

# Audit and Governance Committee

**Dorset County Council**



Date of Meeting	24 July 2017
Officer	Chief Executive / Chief Financial Officer
Subject of Report	<b>Internal Audit Annual Report - 2016/17</b>
Executive Summary	<p>This report summarises the work of the Internal Audit Service for 2016/17 and provides;</p> <ul style="list-style-type: none"><li>i) An overall positive assurance opinion on the Council's framework of risk management, governance and internal control based upon the internal audit work undertaken during the year (<i>see Section 5, paragraph 5.1</i>).</li><li>ii) A summary report from the South West Audit Partnership (SWAP) and list of audit assignments undertaken by them during 2016/17, including the respective assurance ratings, ranking of any recommendations made and details of partial opinions during the last quarter (<i>see Appendix A &amp; B</i>).</li><li>iii) Evidence in support of the "review of the effectiveness of the system of internal control" (regulation 3), as required by the Accounts and Audit Regulations 2015.</li></ul>
Impact Assessment:	<p><i>Equalities Impact Assessment:</i> The Internal Audit Plan and service delivery arrangements have been assessed. These are subject to review, in accordance with the Council's Equality Impact Assessment process, to ensure appropriate arrangements are in place and that the values that underpin these continue to be promoted.</p>

	<p><i>Use of Evidence:</i> The annual internal audit report provides a summary of the outcomes of internal audit assignments carried out by SWAP during the year on behalf of the County Council.</p> <p><i>Budget:</i> No Cost Implications</p> <p><i>Risk Assessment:</i> The report contains details of the outcomes from internal audit work where it has been judged that weaknesses represent a significant risk to the Council's control environment. Management responses have been provided detailing how responsible officers intend to remedy these.</p> <p>Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as:</p> <p>Current Risk: LOW Residual Risk LOW</p> <p><i>Other Implications:</i> None</p>
<p>Recommendation</p>	<p>That the Committee receives the report and;</p> <ul style="list-style-type: none"> <li>i) Notes the Head of Internal Audit's overall positive assurance opinion on the Council's risk management, governance and internal control environment for 2016/17 (see Section 5).</li> <li>ii) Considers the assurance opinion given in respect of the "review of the effectiveness of internal audit", as required by the Accounts and Audit Regulations 2015 (see Section 7, paragraph 7.3).</li> </ul>
<p>Reason for Recommendation</p>	<p>To contribute to the Council's aim of an outcomes focused approach in providing innovative and value for money services' through;</p> <ul style="list-style-type: none"> <li>i) The Head of Internal Audit's opinion on the Council's risk management, governance and internal control environment for 2016/17.</li> <li>ii) The Chief Financial Officer's opinion on the "review of the effectiveness of internal audit and system of internal control" for 2016/17.</li> </ul>
<p>Appendices</p>	<p><u>Appendix A</u> – SWAP Annual Report - 2016/17 <u>Appendix B</u> – Audit Plan 2016/17 Outturn Schedule</p>

Internal Audit Annual Report 2016/17

Background Papers	Regular Quarterly Reports to the Audit and Scrutiny Committee
Report Originator and Contact	<p>Name: Rupert Bamberger SWAP – Assistant Director Tel: 07720312464 Email: <a href="mailto:rupert.bamberger@southwestaudit.co.uk">rupert.bamberger@southwestaudit.co.uk</a></p> <p>Name: Mark Taylor Group Manager – Governance &amp; Assurance Tel: (01305) 224982 Email: <a href="mailto:m.taylor@dorsetcc.gov.uk">m.taylor@dorsetcc.gov.uk</a></p>

## **1. Introduction**

- 1.1 The Accounts and Audit Regulations 2015 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'. These define 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 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.
- 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 County 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 In addition to the specific audit assignments included in the Audit Plan, allocations are also included for other work demands that are made of the Service. Examples of these may include the provision of advice on varied subject matters, such as Forward Together, or direct representation on Corporate Groups. This constitutes important support and development work for the Council. It helps to influence the

establishment of robust controls within our policies, strategies and service activities and early engagement can help to ensure that this is achieved from the outset.

- 2.4 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 In previous years this requirement has been met by the Committee considering the evidence presented from a number of sources. These are set out in the paragraphs below.

#### **3.4 Internal Auditing Standards**

- 3.4.1 As explained earlier, for the 2016/17 year of audit, the Public Sector Internal Audit Standards were recognised as the proper practice for the internal audit function in local authorities.
- 3.4.2 Following the decision by the Council to join the South West Audit Partnership with effect from April 2010, 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.

#### **3.5 External Auditor's Assessment of the Internal Audit**

- 3.5.1 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.
- 3.5.2 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. 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	Fully Compliant
Relationships with management, other auditors and other review bodies	Fully Compliant
Staffing, training and development	Fully Compliant
Audit strategy and planning	Fully Compliant
Undertaking audit work	Fully Compliant
Due professional care	Fully Compliant
Reporting	Fully Compliant
Performance, quality and effectiveness	Fully Compliant

3.5.3 This independent judgement from the External Auditor on SWAP's operational work is extremely pleasing and reassuring.

3.5.4 The Council's external auditor, KPMG, are scheduled to present their 'Interim Audit Report' to this Committee later in the year which will provide their view on the performance of the Council's internal audit arrangements for 2016/17.

### 3.6 Service Improvement Plan - SWAP

3.6.1 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.

3.6.2 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 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.

3.6.3 In addition the council has officer and elected member representation on SWAP's Board of Directors and Owners Board respectively. These meetings actively review SWAP's Quality Improvement Action Plan which ensures a clear focus is maintained on areas for development and improvement and that these are delivered in a timely manner.

### 3.7 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.

### 3.8 Performance Measures

3.8.1 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. *(NB- The previous years’ results for SWAP are shown in brackets for comparison purposes.)*

<b>Performance Target</b>	<b>Average Performance</b>
<p style="text-align: center;"><b><u>Audit Plan</u></b></p> <p style="text-align: center;">Percentage Completion – 90% or more</p>	<b>98%</b> (98%)
<p style="text-align: center;"><b><u>Draft Reports</u></b></p> <p style="text-align: center;">Reports Issued within 5 days Reports Issued within 10 days</p>	<b>77%</b> (69%) <b>87%</b> (75%)
<p style="text-align: center;"><b><u>Final Reports</u></b></p> <p style="text-align: center;">Reports Issued within 10 days of discussion of draft report</p>	<b>78%</b> (63%)
<p style="text-align: center;"><b><u>Quality of Audit Work</u></b></p> <p style="text-align: center;">Individual Audit Assignment Feedback ‘Customer Satisfaction Questionnaires’</p>	<b>84%</b> (78%)

## 4. **Audit Committee**

4.1 The “System of Internal Control” goes beyond the work of the Internal Audit Section. As the body that has oversight of Internal Audit this Committee, in practice, also forms an important part of the “system”. The “review of effectiveness” should therefore encompass this Committee’s effectiveness, in so far as it relates to the ‘System of Internal Control’.

4.2 In June 2016 the county council implemented its revised committee arrangements, which established an Audit and Governance Committee, together with three new Overview & Scrutiny Committees, covering Safeguarding, Economic Growth and People & Communities. The existing Dorset Health Scrutiny Committee also remains. These changes are intended to ensure specific focus and timely scrutiny is targeted to those outcomes that are detailed in the Corporate Plan.

4.3 These changes have provided revised terms of reference for each of the new cross-cutting committees, with the Audit and Governance Committee having responsibility, for, amongst other things, the oversight of internal audit work.

## **5. Audit Opinion**

- 5.1 The conclusion of the council's Head of Internal Audit from the reviews undertaken and completed in 2016/17 is that adequate controls have been established and are operating satisfactorily in the majority of areas. Where significant risks and/or weaknesses have been identified specific audit follow-up work has been undertaken by SWAP to revisit these issues. The outcome from this follow-up work has demonstrated that appropriate and proactive action is being taken by management to rectify identified areas of concern.

*“Overall I consider that Dorset County Council continues to maintain a sound risk management, governance and control environment.”*

## **6. Annual Governance Statement**

- 6.1 Internal Audit work is one of a number of assurance streams that inform the Annual Governance Statement. Therefore in compiling the Annual Governance Statement consideration is given to any items that remain unresolved and, in accordance with the Council's ranking criteria, should be declared.
- 6.2 The routine quarterly reports presented to this Committee throughout the year record any specific issues that have been identified from our work that we believe should be brought to the attention of senior management and members.
- 6.3 Any such matters are considered for inclusion during compilation of the Council's Annual Governance Statement. This Statement also falls under the remit of this committee and was reviewed in March.

## **7. Conclusion**

- 7.1 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 2016/17.
- 7.2 The report includes the Internal Audit overall opinion (*Section 5, paragraph 5.1*) on the Council's risk, governance and control environment.
- 7.3 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 and system of control” is in place and that this has been evidenced.
- 7.4 It is however important not to be complacent and therefore, in my role as the Council's Chief Financial Officer alongside the Group Manager (Governance & Assurance), we continue to work closely with colleagues from SWAP to secure further service benefits and improvements for the Council.
- 7.5 I would also welcome any further observations that Members may have on areas for improvement that would strengthen the current arrangements.

**Debbie Ward**  
Chief Executive  
July 2017

**Richard Bates**  
Chief Financial Officer