprehensive checklist. The Head of Internal Audit has completed a self-assessment against the checklist and concluded that the Internal Audit section generally complies with the requirements of the standard. The full self-assessment is available to Members if required.
- 3.9 An action plan is being prepared to address the areas where additional work is required to ensure compliance with the standard. This will be brought to a subsequent meeting of the Committee.
- 3.10 Internal Audit's compliance with the standard helps to ensure the effectiveness of the system of internal audit.

Board Director: Resources

- 3.11 The Board Director: Resources has stated that: 'as Board Director: Resources I am satisfied that the current system for internal audit provides me with the necessary assurance regarding the Council's internal control arrangements'.

External Audit

- 3.12 External Audit is no longer required to carry out a full review of Internal Audit every three years, or to refer specifically to Internal Audit, except by exception, in any of their external reporting e.g. their Annual Governance Report.
- 3.13 However, Swindon Borough Council's External Auditor (Grant Thornton) have stated that *'from a comparison of internal audit against relevant auditing standards, a review of the Internal Audit's Annual Plan and progress against it, regular attendance at SBC's Audit Committee and our review of individual pieces of audit work, we can confirm that there are no matters we wish to raise concerning the operation of SBC's internal audit team as part of the internal control systems at the Council and that the work of internal audit (e.g. their work on financial systems) contributes to our risk assessment of the Council's overall control environment.'*
- 3.14 The standards are those set out in the Public Sector internal Audit Standards (PSIAS) these are set out in paragraph 3.6 above.
- 3.15 The Internal Audit section works closely with the Council's External Auditor, Grant Thornton, to ensure that they can provide the required assurance both as far as coverage and quality of our work.
- 3.16 Members can gain assurance from the Council's External Auditor that they have no issues with the Council's Internal Audit service.

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

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Client Feedback

- 3.17 After each audit is completed and the report finalised a customer feedback form is sent to the client manager asking them to rate the service they received as either excellent (4); good (3); average (2); poor (1) under a number of headings i.e.
- Value of the audit to you as a manager: pre-audit arrangements; coverage of audit; timeliness of report; accuracy and clarity of report; practicality of recommendations.
 - Conduct of auditor: professionalism of approach; communication skills; timeliness, competency and manner of auditor; friendliness, helpfulness and approachability.
 - Additional comments regarding improvement to services.
 - Whether the manager considers audit to be a supportive process.
- 3.18 Our target is to achieve an overall rating of at least 3 (good) in over 85% of the customer feedback forms we receive. From those feedback forms returned for 2013/14 our average score was 3.38. 94.44% rated the service as either 'GOOD' or 'EXCELLENT' (compared to 90.48% last year). The remaining 5.56% rated the service as above average. Detailed results are as follows

| Area of assessment | Score [excellent (4); good (3); average (2); poor (1)] |
|--|--|
| Pre-audit arrangements | 3.19 |
| Scope of audit | 3.33 |
| Timeliness of report | 3.05 |
| Accuracy of report | 3.24 |
| Practicality of recommendations | 3.05 |
| Professionalism of audit staff | 3.81 |
| Communication skills | 3.48 |
| Competence, manner, timeliness of auditor | 3.52 |
| Friendliness, helpfulness, approachability | 3.71 |
| Average score: | 3.38 |

- 3.19 This shows that clients are happy with the service provided to them by Internal Audit.

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Coverage

- 3.20 Corporate Board and the Audit Committee approve the annual audit plan. The client makes a significant contribution to the audit plan. A significant part of the plan for 2013/14 was based on the Council's Corporate risk register and risks identified by Heads of Service thereby demonstrating that the plan was risk-based i.e. concentrating on risks to the Council achieving its main objectives.
- 3.21 95% of the planned number of audits from the 2013/14 audit plan was completed, compared to 89% in 2012/13.

Audit Committee

- 3.22 When looking at the system of internal audit it incorporates more than just the internal audit section. The Audit Committee is a key element of this process. The Audit Committee has been established as a full committee of the Council and has adopted terms of reference that reflect current guidance and best practice.
- 3.23 Members of the Committee are able to call Board Directors/Heads of Service and indeed the Chief Executive to account when considering individual audit reports.
- 3.24 Members also monitor the performance of internal audit by reviewing the Head of Internal Audit's monthly update report to Committee and their Annual report.
- 3.25 Updated formal guidance on the expected role of an Audit Committee was published by CIPFA in 2013 entitled 'Audit Committees – Practical Guidance for Local Authorities'. Members have assessed the Committee against the previous guidance annually since its publication in 2005 and the new guidance at this Committee meeting.

4. Alternative Options

- 4.1 Not Applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2011. The Internal Audit service also provides assurance to the Director of

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Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 None

Links to One Swindon, Strategic Objectives, Plans and Policies

5.4 Effective systems of governance and internal control within the Council will help to ensure that the objectives set out in One Swindon and the Council's Corporate Strategy is achieved.

Diversity Impact Assessment

5.5 None

Risk Management

5.6 Not applicable

6. Consultees

6.1 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

7.1 None

8. Appendices

Appendix 1: Audit Committee Self-Assessment Checklist

Appendix 2: Updated CIPFA Audit Committee guidance checklist

9. Key Decision/Decision in Forward Plan

Not Applicable

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's *Position Statement: Audit Committees in Local Authorities and Police* and their publication *Audit Committees: Practical Guidance for Local Authorities and Police*. These are considered to be good practice.

| Good practice questions | | | | |
|--|-----|--------|----|---|
| | Yes | Partly | No | Comments |
| Audit Committee purpose and governance | | | | |
| 1. Does the authority have a dedicated audit committee? | Yes | | | |
| 2. Does the audit committee report directly to full council? | Yes | | | |
| 3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position statement? | | Partly | | The proposed revised terms of reference will ensure compliance with CIPFA Position Statement. |
| 4. Is the role and purpose of the audit committee understood and accepted across the authority? | Yes | | | Set out in the Council's constitution and the Audit Committee's terms of reference. |
| 5. Does the audit committee provide support to the authority in meeting the requirements of good governance? | Yes | | | Internal Audit will consider the Council's risk management, governance and internal control arrangements. Summary of reports are presented to Audit Committee. Members can request full audit reports and seek assurances from officers regarding the implementation of agreed recommendations. |
| 6. Are the arrangements to hold the committee to account for its performance operating satisfactorily? | Yes | | | The Chair of Audit Committee reports to full Council and is subject to questions there, |
| Functions of the committee | | | | |
| 7. Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position statement? <ul style="list-style-type: none"> • good governance • assurance framework • internal audit • external audit • financial reporting • risk management • value for money or best value • counter-fraud and corruption | | Partly | | See comment re. point 3 above |
| 8. Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas? | Yes | | | Review of the effectiveness of the system of internal audit is carried out annually. |

| | Yes | Partly | No | |
|--|--------------------------|--------|----|--|
| 9. Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them? | Yes | | | Audit Committee has taken on the oversight of Treasury Management activities. |
| 10. Where coverage of core areas has been found to be limited are plans in place to address this? | N/A | | | Core areas sufficiently covered |
| 11. Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose? | Yes | | | Role set out in constitution and committee's terms of reference. |
| 12. Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> • Separation from the executive • An appropriate mix of knowledge and skills among the membership • A size of committee that is not unwieldy • Where independent members are used, that they have been appointed using an appropriate process | Yes Yes Yes N/A | | | |
| 13. Does the chair of the committee have appropriate knowledge and skills? | Yes | | | |
| 14. Are arrangements in place to support the committee with briefings and training? | Yes | | | |
| 15. Has the membership of the committee have been assessed against the core knowledge and skills framework and found to be satisfactory? | | Partly | | Not formally prior to appointment but these are dealt with as part of the induction process for Members. |
| 16. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer? | Yes | | | |
| 17. Is adequate secretariat and administrative support to the committee provided? | Yes | | | Full support provided by committee services |
| Effectiveness of the committee | | | | |
| 18. Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work? | | Partly | | Chair meets with Head of Internal Audit prior to meetings |
| 19. Has the committee evaluated whether and how it is adding value to the organisation? | | | No | Not formally |
| 20. Does the committee have an action plan to improve any areas of weakness? | | | No | |

| ESTABLISHMENT, OPERATION AND DUTIES | | | | |
|---|------------|-----------|------------|--|
| Issue | Yes | No | N/A | Comments |
| Role and remit | | | | |
| Does the audit committee have written terms of reference? | Yes | | | Due for review in 2014. |
| Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance? | Yes | | | Considered and implemented as part of the last review. |
| Are the terms of reference approved by the council and reviewed periodically? | Yes | | | Approved by Cabinet. |
| Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently? | Yes | | | |
| Can the audit committee access other committees and full council as necessary? | Yes | | | |
| Does the authority's statement on internal control (SIC) include a description of the audit committee's establishment and activities? Note: SIC now replaced by the annual governance statement. | Yes | | | Referred to in AGS including establishment as a full committee. More detail included on the Audit Committee's activities in this year's AGS. |
| Does the audit committee periodically assess its own effectiveness? | Yes | | | Annually |
| Does the audit committee make a formal annual report on its work and performance during the year to full council? | Yes | | | On agenda for June 2014 meeting. |
| Membership, induction and training | | | | |
| Has the membership of the audit committee been formally agreed and a quorum set? | Yes | | | |
| Is the chair independent of the executive function? | Yes | | | Chair is Cllr Steve Weisinger who is not a Cabinet member. |
| Has the audit committee chair either, previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime? | Yes | | | |
| Are new audit committee members provided with an appropriate induction? | Partial | | | Training sessions were held in 2011/12 but limited attendance. 1:1 sessions with a number of Audit Committee members. |
| Have all members' skills and experiences been assessed and training given for identified gaps? | | No | | Not formally. |
| Has each member declared his or her business interests? | Yes | | | Requirement of all Members. Also requirement at the start of each meeting. |
| Are members sufficiently independent of the other key committees of the council? | Yes | | | |
| Does the audit committee meet regularly? | Yes | | | Plan to meet five times during 2014/15 |
| Do the terms of reference set out the frequency of meetings? | Yes | | | |
| Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar? | Yes | | | Timetable for 2014/15 prepared to align these requirements. |
| Meetings | | | | |
| Are members attending meetings on a regular basis and if not, is appropriate action taken? | Yes | | | |
| Are meetings free and open without political influences being displayed? | Yes | | | |
| Does the authority's S151 officer or deputy attend all meetings? | Yes | | | S151 Officer attends meetings. |
| Does the audit committee have the benefit of attendance of appropriate officers at its meetings? | Yes | | | Relevant Board Directors/Heads of Service attend. |

| Issue | Yes | No | N/A | Comments |
|---|---------|----|-----|---|
| Internal Control | | | | |
| Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal audit? | Yes | | | The review of the effectiveness of Internal will be carried out in June 2014 meeting of the Committee. |
| Does the audit committee have responsibility for review and approval of the SIC (now annual governance statement) and does it consider it separately from the accounts? | Yes | | | |
| Does the audit committee consider how meaningful the SIC (now annual governance statement) is? | Yes | | | |
| Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period? | Yes | | | |
| Has the audit committee considered how it integrates with other committees that may have responsibility for risk management? | Yes | | N/A | The Audit Committee has responsibility for risk management. |
| Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?" | Partial | | | This was published in 2006. The Council's Anti-Fraud and Corruption Strategy has been reviewed. The Cipfa publication is very onerous and the West of England Heads of IA group consider it unrealistic to meet all the requirements of the document. |
| Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented? | Yes | | | See above. |
| Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan? | Yes | | | A significant part of the Internal Audit plan is based on the Corporate risk register and those risks identified by Heads of Service. Audit Committee approves the annual Internal Audit plan. |
| Does the audit committee review the authority's strategic risk register at least annually? | Yes | | | Risk Manager reports to the Audit Committee and includes reference to strategic risk register. |
| Does the audit committee monitor how the authority assesses its risk? | Yes | | | |
| Do the audit committee's terms of reference include oversight of the risk management process? | Yes | | | |
| FINANCIAL REPORTING AND REGULATORY MATTERS | | | | |
| Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined? | Yes | | | Annual accounts approved by Audit Committee and included in the Committee's terms of reference. |
| Does the audit committee consider specifically: • the suitability of accounting policies and treatments • major judgements made • large write-offs • changes in accounting treatment • the reasonableness of accounting estimates the narrative aspects of reporting? | Yes | | | Where relevant |

| Issue | Yes | No | N/A | Comments |
|---|---------|----|-----|---|
| FINANCIAL REPORTING AND REGULATORY MATTERS cont. | | | | |
| Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit? | Yes | | | |
| Does the audit committee review management's letter of representation? | Yes | | | External Audit's Annual letter is presented to and discussed at Audit Committee. |
| Does the audit committee annually review the accounting policies of the authority? | Partial | | | At the last review Members considered this to be within the remit of the Board Director: Resources. However, any updates on accounting policy/standards etc. are reported to committee. |
| Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training? | Yes | | | |
| INTERNAL AUDIT | | | | |
| Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks? | Yes | | | The Audit Committee approves the Annual Audit Plan and Strategy Review of the strategy will be included in a future committee meeting. |
| Does internal audit have an appropriate reporting line to the audit committee? | Yes | | | Direct to Audit Committee. Head of Internal Audit also has access to Chair of Audit Committee if required. |
| Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit? | Yes | | | Head of Internal Audit provides an update at each Audit Committee meeting. Head of Internal Audit's Annual report is also presented to Audit Committee. |
| Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations? | Yes | | | Results of follow up audits would be reported to Audit Committee. Responsible officers can be called in by Audit Committee to explain progress with implementing internal audit recommendations. |
| Does the audit committee hold periodic private discussions with the Head of Internal Audit? | | No | | This is included in the Committee's terms of reference. Members were given the option but this has not been taken up to date. |
| Is there appropriate cooperation between the internal and external auditors? | Yes | | | Yes with the Audit Commission. |
| Does the audit committee review the adequacy of internal audit staffing and other resources? | Yes | | | Benchmarking results have been reported to committee in the past. |
| Has the audit committee evaluated whether its internal audit service complies with the Public Sector Internal Audit Standards? | Yes | | | External Audit would report any non-compliance to Audit Committee. Head of Internal Audit also carries out a self-assessment against the standards. |

| Issue | Yes | No | N/A | Comments |
|--|-----|----|-----|---|
| INTERNAL AUDIT cont. | | | | |
| Are internal audit performance measures monitored by the audit committee? | Yes | | | Performance against plan is reported to Audit Committee. However, Members may wish to consider whether they would like more performance information provided. |
| Has the audit committee considered the information it wishes to receive from internal audit? | Yes | | | Included in terms of reference. |
| Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)? | Yes | | | External Audit's plan is presented to Audit Committee. |
| Does the audit committee hold periodic private discussions with the external auditor? | | No | | Same as for Internal Audit – offered but not taken up by Audit Committee to date. |
| Does the audit committee review the external auditor's annual report to those charged with governance? | Yes | | | External Auditor's report presented to Audit Committee. |
| Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations? | Yes | | | |
| Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter? | Yes | | | Yes for External Audit i.e. annual audit and inspection letter. However, limited reporting of other inspection agencies. |
| Does the audit committee assess the performance of external audit? | | No | | Not formally but reviews regular progress reports. |
| Does the audit committee consider and approve the external audit fee? | Yes | | | This is included in the External Audit's plan that is presented to Audit Committee. |
| ADMINISTRATION | | | | |
| Agenda management | | | | |
| Does the audit committee have a designated secretary from Committee/Member Services? | Yes | | | Steve Jones (Senior Committee Clerk). |
| Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members? | Yes | | | Within prescribed timescales. |
| Are outline agendas planned one year ahead to cover issues on a cyclical basis? | Yes | | | Outline agenda submitted with terms of reference approved in 2007. Regularly reviewed – agenda item for June 2014. |
| Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit? | Yes | | | |
| Papers | | | | |
| Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective? | Yes | | | |
| Does the audit committee issue guidelines and/or a pro-forma concerning the format and content of the papers to be presented? | Yes | | | Papers are in the Council approved format. |
| Actions Arising | | | | |
| Are minutes prepared and circulated promptly to the appropriate people? | Yes | | | |
| Is a report on matters arising made and minuted at the audit committee's next meeting? | Yes | | | |
| Do action points indicate who is to perform what and by when? | Yes | | | |