

**Swindon Internal Audit Services**

**Head of Internal Audit  
Annual Report  
2013 - 2014**

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## Executive Summary

This annual report provides a summary of the work completed by Swindon Internal Audit Services for 2013/2014 and provides the Head of Internal Audit's overall opinion on the Council's framework of governance, risk management and control. It is a requirement of the Public Sector Internal Audit Standards that the Head of Internal Audit should give this opinion.

Based on our work carried out during the year, my overall opinion is that the Council's framework of governance, risk management and control during 2013/14 are considered to be **satisfactory**, resulting in a '**moderate**' level of risk.

More detail as to how this opinion has been reached is contained later in the report.

## Introduction

The aim of Internal Audit is to help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the internal control environment. This then allows us to provide assurance and support to the:

- Audit Committee in discharging its responsibilities for:
  - (a) Advising on the adequacy and effectiveness of the Authority's internal control environment in accordance with the requirements of The Accounts and Audit Regulations 2011.
  - (b) Supporting the Director of Finance with his delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit.
  - (c) Monitoring the adequacy and effectiveness of the Internal Audit Service and Director's responsibility for ensuring an adequate control environment.
- Council Leader and Chief Executive in their annual certification of the Annual Governance Statement.
- Director of Finance in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.
- External Auditor in relation to our work on the managed (main financial systems) audits.

## Statutory Framework

Internal Audit is a statutory requirement for local authorities. There are two principal pieces of legislation that impact upon internal audit in local authorities:

- Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.
- Section 6 of the Accounts and Audit Regulations 2011 (England and Wales) states that 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The Regulations also require the Council to conduct a review of the effectiveness of its system of internal audit at least once a year as part of its review of the system of internal control.
- All principal local authorities subject to the Accounts and Audit Regulations 2011 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The CIPFA statement on the Role of the Chief Financial Officer in Local Government states that the chief financial officer must:
  - Ensure an effective internal audit function is resourced and maintained
  - Ensure that the authority has put in place effective arrangements for internal audit of the control environment
  - Support the authority's internal audit arrangements; and
  - Ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively

## Definition of Internal Audit

Internal Audit 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 (source: Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector).

## Annual Governance Statement

The outcome of the audits performed during 2013/14 help to inform Internal Audit's overall opinion on the adequacy of the Council's systems of governance, risk management and internal control which will then feed in to the Council's Annual Governance Statement. Internal Audit is only one of a number of areas of assurance that contribute to the Council's Assurance Framework.

The Accounts and Audit Regulations 2011 for local government bodies in England require an Annual Governance Statement (AGS) to be published, in accordance with proper practices, following the Council's review of its system of internal control. The AGS is required to include the following disclosures:

- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- A brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements.
- An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

## Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. In turn Internal Audit provides a key source of assurance to the committee as to whether controls are operating effectively. Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority.

Effective corporate governance depends, in part, on a systematic strategy, framework and processes for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

The existence of an independent and effective audit committee helps to convey to staff and to the public the importance Members and Officers attach to governance arrangements and internal control.

The Council has adopted best practice in implementing a stand-alone Audit Committee that is independent of the Executive. Members promote the need for internal control and risk management. The Chief Executive, Board Directors, Heads of Service and other relevant officers have attended meetings of the Committee to update Members on the progress in implementing audit recommendations thereby helping to raise the profile of the work of internal audit.

The Committee has an agreed set of terms of reference that encompass the recommendations/guidance issued by CIPFA and External Audit. These terms of reference set out the following main responsibilities of the Audit Committee:

- (a) The effectiveness of the Council's risk management, internal control and its overall assurance framework.
- (b) The effectiveness of the Council's financial and non-financial performance to the extent that it might impact upon (a) above.
- (c) Reviewing the performance of the Council's Internal Audit section; enhance and promote the profile, status and authority of the internal audit function and to demonstrate its independence.
- (d) Receipt and review of External Audit's reports and liaison with external auditors on significant matters identified.
- (e) Advising upon and/or reviewing the effectiveness of any other matters referred to the Audit Committee by the Executive, the Overview and Scrutiny and Regulatory Committees.
- (f) Ensuring effective scrutiny of treasury management policies and practices including the annual investment strategy.

The Committee also has the responsibility of agreeing the Council's statement of accounts, the Annual Governance Statement and reviewing the effectiveness of the system of internal audit (as required by the Accounts and Audit Regulations 2011).

Members have self-assessed the Audit Committee arrangements against the *Toolkit for Local Authority Audit Committees* produced by the CIPFA Better Governance Forum.

Meetings of the Committee have been well attended and Members have ensured that there has been debate on a range of topics. The Committee has produced an annual report to Council setting out their activity over the past year.

## External Audit

The Council's External Auditors, Grant Thornton, examine the work of Internal Audit on an annual basis and seek to place reliance on that work when they come to audit the Council's financial statement of accounts.

External Audit are 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 i.e. their Annual Governance Report or Annual Audit Letter.

However, Grant Thornton were able to state 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.'*

The standards the section works to are the Public Sector Internal Audit Standards. These standards set out:

- The definition of internal auditing
- Code of ethics
- International standards for the professional practice of internal auditing. These standards cover the following areas:
  - Purpose, authority and responsibility
  - Independence and objectivity
  - Proficiency and due professional care
  - Quality assurance and improvement programme
  - Managing the internal audit activity
  - Nature of work
  - Engagement planning
  - Performing the engagement
  - Communicating results
  - Monitoring progress
  - Communicating the acceptance of risks

The section works closely with the Council's External Auditor to ensure that we can provide the required assurance both as far as coverage and quality of our work.

## Internal Audit Coverage

The level of internal audit resources required to examine all the Council's activities far exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent appraisal function that internal audit provides.

Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on service delivery.

The Internal Audit plan for 2013/14 was based to a large extent on the Council's corporate risk register. These were complemented by:

- Priorities identified by Board Directors
- Heads of Service key risks
- The requirements of the Board Director: Resources in his role as Section 151 Officer
- External Audit and;
- Those concerns/issues raised by Internal Audit in previous audits and our knowledge of potentially high-risk areas.

The plan was submitted to Corporate Board before being approved by the Council's Audit Committee.

We managed to complete 95% against a target of 94% of the number of audits included in the plan. This coverage included 100% of the main financial system audits that provide the Board Director: Resources with assurance regarding the Council's these key financial systems.

During the first nine months of the year the section also covered the risk management function as the Council's Risk Manager was off on maternity leave.

Details of all the internal audit reports issued during 2013/14 are set out in [Appendix 1](#).



## System of Internal Audit – Review of Effectiveness

The Accounts and Audit Regulations 2011 require the Council, at least once a year to conduct a review of the effectiveness of its system of internal audit. The Regulations state that a relevant body or committee should carry out the review. The Audit Committee will carry this out in June 2014.

Internal Audit is one of the key areas of assurance for the Audit Committee and therefore it is important that it can be assured that the system of internal audit is effective. The report to Committee sets out various areas of assurance that could be examined when considering the effectiveness of the system. These include:

- **Compliance with the Public Sector Internal Audit Standards.** A self-assessment checklist taken from the Standard was presented to the Audit Committee. The checklist indicated that the Council were adopting best practice with regard to the system of Internal Audit and the Committee endorsed the assessment.
- **The Council's External Auditor.** Swindon Borough Council's own External Auditor (Grant Thornton) will only comment on Internal Audit by exception i.e. if something is not acceptable. However, their Manager 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.'*
- **My overall opinion as Head of Internal Audit** (see below).
- **Client Feedback** is an important source of assurance. Is the Internal Audit service providing what the client wants and at the right level/standard? After each audit is completed and the report issued a customer feedback form is sent to the client manager asking them to rate the service received as either excellent (4); good (3); average (2) or poor (1), under a number of headings i.e. value of the audit to you as a manager; conduct of auditor; additional comments regarding improvement to services; whether the manager considers audit to be a supportive process. Our target is to achieve an overall rating of at least good on 85% of the audits. From those feedback forms returned for 2013/14 94.44% rated the audit as either 'good' or 'excellent' whilst the remaining 5.56% rated it as between 'average' and 'good', thereby exceeding our target.
- **Coverage** - Corporate Board and the Audit Committee approve the annual audit plan. A significant part of the plan for 2013/14 was based on the Council's corporate risk register and further risks identified by Board Directors and Heads of Service, thereby demonstrating that the plan was risk-based, i.e. concentrating on risks to the Council achieving its main objectives. In 2013/14 we completed 95% of the number of audits in the plan compared to our target of 94%.

- **Audit Committee** - 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 and has adopted terms of reference that reflect current guidance and best practice. 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. Members also monitor the performance of internal audit by reviewing the Head of Internal Audit's monthly update report to Committee. Members also carried out a self-assessment against the CIPFA guidance relating to Audit Committees.
- **Contribution by Officers** – Officers contribute to individual internal audits including agreeing the scope of the audit, providing relevant documentation, explanations and evidence to the auditor, agreeing the audit report and providing management responses to the recommendations. Officers also attend Audit Committee, including the Chief Executive, Group Directors and Directors to provide updates on the progress in implementing agreed audit recommendations and providing relevant explanations.

Having reviewed the above sources of assurance the Committee confirmed its satisfaction with the effectiveness of the Council's system of internal audit and that no areas of non-compliance with best practice had been identified.

### Internal Audit – Overall Opinion

It is a requirement of the Public Sector Internal Audit Standards that the Head of Internal Audit should give an opinion regarding the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Our overall opinion on a system is based on both the materiality and impact of the system and our opinion on the internal control arrangements within the system. The combination of these factors then results in a category of risk to the Council as shown in *Table 1* below:

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant Improvements required	Of Concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of Concern	Moderate

Our work in 2013/14 identified that eight (Main Accounting, Creditors, Housing Benefits, Council Tax, NNDR, Payroll, Asset Management and Risk Management) of the eleven main financial systems audited annually had a satisfactory level of system control resulting in a **moderate** risk to the Council. Three (Treasury Management Housing Rents and Debtors) were found to have a high standard of internal control.

Therefore, based on our work carried out during the year, my overall opinion is that the Council's overall internal control arrangements during 2013/14 are considered to be **satisfactory**, resulting in a '**moderate**' level of risk.

A number of the other areas audited during 2013/14 did indicate an 'Of Concern' risk to the Council. However, it should be noted that as the audit plan is risk-based and has been compiled with input from Board Directors and Heads of Service, on areas that they had concern with, then it is to be expected that the level of audit opinion for these areas would be lower.

Those systems reported during the year where an '**of concern**' risk to the Council was reported were: IT Back-up and Recovery; Civic Campus; Common Assessment Framework; One Swindon Partnership Governance; Highways Asset Management; Troubled Families; Reduction in Energy Usage; Museum Storage (follow-up); Street Smart; Housing Capital programme; Car Park income; Tenancy Engagement.

The key recommendations relating to these systems have been reported to Audit Committee and full reports, with agreed action plans, have been reported to the relevant Board Director/Head of Service.

### Internal Audit – Successes

In addition to achieving 100% of the fieldwork on the main financial systems as required by External Audit, some of our other successes during 2013/14 include:

- External Audit assessment – External Audit have been able to place reliance on our work and assessed our work as complying with the standards set out in the Public Sector Internal Audit Standards.
- The Audit Committee has assessed that the system of internal audit is effective.
- 94.44% of the feedback from our customers rated the audits as GOOD or EXCELLENT, the remaining audits were ranked between good and average, none were rated as 'poor'.
- We were successful in retaining the contract for internal audit provision at Wiltshire and Swindon Fire Authority last year and have continued to provide an excellent service – as per customer feedback received from the Fire Authority and their External Auditor (KPMG).
- We have continued to support our staff in their continuing professional development (CPD). One of our members of staff has recently completed the final MIIA examinations whilst another of our trainees has successfully completed the PIIA stage and is currently awaiting her results from her final MIIA examinations.
- The Head of Internal Audit continues to be on the Board of the National Anti-Fraud Network (NAFN).
- Internal Audit successfully took on the Risk Management function (for nine months during 2013/14) whilst the Council's Risk Manager has been on maternity leave. Feedback from the Chief Executive was that the service provided was of a high standard and had provided significant challenge to Corporate Board.
- Internal Audit's ICT Auditor has provided significant advice and assistance in order to help the Council successfully attain Public Sector Services Network compliance and also Level 1 of the NHS Information Governance toolkit.
- Internal Audit has started to develop IDEA to allow the data matching of Council data. Duplicate payments of £22,274 were identified in the first exercise. Internal Audit will continue to run this data match on a regular basis. Data matching with other key internal data sets will also be carried out during 2014/15.

## Internal Audit – Whistleblowing and Investigations

The Internal Audit section continues to support the Council's Whistleblowing process in liaison with the Director of Law and Democratic Services. The section received nine new whistleblowing cases during the year and a further nine separate investigations were also carried out during 2013/14.

Reports are issued to Standards Committee on the progress of these investigations. The investigations can be both time consuming, and lengthy. A fraud/Investigation update is presented to audit Committee on an annual basis. This was last reported at the Committee meeting in April 2014.

## Internal Audit – Other Activity

- **Annual Governance Statement** – the Head of Internal Audit has been tasked by Corporate Board to co-ordinate the compilation of the Council's Annual Governance Statement including the co-ordination of the Group Directors/Head of Services' assurance questionnaires.
- **Anti-Fraud** - the Internal Audit section continues to assist in promoting an anti-fraud and corruption culture. We have issued Fraud Bulletins to all staff highlighting recent scams and frauds that had occurred in both the public and private sectors. The feedback on these documents has been encouraging. In conjunction with the Director of Law and Democratic Services we have reviewed the Council's anti-fraud and corruption strategy and whistleblowing policy. We have also produced a Fraud Response Plan and a Fraud Awareness guide for managers.
- **National Fraud Initiative** - The Council, via Internal Audit, has again participated in the Audit Commission's National Fraud Initiative (NFI) as part of the statutory external audit requirements. The NFI brings together data from across the public sector including local authorities, NHS, the Home Office/other government departments and other agencies to detect "matches" i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.

For the 2013/14 exercise, data sets in respect of the following sources were nationally obtained and matched:

Housing Benefit; Housing Tenancy; Student Loans; Payroll; Illegal immigrants; Individuals with no recourse to public funds; Pensions; Licence holders - Taxi Drivers, Market Traders and Alcohol; Blue Badge Records; Deceased persons; Concessionary fares; Residential Care; Insurance and Creditor Records.

The National Fraud Initiative (NFI), established in 1996, confirmed it has now helped identify over £1 billion potentially lost to fraud, overpayment or error, across the UK. More information can be obtained at: [www.audit-commission.gov.uk/nfi](http://www.audit-commission.gov.uk/nfi) or from the Head of Internal Audit.

- **Raising Fraud Awareness** – in addition to the Fraud Bulletins regular use of the Council's Core Brief has also been used to raise staff awareness of the Council's anti-fraud and corruption strategy and whistleblowing policy.

Internal Audit staff continue to make use of fraud awareness groups, both nationally and regionally, to maintain awareness of frauds occurring that could affect the Council.

- **Fraud Benchmarking and Fraud Statistics** – The annual Audit Commission survey was completed and submitted in May 2014. The survey will be used as an additional source of information to inform Internal Audit's proactive fraud work.

As members of the West of England Chief Auditors Fraud Sub-Group a whistleblowing benchmarking exercise was undertaken in 2013. This will help inform the Council's own whistleblowing arrangements.

- **Advice and consultancy** – members of Internal Audit continue to provide advice both during the course of audits and responding to ad-hoc queries.
- **Attendance at and contribution to, working groups etc.** – members of the section continue to contribute to the development of the Council and ensuring that we are up-to-date with best practice by attending the following committees, working groups etc.
  - Audit Committee
  - Standards Committee
  - Change Programme – Programme Team meetings
  - Resources Senior Management Team (as a guest)
  - West of England Chief Internal Auditors Group and its sub groups – Children Services, Adult Services, Contract Audit, I.T. Audit and Fraud
  - Western Unitaries Audit Group
  - National Anti-Fraud Network (Head of Internal Audit is a member of the Board)
  - Risk Management ALARM Group

## Internal Audit – Review of Performance Management and Quality Assurance Framework

The Public Sector Internal Audit Standards requires that the Head of Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. The section has a '*Performance Management and Quality Assurance Framework*' that has been presented to, and approved by, the Audit Committee.

- (a) **Performance Management** – the section's key performance indicators are set out in the section below.
- (b) **Quality Assurance** – each individual audit report and supporting working papers/documents are reviewed by either a Principal Auditor or the Head of Internal Audit. Appropriate standards have been set by the Head of Internal Audit in accordance with the Code of Practice. The file reviews ensure the audits comply with the code's requirements and where necessary corrective action is taken.

The Performance Management and Quality Assurance Framework will need to be updated in light of the new standards.

## Internal Audit – Performance Indicators

The section had three key performance indicators in 2013/14:

- ***The percentage of audits completed against the number identified in the agreed Audit Plan.***

**Justification for this performance indicator:** *to ensure that Internal Audit provides sufficient coverage to ensure that the requirements of the Council's section 151 Officer and External Audit are met and that Internal Audit can give sufficient assurance to the Audit Committee regarding the Council's systems of internal control and the completion of the Annual Governance Statement.*

**Target:** 94%

**Achievement:** 95%

***Therefore target achieved in 2013/14***

- ***The percentage of audits of the Council's main financial systems completed against the number identified in the agreed Audit Plan.***

**Justification for this performance indicator:** *to ensure that Internal Audit provides sufficient coverage and assurance to the Council's Section 151 Officer that appropriate External Auditors regarding the systems of controls in place in relation to the main financial systems.*

**Target:** 100%

**Achievement:** 100%

**Therefore target achieved in 2013/14**

- ***85% of feedback forms rated the audit as GOOD or EXCELLENT.***

**Justification for this performance indicator:** *to ensure that Internal Audit provides sufficient the level of service required by its clients.*

**Target:** 85%

**Achievement:** 94.44% (the other 5.56% rated the service as above average)

**Therefore target exceeded in 2013/14**

## Acknowledgement

I would like to take this opportunity to thank all Members and Officers for their help in putting the audit plans together and for the courtesy shown to members of the audit section during the course of our reviews.

We do try and make the audit process as constructive and positive as possible by working with Members and Officers. I would welcome any feedback you may have on our performance both on individual audits (where customer feedback forms are provided), or generally. We are always looking to improve our service.

Many thanks,

Nick Hobbs

Head of Internal Audit