Watford Borough Council
Audit Committee

SIAS Annual Report 2012/13

25 September 2013

Recommendation

Members are recommended to note the Shared Internal Audit Service Annual Report 2012/13

Shared Internal Audit Service

Annual Report

2012/13

Annual Report Contents

Helen Maneuf
Head of Assurance for the
Shared Internal Audit
Service

Introduction

I am delighted to set out this second SIAS annual report which looks back at the first full year of operation since creation of the partnership in July 2011.

The report begins by highlighting key areas of success in the year before describing the performance of the partnership during 2012/13. We then look ahead to the future and the developments we plan so that we continue to deliver the partners' vision.

That vision is to create a core assurance service which provides for resilience, efficiency, access to specialisms, high standards of customer service and career development opportunities for its employees. By delivering across these business objectives in year SIAS has continued to build on the strong foundations established by the partners.

Growth and development has always formed part of the ambition for SIAS and we were thrilled to welcome Watford Borough Council and Three Rivers District Council into SIAS on 1 April 2013; we see this as great endorsement of the partnership approach.

The Shared Internal Audit Service is, again, very grateful for the enthusiastic and active support it has received from all stakeholders during the period. This has helped the service make significant steps forward and demonstrate the benefits of real collaboration and partnership working. I look forward to celebrating the ongoing success of SIAS with you in future.
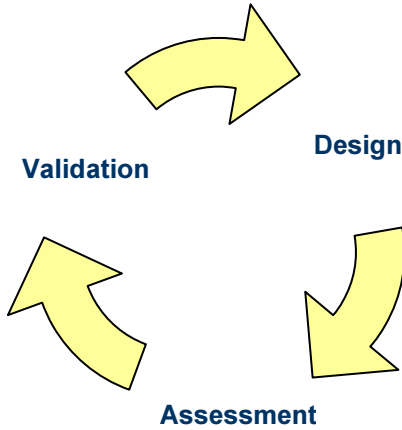
Helen Maneuf

Head of Assurance for the Shared Internal Audit Service

May 2013

A smarter, leaner way of working

We continue our leading edge work to emphasise LEAN and efficient principles such as:

- prioritisation of risk, so that the most important areas are looked at, rather than those that can be done most easily

- pro-actively assessing throughout the assignment to clarify or validate whether further detailed testing is necessary. It should be no surprise that LEAN internal audit avoids auditors continuing with detailed work simply to utilise the budgeted number of days

- dialogue about appropriate practical remediation which adds value in the customer's eyes, fits with existing processes and systems wherever possible, and reinforces management accountability for addressing the issues.

Continuing to innovate, in 2012-13, we have introduced Control Risk Self-Assessment (CRSA). This technique adds value and contributes to embedding risk management. It achieves this by increasing an operating unit's involvement in designing and maintaining risk management and control systems, as well as identifying risk exposures and determining corrective action.

Figure 1: Example CRSA Template

|		C	D	E	F	G	H	I	J	K
A	B	N/A	COMPLIANT		PARTLY COMPLIANT			NOT COMPLIANT		
PAYROLL		0	0		0			17		
			Please enter your departments name							
			Compliance							
Reference	Key Question	N/A	Yes	Supporting Evidence	Hyperlink (optional)	In Part	No	Future Action Plans	Action Plan Deadline	Responsible Officer
PR1	Are starter / leave / amendment forms authorised by an independent officer with delegated responsibility and is this checked before the starter/amendment is added/made to the payroll									
PR2	Are appropriate checks on new starters performed to ensure appropriate NI, bank, establishment details etc?									
PR3	Does HR / payroll verify leaver details (including notice period) and check that there is an original request to leave from									
PR4	Is overtime authorised, in line with council policy and appropriately monitored?									
PR5	Are only appropriate staff expenses reimbursed and coded with in line with HMRC regulations?									
PR6	Is a dummy payroll run performed and checked for completeness and accuracy before the live final payroll run?									
PR7	Are all variances between actual									

We are able to reduce audit time on areas where we can use a CRSA approach, offering our partners the opportunity to realise efficiencies, or to deploy audit resources into other areas.

Figure 2: Galileo Audit Management System
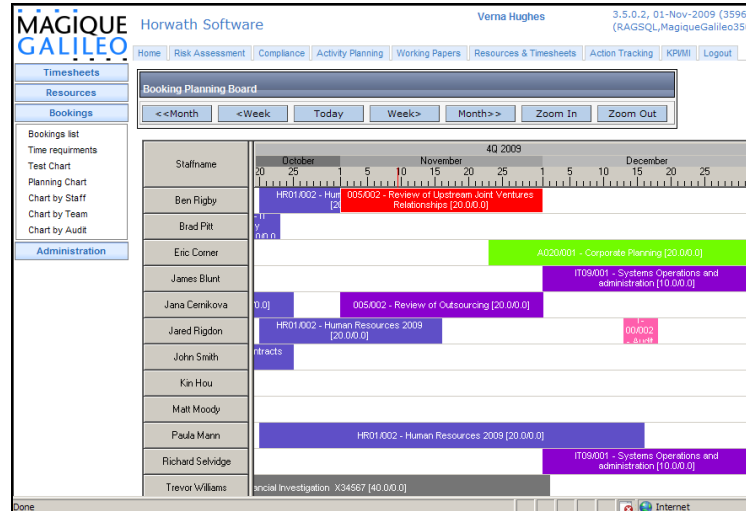
We have re-designed our Galileo Audit Management system to ensure our working papers fully reflect our LEAN approach. Further efficiencies will be achieved by utilising the Library system in Galileo where standard working papers will be stored to generate working papers for an audit.

Figure 3: Galileo Working Papers
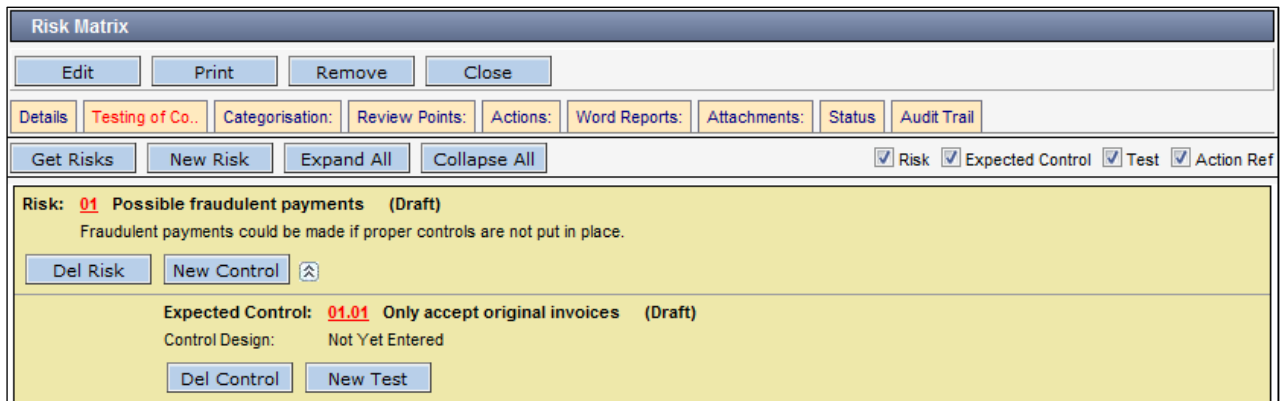
Solid Business Performance

With ever increasing financial pressures facing Local Government, the SIAS business model has contributed efficiency savings in order of £350k for its partner organisations. The SIAS risk focused approach has delivered high quality value added assurance work with less resource.

Commentary on our financial performance can be found in Appendix B.

Investing in our team

We are committed to the development of our team and set out the arrangements we have to support this important area:

Table 1: SIAS Development Activities

Investing in our talented staff

|	
Professional Training & Development	Supporting the team in obtaining qualifications from the Chartered Institute of Internal Auditors. In addition, trainees from HCC's CIPFA scheme are now routinely placed in our service.
	The team participate in Hertfordshire County Council's Performance Management and Development Scheme which underpins the Council's Investors in People accreditation.
	Team members with full professional qualifications participate in the continuing professional development requirements of their respective institutes.
Technical	A technical update is given at every SIAS team meeting. We can source technical training through both our partnership with PwC and our excellent professional networks.
Relationship Skills	We have identified five core attributes that we believe form the basis of effective internal audit relationships:
	- communication - relationship building - persuasion - negotiation - influencing
	We have designed training activity to support our staff in developing these skills and monitor individual performance through feedback questionnaires.
Management and Development	Four of the team have participated in 'LEAP', a management development programme. In addition, all Audit Managers have completed a set of recommended management courses.
	Three of the team are nominated for the county council's 'Talent Pool' which is intended to retain and facilitate the career development of the very best performing employees in the organisation.
	We have built commercial skills within the team in partnership with PwC.

A vision for sharing across the partnership

Greater synergies across partners

Our partners have always seen the potential for a shared service to be a force for sharing learning and ideas. During the year, we issued our first combined benchmarking report which looked at opportunities for greater synergy across partners in relation to financial regulations.

We were pleased to be able to facilitate a workshop on emerging risk and assurance requirements with our Chief Financial Officers. This event set the foundations for audit planning by identifying shared concerns and opportunities for joint assurance work.

Figure 3: Emerging Risks Workshop Risk Scoring

Increasing Financial Hardship Scoring - Risk

A. Severe   C. Material
B. Significant   D. Manageable
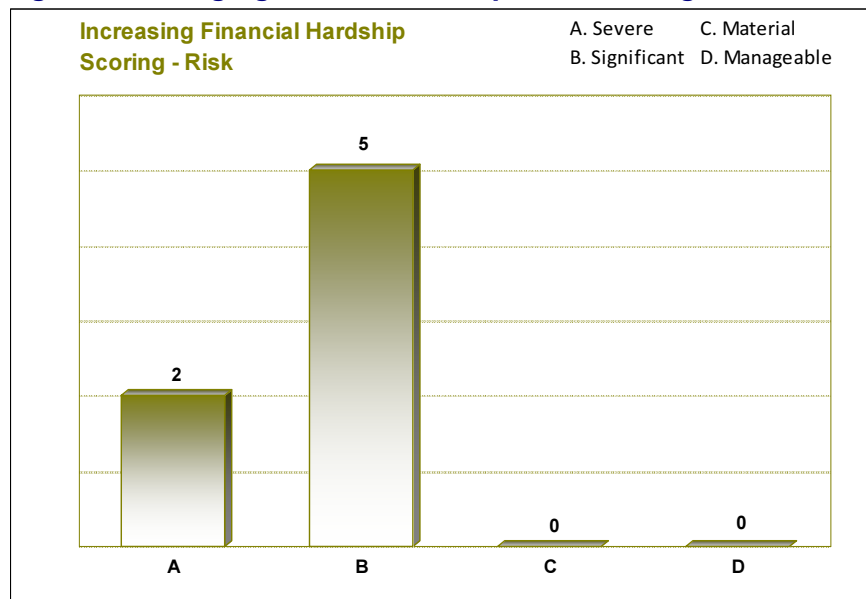
Later in the year we designed a seminar day for Audit Committee Members aimed at updating these key stakeholders on the issues of the day.

First Class Customer Service

In order to monitor our effectiveness and improve our service, at 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 99% satisfactory or higher feedback rating from our customers.

'I found the audit process helpful and together with my colleagues I found working with the auditor a positive and enjoyable experience'

'The auditor quickly gained a good understanding of how we operate and took time to properly familiarise himself with our systems. The working discussions were helpful and constructively challenging. The findings were fair and the resolutions realistic'

*'…willingness to participate in a dynamic audit during the development of a process'*
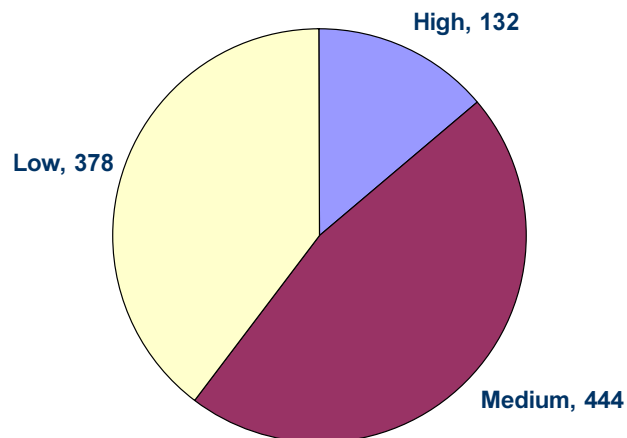
Performance

Context

SIAS worked on more than 393 assurance and other projects during the year, giving assurance opinions and recommendations as demonstrated in the charts below.

More than 393 assurance and other projects identifying 954 recommendations

Figure 4: Distribution of Audit Opinion 2012/13

Substantial, 162
Moderate, 30
Limited, 2
No Assurance, 0
Full, 39
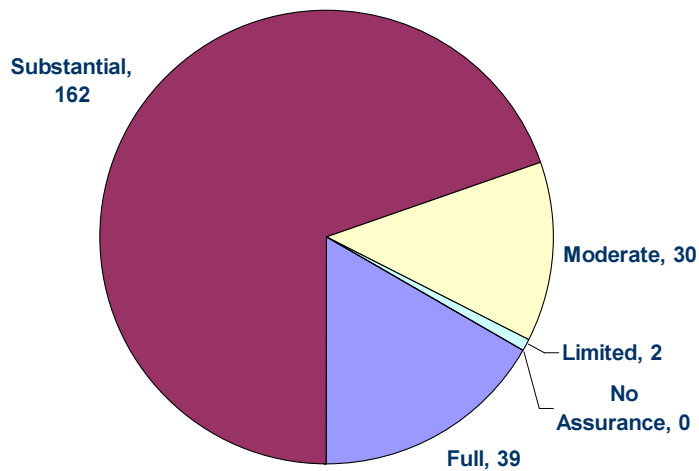
Figure 5: Prioritisation of Recommendations 2012/13

High, 132
Low, 378
Medium, 444

Business Performance of SIAS

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 full balanced scorecard for 2012/13 is provided in Appendix A to this report, and the headlines are summarised in the table below.

Table 2: SIAS Business Performance

| Indicator	Target	Actual as at 31 March 2012	Actual as at 31 March 2013	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	88%	98%	3,695 billable days were delivered by 31 March 2013.
Progress against plan: audits issued in draft by 31 March 2012	NA	84%	91%	359 audits were delivered to at least draft stage by 31 March 2013.
Client satisfaction	Satisfactory and above	100%	99%	All but one audit met the minimum target; 32% rated as very good; 67% rated as excellent.
Financials: income recovered	NA	£430,560	£1,119,015	No target was set for this indicator.

Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13; Appendix B sets out the summary financial position at 31 March 2013. In our first year as a fully-traded unit, we showed a deficit outturn; this was because a number of one-off costs were funded in year.

Professional Performance

Professional standards are fundamental to the effectiveness and credibility of internal audit, and are therefore taken extremely seriously by the SIAS Board.

In our last annual report, we highlighted peer review of our services undertaken by the Director of Veritau, a well-established local authority internal audit company owned by North Yorkshire County Council and York City Council.
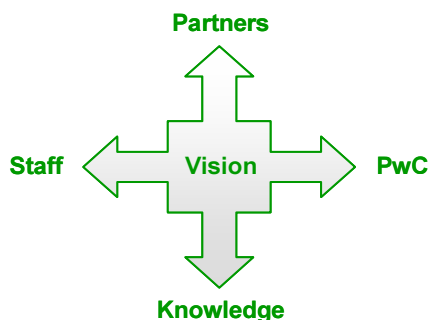
The assessor concluded that SIAS had built a good reputation and profile, especially amongst senior client officers. Equally, the assessor recognised that the service had begun to deliver additional value as business case objectives were realised.

The assessors made a number of recommendations and the progress we have made this year against these is summarised below.

Working seamlessly with PWC

We reviewed the lessons learned from the first year of operation with PWC and took action to review work allocations in order to facilitate the building of effective relationships. We have monitored performance closely and carefully planned activity. Although there is still work to do, there has been much greater progress towards a 'seamless' approach as a result of these steps.

Communicating our new approach to managers

This has been regularly reviewed at audit champion meetings during the year and various activities were identified and delivered such as articles in office newsletters and presentations to managers, according to the individual needs of each partner.

Engaging our team in developing and delivering our vision

Significant work to enhance communications and build engagement within the team has taken place. The Head of Assurance has held a series of regular meetings with staff members to listen to views and opportunities and suggestions. Team meetings have been used to ensure all team members are briefed on the next steps for the shared service and the role we all play in creating success. We have worked to improve commercial awareness within the whole team so we are well placed to match our competitors.

Building skills and competencies

We have carried out a wide range of development activity across SIAS, including supporting professional, technical and managerial training and building customer relationship management skills within the service.

Using IT effectively

Significant work has been done to implement Galileo working papers, with a training day held in early April and roll out in progress.

A new SIAS Lap Top is being rolled out and all the team will be on this by June 2013. Those who have been using the lap top so far have been delighted with the improvement in performance.

Sharing Learning

Highlights during the year included a development day for Audit Committee Members and a joint risk and assurance identification workshop for Chief Financial Officers. The current focus of this activity is in the development of benchmark reports for IT, Procurement and Fraud across the partnership.

Enhancing performance information

Performance information is in continual review and refinement and the focus at present is on developing reports which facilitate the management of the business.

The SIAS post audit questionnaire has been amended to include reference to how the service can add value.
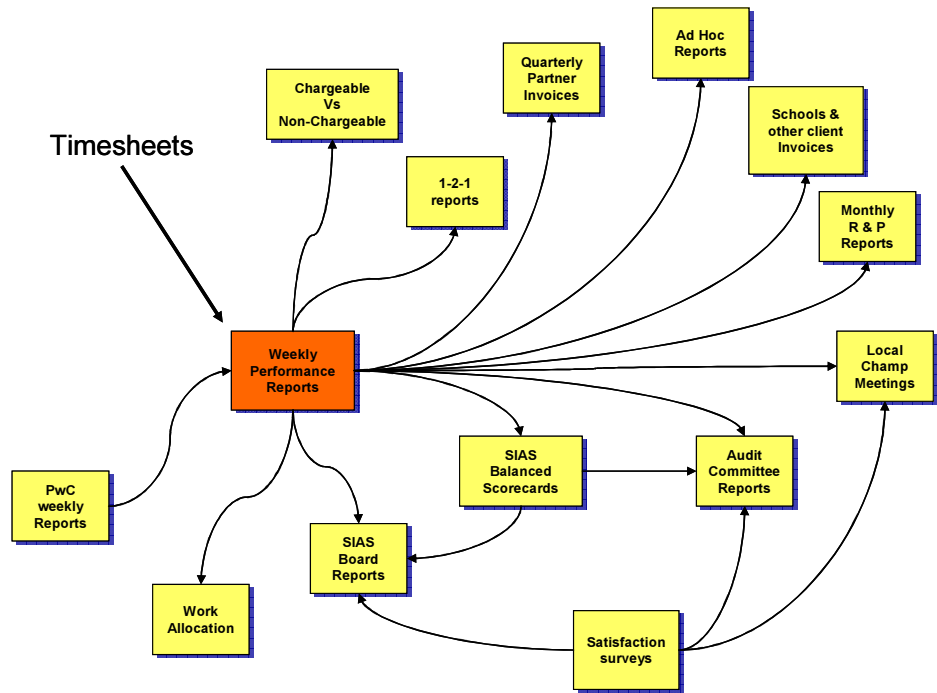
Future Development

The final section of this Annual Report looks forward to the future. The partnership has signed off this vision for SIAS:

> *'SIAS aims to operate at industry-standard levels of productivity and output and to demonstrate best practice by being at the leading edge of audit service delivery. The service aims to operate as an exemplar shared service and provide a return on investment for the partner councils by identifying opportunities to grow the business'.*

Four priority areas have been identified for development activity in the year ahead:

1. Establish a leading reputation in respect of governance, risk assurance and internal control services – ensuring SIAS delivers a good quality service

2. Be at leading edge of audit service delivery –ensuring SIAS delivers an efficient, resilient, cost-effective service

3. Build a team ready to meet the challenges of the future – ensuring SIAS has the right skills to deliver in the changing public sector environment

4. Be an exemplar shared service with a 'return on investment' for partners and first choice public sector internal audit provider in the region with a growing client base.

The detailed development actions which feed into each of these priority areas were agreed by the Board in March 2013 and are monitored regularly by the SIAS Management Team. The table below sets out the mission-critical activities

Table 3: SIAS Mission Critical Activities

Priority	Activity
Leading reputation in governance, risk and control	• Compliance with Public Sector Internal Audit Standards • Joint reviews and seminars • Control Risk Self-Assessment roll-out
Leading edge of service delivery	• Full implementation of Galileo Working Papers • Roll out of new IT • Continued work on efficiency of audit delivery • Improved work allocation process
Team are ambassadors with the right skills	• Individual and team development plans agreed and maintained • Team development day on customer relationship management skills
Exemplar shared service	• Smooth expansion of the service to

| Priority	Activity
	include Watford Borough Council and Three Rivers District Council
	• Review of management structure to ensure continued effectiveness

Building on the strong foundations already in place, these activities will take SIAS forward in the year ahead in a way that we believe will be to the benefit of all the partnership stakeholders.

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.

Scott Crudgington, SBC

Director of Resources
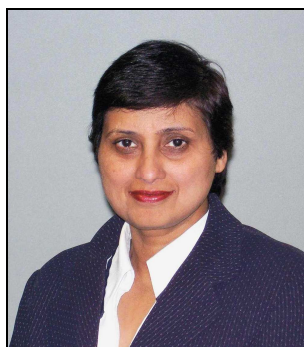
Sajida Bijle, HBC

Director of Resources

Sarah Pickup, Herts CC

Deputy Chief Executive

Norma Atlay, NHDC

Director Finance, Policy & Governance

Pam Kettle, WHBC

Director of Finance & Operations

Adele Taylor, EHDC

Director of Finance & Support Services

Helen Maneuf, SIAS

Head of Assurance

SIAS Rolling Audit Balance Scorecard 31st March 2013

Progress Against Plan	
Total Plan Days*	3768
Billable Days to Date	3695
Percentage progress	98%
*ex-unused contingency	
Targets	
2012/13	95%

Audit Progress	
Allocated	0
In Planning	0
ToR Issued	5
In Field Work	24
Drafting Report	1
Quality Review	4
Draft Report Issued	33
Final Report Issued	262
Audit Closed	64
Cancelled	19
Percentage Progress	91%
Targets	
2012/13 - To Draft	95%

Level of Assurance	
Full	39
Substantial	162
Moderate	30
Limited	2
No Assurance	0
Not Assessed	67
No Targets	

Recommendations	
High	132
Medium	444
Low	378

Client Satisfaction	
Excellent	67%
Very Good	32%
Satisfactory	0%
Potential for Improvement	1%
Unsatisfactory	0%
No score	0%
Targets	
Min satisfactory and 39/65	60%

Please note that for the purpose of producing information on performance against in-year targets, figures represent the position at the cut-off point of 31 March 2013. Work to complete the 2012/13 activity was undertaken after year-end.

	Budget £	Outturn
SIAS cost centre: budget against outturn 2012/13		
Salaries & Salary Related	1,072,465	1,021,164
Partner / consultancy costs	111,326	135,599
Transport	17,870	16,050
Supplies	36,812	31,247
Office Accommodation cost	23,274	23,274
Total expenditure	1,261,747	1,227,334
Less income from Districts, Police and HCC Trading Units	(628,606)	(606,465)
Less income / contribution from HCC	(633,141)	(636,406)
	0	**(15,537)**

Notes:

1. Figures exclude recharges (except for note 2 below), IAS19 and capital charges.
2. Office accommodation costs figure is represented by Admin Buildings Recharge.
3 Deficit includes funding of one-off costs of £33,180 associated with implementation

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.