



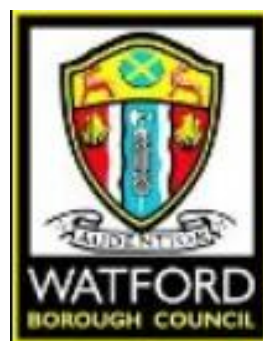
Shared Internal Audit Service

Annual Report

2015/16

Annual Report Contents

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Hertfordshire County Council

Introduction and Highlights



*Terry Barnett
Head of Assurance for the
Shared Internal Audit
Service*

Welcome to the annual report covering the activity of the Shared Internal Audit Service in the 2015/16 financial year.

Established in 2011, the Service is considered to be an exemplar of local authorities working in partnership. The commitment and dedication of the team and the co-operation of our partners continues to allow the service to combine the 'in-house' appreciation and understanding of local government, with the business-like focus of the big internal audit firms.

In 2015/16, our compliance with the Public Sector Internal Audit Standards was the subject of an independent peer review; an exercise that confirmed the Service was operating at the highest level of conformance. In addition the audit methodology used by the Service was revised, with the new approach being commended by the independent review team.

Once again SIAS exceeded its two key performance indicators and it continues to deliver high quality audit services to its clients.

I am very proud of the work of the team and delighted to be able to share some of the highlights of our working year in this report.

Terry Barnett

Head of Assurance for the Shared Internal Audit Service

July 2016

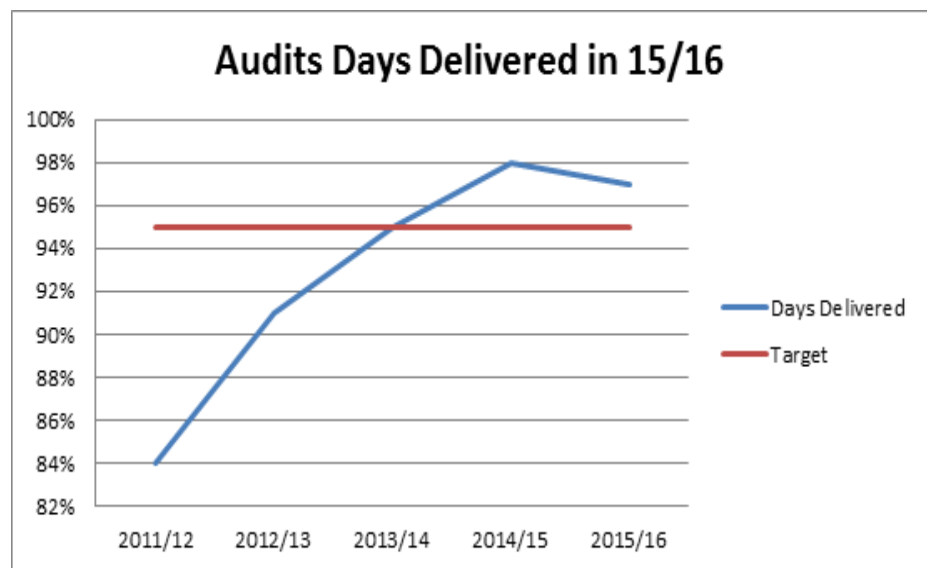


Maintaining High Levels of Delivery

Despite some challenges late in the year related to staff absences, our billable days and audits delivered targets were exceeded with figures of 97% and 96% respectively achieved.

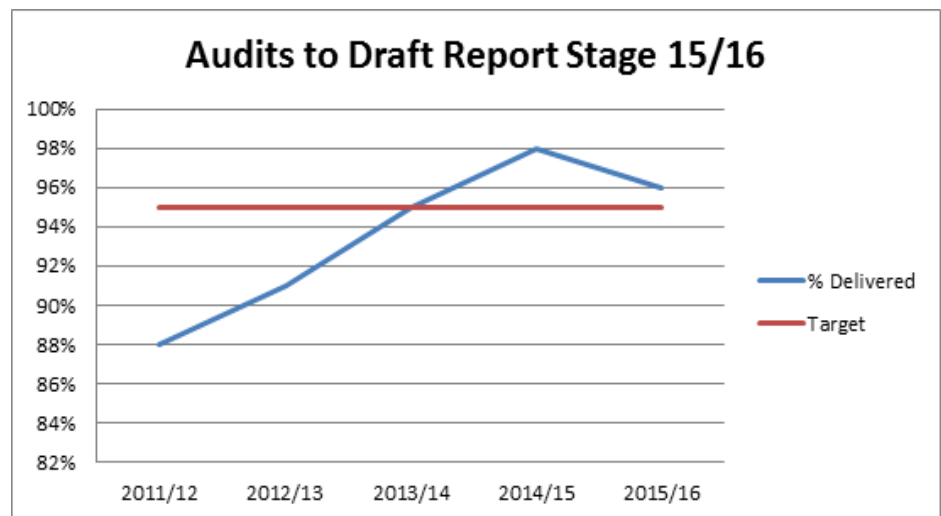
This continues the trend for delivering high performance results that has been a feature of the last five years.

Figure 1: Percentage of audits days delivered



Key performance targets continue to be exceeded...

Figure 2: Percentage of audits to draft stage



Independently Assured

The Public Sector Internal Audit Standards (PSIAS) require that an annual self-assessment be carried out as part of a Quality Assurance and Improvement Programme. This assessment seeks to evidence that effective arrangements are in place and internal audit standards are in line with good practice.

SIAS chose to join a peer review group to facilitate a programme of independent validation of each member's self-assessment and in January 2016 the Service was the subject of a peer review carried out by Veritau Ltd, an Audit Partnership located in Yorkshire.

The outcome from the review was that SIAS achieved the highest level of conformance to the PSIAS; having a charter, policies and processes that fully meet the Standards.

When carrying out the review the Veritau team found high standards of service delivery and a number of areas of good practice; some of their feedback is provided below:

- *'The review team received consistently positive feedback about SIAS from client officers and audit committee members'*
- *'The service has credibility and its recommendations and advice are valued by management'*
- *'The service is focussing on the right areas and there is an appropriate mix between compliance work and more forward looking strategic type audits'*
- *'The auditors conduct themselves in a professional manner, display knowledge of the areas they are auditing, adopt a flexible approach and are seen to be responsive to the needs of the client'*
- *'Time management is excellent and there is a real emphasis on efficient working, assignment planning, review and control'.*

"...the service has credibility and its recommendations and advice are valued by management..."

Shared Learning - The Power of Partnership

It has long been part of the vision of our Board that the service acts to facilitate the sharing of learning across its partners. A shared learning culture, both formal and informal, is developing momentum through our team, our sister services within Assurance and across our partners and opportunities abound to publicise and promote issues big and small.

Shared learning highlights for the year included a workshop on Risk Management in which all our partners participated. The workshop and subsequent report benchmarked the approach to risk management, risk appetite and risk registers to understand approaches and areas of difference. Of great benefit to the workshop, was not only the attendance of Risk Managers from our partners, but also Service Heads and Managers who enlightened proceedings with the reality of risk management at the 'coal face' of service delivery. Together we examined the key areas and identified areas for potential continuous improvement.

...our quarterly shared learning papers are now a regular feature at management boards, governance groups and team meetings across our partners



Over the course of 2015/16, our quarterly shared learning papers became embedded and are now a regular feature at management boards, governance groups and team meetings across our partners. General learning points arising from our work and the wider local government environment have been disseminated through our regular papers with contributions from across our Assurance Service. This last year has seen a number of special editions covering topical issues such as safeguarding and counter-Fraud, as well as a summary of themes arising from our key financial systems work across our partners. Our recent safeguarding paper based on themes arising from our safeguarding audits across our partner base stimulated great interest and debate when presented to the District Safeguarding Group.

Developing our Processes

With the SIAS trading model centred on the delivery of audit services within pre-agreed budgets it is important that we constantly review the ways in which the service carries out its work. 2015 /16 saw a major revision of our methodology that sought to meet two key objectives:

- Compliance with the Public Sector Audit Standards; and
- Minimising the costs associated with the work that allows us to arrive at our conclusions and opinions.

Constant revision to stay up to date, relevant and efficient

Utilising the skills of the SIAS team through an initial brainstorming session and project mid-point consultation, the project team sought to arrive at a solution that would both: exploited existing technology; and streamline some of the repetitive tasks involved in maintaining the complex working papers required to support our assurance opinions.

Utilising the Microsoft Excel package the new methodology allowed us to house the audit working file in a single document which incorporates links to evidence files in the same location.

| | Monday | Tuesday | Wednesday | Thursday | Friday | Monday | Tuesday | Wednesday | Thursday |
|--|------------------|--------------------|------------------|------------------|------------------|-------------------|----------------|----------------|----------------|
| GENL FUND | | | | | | | | | |
| CASH RECON | | | | | | | | | |
| & CASHFLOW | | | | | | | | | |
| BEGINNING BALANCE | 1,322,944 | 1,636,041 | 1,676,325 | 1,601,737 | 1,707,068 | 1,554,837 | 1,382,491 | (8,348,656) | (9,571,313) |
| Cash Inflows: | | | | | | | | | |
| Commercial Deposits | 144,779 | 67,159 | 91,832 | 10,770 | 45,113 | 19,980 | 43,464 | 8,312 | 76,017 |
| JROTC | | | | | | | 0 | 0 | 0 |
| Medicaid | | | | 1,616 | | | 0 | 0 | 0 |
| Other | | | | | | | 0 | 0 | 0 |
| Special Revenue | | | 116,787 | | | | 95,000 | 0 | 0 |
| SwEEP In (and Fund Balance for forecast) | | | | | | | | | |
| Tax Revenue | 36,336 | 78,774 | 41,006 | 47,964 | 272,975 | 92,129 | 56,751 | 0 | 185,739 |
| Tax Revenue-WHISD | 316 | 0 | 29 | 41 | | | 2,710 | 0 | 1,216 |
| Foundation School Program | | 110,561,914 | | | | | 0 | 0 | 0 |
| Available School Funds | | 4,569,789 | | | | | 0 | 0 | 0 |
| TEA Including TX Comptroller Spec Rev | 530,420 | 1,845,310 | 9,098 | 5,909,873 | | 70,968 | 302,688 | 95,496 | 101,622 |
| Trans to Other Bank Accounts | 152 | | 808 | | 171,136 | | 0 | 0 | 0 |
| Trans to Federal Fund (Food Services) | 27,707 | 20,016 | 26,891 | 30,684 | 37,554 | | 28,262 | 32,577 | 27,577 |
| Trans to Non-Genl Fund MM or Pools or Flex | | 46,588 | | | | | 0 | 0 | 0 |
| Transfer from Bond Funds (Expense Reimb's) | 6,005,804 | | | | | 12,157,844 | 0 | 0 | 0 |
| Trans to BDA GF MM-Genl Fund | 1,300,000 | | 1,500,000 | | | | | | |
| Trans to BDA GF PMA | | | | | 3,500,000 | 12,000,000 | | | |
| Trans to Texas Term Gen Fund | | | | | | | | | |
| Trans to TexPool IP-Genl Fund | | | | | | | | | |
| Trans to Texas CLASS IP-Genl Fund | | | | | | | | | |
| Trans to LOGIC IP-Genl Fund | | | | | | | | | |
| Trans to Lone Star IP-Genl Fund | | | | | | | | | |
| Total Cash Inflows | 8,045,594 | 117,189,550 | 1,786,450 | 6,009,938 | 4,026,776 | 24,340,922 | 527,875 | 136,386 | 392,169 |
| Cash Outflows | | | | | | | | | |
| Bank Fees & Supplies | | | | | | | 0 | 0 | 7,988 |

A large portion of the sample of audit projects that were used in the independent review were carried out using the new methodology and the reviewers made the following reference to the quality of the approach in their final report:

'Audit assignments are well planned and the testing is directed to those areas of greatest importance. Working papers are completed to a consistently good standard and the audit reports are clear and concise.'

First Class Customer Service

In order to monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that we have received 95% satisfactory or higher feedback rating from our customers.

Some of the comments that accompany the formal scoring document are shown below:

- *'A very efficient, professional, service with excellent regular communication'*
- *'Discussions around the draft report were well handled to end up with an appropriate recommendation that we have already actioned'*
- *'...we now have a report that helps inform future actions'*
- *'The final report captured the issues well and the recommendations will undoubtedly help us to develop an action plan with audit recommendations having 'added value' for the officers involved'*



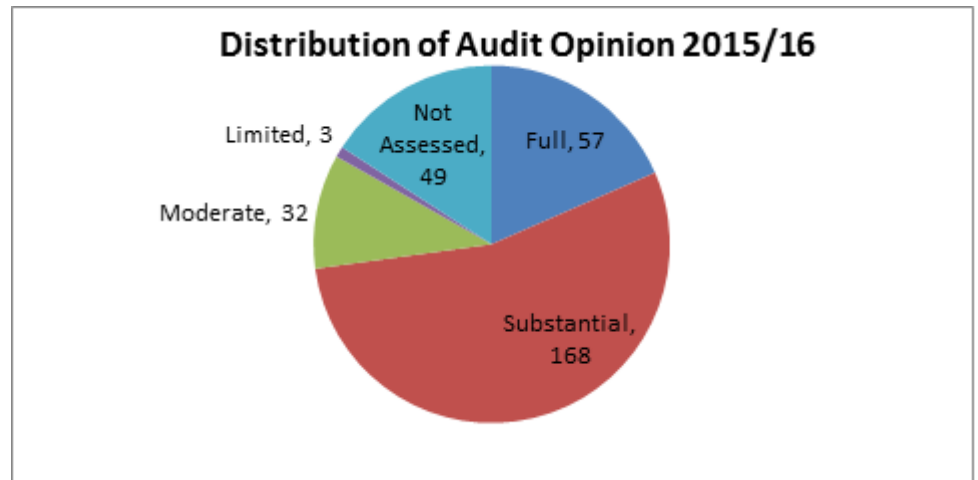
Performance - Outcomes

SIAS worked on 309 assurance and other projects during the year, giving the assurance opinions and recommendations detailed in the charts below.

For those pieces which resulted in a formal assurance opinion the distribution of opinions is set out in figure 3 below:

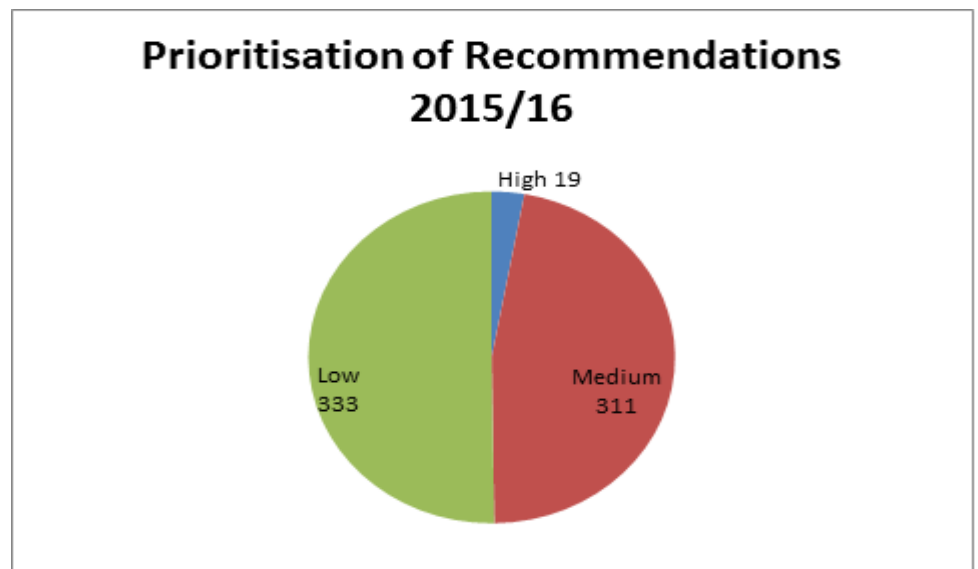
Figure 3: Distribution of Audit Opinions 2015/16

309 assurance and other projects identifying 663 recommendations



For those audits where recommendations were required the priority ratings are set out in figure 4 below:

Figure 4: Prioritisation of Recommendations 2015/16



Performance Indicators

The overall business performance of SIAS is monitored by the SIAS Board by means of a balanced scorecard which provides a range of measures by which progress can be evaluated.

The overall performance of SIAS against our key performance indicators is reported below

Table 1: SIAS Business Performance

| Indicator | Target | Actual as at 31 March 2015 | Actual as at 31 March 2016 | Commentary |
|---|------------------------|----------------------------|----------------------------|---|
| Progress against plan: actual days delivered as a percentage of planned days. | 95% | 98% | 97% | The service continues to exceed its two key performance indicators. |
| Progress against plan: audits issued in draft by 31 March | 95% | 98% | 96% | |
| Client satisfaction | Satisfactory and above | 96% | 95% | Good performance in this area |

Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13.

Appendix A sets out the summary financial position at 31 March 2016.

The partners determined that the service should aim to build a small surplus in order and to move to considering the financial position of the service on a three year rolling basis.

The intention of this is to smooth the impact of any unforeseen events impacting on trading performance in future years.

Future Developments



With SIAS now fully established and the Shared Anti-Fraud Service becoming an integrated part of the Assurance process, 2016/17 seems the appropriate time to consider future developments.

Among the outcomes from the independent peer review referenced elsewhere in this report were two recommendations directed at the SIAS Board, these were:

- That the SIAS Board define the strategic vision, objectives and priorities for the business; and
- The Board should try to leverage the benefits of developing a single brand for the wider service.

With these recommendations closely linked to each other the matters have been included in the SIAS 16/17 Service plan and will be taken forward via a separate project that will seek to establish the business advantage that an approach which sees all assurance services e.g. Audit, Anti-Fraud, Health & Safety etc. could secure.

Our Board Members

The SIAS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.



Clare Fletcher, SBC
Assistant Director (Finance)



Sajida Bijle, HBC
Director of Resources



Owen Mapley, HCC
Director of Resources



Norma Atlay, NHDC
Director Finance, Policy & Governance



Pam Kettle, WHBC
Director of Finance & Operations



Philip Gregory, EHC
Head of Strategic Finance & Property



Jo Wagstaffe, WBC and TRDC
Shared Director of Finance



Terry Barnett, SIAS
Head of Assurance

SIAS cost centre: revised budget against outturn 2015/16

| | <u>Budget</u> | <u>Outturn</u> |
|-----------------------------|---------------|----------------|
| | <u>£</u> | |
| Salaries & Salary Related | 1,140,772 | 1,061,939 |
| Partner / consultancy costs | 51,273 | 109,514 |
| Transport | 12,130 | 8,466 |
| Supplies | 27,374 | 14,773 |
| Office Accommodation cost | 22673 | 17005 |
| RCCO | 854 | 854 |
| | <hr/> | <hr/> |
| | 1,254,222 | 1,212,551 |
| Total expenditure | | |
| Income | 1,250,594 | 1,238,126 |
| | <hr/> | <hr/> |
| Net surplus / deficit | -3,628 | 25,575 |

| Levels of assurance | |
|-----------------------|--|
| Full Assurance | There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified. |
| Substantial Assurance | Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk. |
| Moderate Assurance | Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk. |
| Limited Assurance | There are significant weaknesses in key control areas, which put the system objectives at risk. |
| No Assurance | Control is weak, leaving the system open to material error or abuse. |

| Priority of recommendations | |
|-----------------------------|--|
| High | There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management. |
| Medium | There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management. |
| Merits Attention | There is no significant weakness, but the finding merits attention by management. |